

**ROSELLI, CLARK & ASSOCIATES**  
Certified Public Accountants

**DENNIS  
WATER DISTRICT  
SOUTH DENNIS, MASSACHUSETTS**

Management Letter  
Year Ended June 30, 2021



**DENNIS WATER DISTRICT  
SOUTH DENNIS, MASSACHUSETTS**

**MANAGEMENT LETTER**

**FOR THE YEAR ENDED  
JUNE 30, 2021**

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**TRANSMITTAL LETTER**

To the Board of Water Commissioners  
Dennis Water District  
South Dennis, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America the financial statements of the Dennis Water District (the "District"), as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 2, 2022.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting to determine the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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. We did not identify any deficiencies that are categorized as a significant deficiency or material weakness however, 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. Given these limitations, material weaknesses or significant deficiencies may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 determination of financial statement amounts. 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.

### **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.

*Roselli Clark & Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
September 2, 2022

## INFORMATIONAL ITEMS

### **Statement on Auditing Standards No. 115 – Audit Communications**

The American Institute of Certified Public Accountants (“AICPA”) several years ago issued Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (“SAS 115”). SAS 115 establishes standards and provides guidance on communicating matters related to an entity’s internal control over financial reporting identified in an audit of financial statements. In particular, SAS 115 provides guidance on evaluating the severity of deficiencies in internal control identified in an audit of financial statements in the following order:

1. Control deficiency
2. Significant deficiency
3. Material weakness

Deficiencies identified as *significant deficiencies* or *material weaknesses* are required to be communicated to those charged with governance. We did not report any such findings in this report.

*Control deficiencies* are not required to be communicated; however, the District has requested that we also report that type of deficiency in this report in order for the District to strengthen its internal controls and operating efficiency and for full transparency. These are included under the caption general findings and recommendations.

### **Network Security**

We continue to remind our clients to remain vigilant in the fight against cybercrime. Municipal entities have and continue to be targets for cyber fraud, phishing schemes, ransomware, etc.

This has become very important as the recent pandemic has opened up opportunities to work remotely, and while this is efficient, the equipment used to facilitate these processes could also become targets if not protected adequately.

While the District appears to have a strong and robust security system in place, we recommend that the District continue to monitor the changing cybersecurity landscape and maintain its security systems and employee training accordingly.

### **Fraud Risk Mitigation**

Fraud prevention is an area that should be under ongoing evaluation. Evaluating cash processes of cash handling areas annually through effective risk assessment and proper safeguards is an effective control to protect the District from threats associated with fraud. We will discuss this with management annually through our risk assessment procedures to assure that management is monitoring this critical aspect of government.

Through our discussions we have learned that management conducts many of its own internal processes to prevent and detect fraud. Periodically reevaluating cash handling procedures to make sure they are adequate and effective is an ongoing recommendation. While cash transactions are currently much less active in the current electronic/cloud based environment, it is still important to maintain strong controls.

The District should be aware that our audit procedures are designed to provide reasonable assurance that the financial statements are fairly presented and free of material misstatement. Our audit includes considerations for fraud; however, no assurances can be given that we would detect fraud through our

audit. Our audit cannot be relied upon to detect fraud or illegal acts that may exist.

### **New GASB pronouncements**

The GASB has approved a new pronouncement that will go into effect in fiscal year 2022.

GASB 87 which requires the District to revise the manner in which it accounts for its operating leases goes into effect in fiscal year 2022. Previously, governmental entities reported their leases similarly to how private entities reported leases under ASC 840. While finance leases would be capitalized on the balance sheet, operating leases would be reported in the footnotes. However, GASB 87 requires that all operating leases now be accounted for as finance leases. As a result, leases previously classified as operating leases will not only be capitalized on the statement of net position, but also be reported differently in the statement of activities.

### **Long-term obligations**

Recent accounting standards have brought to light more than ever those hidden liabilities that are true long-term obligations of the District.

More specifically, OPEB and Pension liabilities are now required under GASBs 67, 68, 74 and 75 to be recorded in the District's financial statements.

With respect to OPEB, the District has created a Trust and has been making annual contributions. The current unfunded liability is almost \$2.7 million and represents an unfunded ratio of about 89%. While this is similar to many other municipal entities, it is an area where the District may want to evaluate and possibly increase funding. As the District's employees retire, it will increase the subset on individuals eligible for health benefits.

With respect to its pension funding, the District is a member of the Barnstable County Retirement Association (BCRA) along with numerous other Districts and entities. With a 66.8% funding ratio, it is slightly above State average of 65.6% funding ratio.

In light of Massachusetts General Laws to fully fund this liability no later than 2040 and with a current funding schedule of 2034, despite funding ratios increasing recently, the District can expect to see its pension assessment continue to rise in the near term.

The District should begin to factor increases as discussed above into its long-term financial plans.

### **Investment Income**

Although interest rates on bank balances are near all-time lows, recent action and near-term future intentions by the Federal Monetary Oversight Committee to raise the rate on borrowing significantly over the next several months also signals that a similar impact on interest income yields is coming. It is important that the District begin to aggressively monitor market activity relative to investment income and begin to manage yields efficiently once any positive trends are observed.

## GENERAL FINDINGS AND RECOMMENDATIONS

### **Rate Study**

Establishing adequate water rates to support operations is critical to the efficient operation of a water supply system that does not rely on real estate taxes. It eases budget stress and allocates all costs of the process back to the intended user.

The District has never had an official water rate study completed, and essentially sets rate from year to year rather than establish a plan that includes a future process of establishing rates that not only meet the annual operating needs of the District, but the capital plan as well.

We suggest the District evaluate the need to engage a specialist in water system rates to assist them in creating a water rate structure that adequately meets these needs.

### **Policy and Procedure Manual**

The District does not have a comprehensive internal control policies and procedures manual relating to the accounting and financial operations of the District. This manual can provide many benefits, including the documentation of procedures for ongoing monitoring purposes, the ability to more easily train new staff in policies and procedures that have been approved by management and the setting of consistent practices for all District financial employees.

While the District has many policies and procedures developed by the Treasurer that cover all major transaction types, these are currently not formally approved, formalizing these and adding where appropriate in an easy-to-use manual, would be very beneficial to the District.

### **Segregation of Duties**

Currently, the District Clerk/Treasurer who is the authorized signer on the bank accounts, is also the keeper of the accounting records and holds the authorization to make entries to both the treasury records as well as accounting records in addition to initiating deposits and withdrawals from the bank accounts.

This is not a proper segregation of duties. While some segregation does exist with the billing and collection function through other individuals in the Office, the District should evaluate if this is sufficient to eliminate any possible unauthorized transactions.