

Village of Sullivan

Report on Federal and State Awards

December 31, 2021

Village of Sullivan

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**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 Village Board of
Village of Sullivan

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 Village of Sullivan, Wisconsin (the Village), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated May 25, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village'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 Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village'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 did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002, that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village'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 Village's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Village's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Village'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.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Madison, Wisconsin
May 25, 2022

**Report on Compliance
for Each Major Federal and Major State Program;
Report on Internal Control Over Compliance; and
Report on the Schedule of Expenditures of Federal and State Awards
Required by the Uniform Guidance and the *State Single Audit Guidelines***

Independent Auditors' Report

To the Village Board of
Village of Sullivan

Report on Compliance for Each Major Federal and Major State Program

Opinion on Each Major Federal and Major State Program

We have audited the Village of Sullivan's (the Village) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and the *State Single Audit Guidelines* (the *Guidelines*) that could have a direct and material effect on each of the Village's major federal and major state programs for the year ended December 31, 2021. The Village's major federal and major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Village complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and major state programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal and Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *Guidelines*. Our responsibilities under those standards, the Uniform Guidance, and the *Guidelines* are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Village and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal and major state program. Our audit does not provide a legal determination of the Village's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal controls over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Village's federal and state programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Village's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the *Guidelines* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Village's compliance with the requirements of each major federal and major state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the *Guidelines*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Village's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Village's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and the *Guidelines* and which is described in the accompanying schedule of findings and questioned costs as item 2021-003. Our opinion on each major federal and major state program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Village's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Village's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-003, to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Village's response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. The Village's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the *Guidelines*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal and State Awards Required by the Uniform Guidance and the Guidelines

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements. We issued our report thereon dated May 25, 2022, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the Uniform Guidance and the *Guidelines* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Baker Tilly US, LLP

Madison, Wisconsin
September 29, 2022

Village of Sullivan

Schedule of Expenditures of Federal and State Awards
Year Ended December 31, 2021

<u>Federal Grantor/ Program Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Agency</u>	<u>Pass-Through Agency Grant Number</u>	<u>Federal Expenditures</u>	<u>Payments Made to Subrecipients</u>
Federal Programs					
U.S. Department of Agriculture					
Water and Waste Disposal Systems for Rural Communities Rural Utilities Services, Wastewater Facility Improvements	10.760	Direct	N/A	\$ 3,344,000	\$ -
Total U.S. Department of Agriculture				<u>3,344,000</u>	<u>-</u>
Total federal programs				<u>\$ 3,344,000</u>	<u>\$ -</u>

See notes to schedule of expenditures of federal and state awards

Village of Sullivan

Schedule of Expenditures of Federal and State Awards
Year Ended December 31, 2021

<u>State Grantor/ Program Title</u>	<u>State ID Number</u>	<u>State Expenditures</u>	<u>Payments Made to Subrecipients</u>
State Programs			
Wisconsin Department of Natural Resources			
Forest Fire Protection	370.545	\$ 8,939	\$ -
Recycling Grant Program	370.670	<u>2,181</u>	<u>-</u>
Total Wisconsin Department of Natural Resources		<u>11,120</u>	<u>-</u>
Total state programs		<u>\$ 11,120</u>	<u>\$ -</u>

See notes to schedule of expenditures of federal and state awards

Village of Sullivan

Notes to Schedule of Expenditures of Federal and State Awards

December 31, 2021

1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes the federal and state award activity of the Village of Sullivan under programs of the federal and state government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State Single Audit Guidelines*. Because the Schedule presents only a selected portion of the operations of the Village of Sullivan it is not intended to and does not present the financial position, changes in net position or cash flows of the Village of Sullivan.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual or modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The underlying accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

3. Indirect Cost Rate

The Village of Sullivan has not elected to use the 10% de minimis indirect cost rate.

Village of Sullivan

Schedule of Findings and Questioned Costs
Year Ended December 31, 2021

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> no

Noncompliance material to financial statements noted? yes X no

Federal and State Awards

Internal control over major programs:

	<u>Federal Programs</u>		<u>State Programs</u>	
Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	<u> </u> yes	<u> X </u> no
Significant deficiencies identified that are not considered to be material weakness(es)?	<u> X </u> yes	<u> </u> no	<u> </u> yes	<u> X </u> no

Type of auditor's report issued on compliance for major programs: Unmodified Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance or the *State Single Audit Guidelines*? X yes no yes X no

Auditee qualified as low-risk auditee? yes X no yes X no

Dollar threshold used to distinguish between type A and type B programs: \$750,000 \$250,000

Identification of major federal programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Identification of major state programs:

<u>State Number</u>	<u>Name of State Program</u>
370.545	Forest Fire Protection

Village of Sullivan

Schedule of Findings and Questioned Costs
Year Ended December 31, 2021

Section II - Financial Statement Findings Required to be Reported in Accordance with Government Auditing Standards

Finding 2021-001: Internal Control Over Financial Reporting

Criteria: According to Statement on Auditing Standards AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*, sufficient internal controls should be in place that provide for the preparation of reliable financial statements including the schedule of federal and state awards that are fairly presented in conformity with generally accepted accounting principles.

Sufficient internal controls should exist to prevent or detect and correct, misstatements on a timely basis.

Condition/Context: Management has not prepared financial statements that are in conformity with generally accepted accounting principles or the schedule of expenditures of federal and state awards that is in conformance with the applicable federal or state requirements. In addition, material misstatements in the general ledger were identified during the financial audit.

Cause: The Village does not have the resources required to identify and correct all misstatements in the financial records or to prepare the annual financial statements and schedule of federal and state award in conformity with generally accepted accounting principles.

Effect: The auditors prepared the financial statements which presents risks over financial reporting that errors may occur and not be detected.

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

Management's Response: The Village Clerk reviews the financial statements, any adjusting entries and the schedule of federal and state awards. The Village does not currently have the staffing required to be able to prepare and independently review these reports and has hired its auditor to assist with the preparation.

Finding 2021-002: Internal Control Environment

Criteria: According to Statement on Auditing Standards (SAS) AU-C Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, sufficient internal controls should exist to prevent or detect and correct, misstatements on a timely basis.

Condition: During the financial audit of the Village, audit procedures and inquiries were performed to evaluate the effectiveness of controls over various transaction cycles. As a result of these procedures, the following areas were identified where controls over transactions related to segregation of duties could be improved:

Controls over property taxes

- There should be a formal process to prepare and approve journal entries to record taxes receivable and the tax settlements.
- Bank reconciliations for the tax account should be performed by someone independent of the tax collection process.

Controls over utility billing

- The entry of new customers and changes in billing rates should be reviewed by someone other than the person who enters the information into the billing system.
- An independent review and approval of adjustments to accounts receivable and write-offs.
- Persons involved in the cash receipting process should be independent of other billing duties.

Village of Sullivan

Schedule of Findings and Questioned Costs Year Ended December 31, 2021

- The reconciliation of the detailed listing of receivables in the billing system and the receivable balance in the general ledger should be reviewed by someone independent of the utility billing and cash receipting processes.

Controls over 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.
- Account reconciliations prepared throughout the year and at year end should be performed by someone independent of processing transactions in the account.
- Year-end accruals (including retainages payable) should be prepared, reviewed and recorded.

Controls over fire department accounts

- There are a variety of internal control weaknesses associated with the decentralized fire department bank accounts due to the lack of segregation of duties in the receipting, disbursement and reconciliation functions.

Cause: Due to staffing limitations, certain controls were not implemented by the Village.

Effect: There is a risk that erroneous or misstatements could occur without the knowledge of management or the governing body if sufficient internal controls do not exist over significant transaction cycles.

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: The Village does not currently have sufficient staffing to provide segregation of duties in all areas. The Village reviews control recommendations annually and implements controls.

Village of Sullivan

Schedule of Findings and Questioned Costs
Year Ended December 31, 2021

Section III - Federal and State Awards Findings and Questioned Costs

Finding 2021-003: Water and Waste Disposal Systems for Rural Communities

Program Assistance Listing Number

and Title: 10.760 Water and Waste Disposal Systems for Rural Communities
Federal Grantor: U.S. Department of Agriculture
Pass-Through Entity: Not applicable

Criteria: Per 2 CFR section 200.318 and 200.319, the entity must use its own documented procurement procedures which reflect state law, assuming those laws conform to federal laws. The entity must maintain written standards of conduct cover conflict of interest & over actions of its employees/affiliates engaged in the selection, award or admin of a contract paid for with federal funds. Disciplinary actions for violating this should be documented in standards of conduct, as well.

Condition/Context: The Village did not have a written procurement policy in place at the time of procurement for two of the four the contracts sampled related to this program. The sample was not statistically valid.

Cause: The Village had not received a significant amount of federal funding in previous years and as a result had not put a formal procurement policy in place prior to the beginning of the procurement process for this grant.

Effect: The Village could miss crucial procurement steps with no policy in place.

Questioned Costs: None noted.

Recommendation: The Village should create a procurement policy and pass it through the Village Board.

Management Response: The Village is currently creating a procurement policy.

Village of Sullivan

Schedule of Findings and Questioned Costs
Year Ended December 31, 2021

Section IV - Other Issues

Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern?

yes no

Does the audit report show audit issues (i.e., material noncompliance, nonmaterial noncompliance, questioned costs, material weakness, significant deficiency, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*:

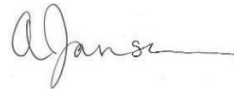
Department of Natural Resources

yes no

Was a Management Letter or other document conveying audit comments issued as a result of this audit?

yes no

Name and signature of partner



Andrea Jansen, CPA, CFE, Partner

Date of report

September 29, 2022