

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

**DENNIS WATER DISTRICT
SOUTH DENNIS, MASSACHUSETTS**

MANAGEMENT LETTER

Year Ended June 30, 2023



**DENNIS WATER DISTRICT
SOUTH DENNIS, MASSACHUSETTS**

MANAGEMENT LETTER

**FOR THE YEAR ENDED
JUNE 30, 2023**

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TRANSMITTAL LETTER

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

In planning and performing our audit of the financial statements of the Dennis Water District, (the District) as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitation in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations during our audit, we did not identify any deficiencies in internal that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
November 29, 2023

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.

Key Challenges

With inflation peaking near 40-year highs, and an aggressive Federal Policy Committee increasing rates at a historic pace, the District can expect challenges in other areas that it has not faced in many decades:

1. Wage inflation – the ability to maintain quality employees at reasonable wages.
2. Interest rates – the ability to finance capital projects at reasonable financing costs.
3. Construction inflation – the ability to complete capital projects at budgeted costs.
4. Energy inflation – the rising costs of oil, gas and electricity.
5. Goods and services – the supply chain disruptions impacting efficiency and cost of delivery of services.

We urge the District to monitor these situations very closely and plan accordingly as it sets forth in its fiscal 2025 budget process and capital planning.

Network Security (annual reminder)

We continue to remind our clients to remain vigilant in the fight against cybercrime. Municipal entities have and continue to regularly be targets for cyber fraud, phishing schemes, ransomware, and other predatory intrusions into their operating systems.

The increasing number of publicly available WiFi access points, more powerful websites and mobile apps, and more integrated and stealth data accumulation routines within software and websites were already well into a growth phase prior to the recent pandemic. Due to the desire for remote working and access from anywhere during the stay-at-home directives, the adoption and acceptance of reliance on convenience and access during those years, have caused some users to become more accustomed to ease and thus less vigilant about security.

These situations lend hawkish reminders to the District to aggressively monitor the changing cybersecurity landscape and diligently maintain its IT systems (both hardware and software based); and furthermore, embrace the never-ending responsibility to be instructive and informational with regards to employee training in these areas.

Fraud Risk Mitigation (annual reminder)

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.

Long-term obligations (annual update)

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 approximately \$2.2 million and represents an unfunded ratio of about 82%. 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. It is important to note that the unfunded liability improved from 88% in the prior year.

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 63.8% funding ratio, it has dropped from over 75% in the prior year. This was due to adverse market conditions in calendar 2022, which is the measurement period. We expect this to improve on the next valuation.

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 (update)

In the prior year, we alerted the District that recent actions by the Federal Monetary Oversight Committee to control inflation were having a positive impact on investment yields. This continued into 2023 and

through today. More specifically, many short-term instruments are currently approximating 5% yields and are legal in Massachusetts. While the District does an efficient job of managing its cash balance, and has increased its balance at the MMDT, we continue to remind the District to continue to seek safe investment opportunities that can increase passive income while this window exists.

GENERAL FINDINGS AND RECOMMENDATIONS

Rate Study (repeated)

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 continue to 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 (repeated)

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 (repeated)

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.