

**COTUIT FIRE DISTRICT**  
SUGGESTIONS FOR IMPROVEMENT IN ACCOUNTING  
PROCEDURES AND INTERNAL CONTROL  
JUNE 30, 2017



**LYNCHMARINI & ASSOCIATES INC.**

CERTIFIED PUBLIC ACCOUNTANTS

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To the Honorable Prudential Committee  
Cotuit Fire District  
Cotuit, Massachusetts

In planning and performing our audit of the financial statements, we considered Cotuit Fire District'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 Cotuit Fire District's internal control. Accordingly, we do not express an opinion on the effectiveness of Cotuit Fire District'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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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.

The comments and recommendations presented herewith in are intended to improve the system of internal accounting control or result in other operating efficiencies. The factual accuracy of our comments has been discussed with management to obtain their concurrence before the development of our recommendations for improvement. Matters commented on represent findings during the audit and have not been reviewed subsequent to June 19, 2018.

This communication is critical by nature because its purpose is to identify areas where improvements can be made. Accordingly, we have not commented on many positive attributes of the District's financial management systems. It is also important to understand that is generally not practical to achieve ideal internal control in the complex governmental accounting environment and we recognize that practical considerations are an important factor in changing administrative practices and internal control. The District should weigh the advantages and disadvantages of the suggested changes over the present practices and procedures.

We would like to acknowledge the courtesy and assistance extended to us by District management and personnel during our audit.

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

Norwell, Massachusetts  
June 19, 2018

## STATUS OF PRIOR YEAR COMMENTS

As part of our audit of the District's financial statements for the year ended June 30, 2016, we had several comments and suggestions, issued in our report dated March 28, 2017. The current status of those comments is noted below.

### Treasurer performs or supervises all internal control functions – material weakness

Consistent with organizational structure provided under Massachusetts General Laws the District's Treasurer either performs or supervises all functions and controls that initiate, record, process all of the District's transactions and financial reporting. Additionally, the Clerk in the water department has responsibility for committing and collecting water fees. The lack of segregation of duties in these two instances is a combination of control deficiencies that we consider to be a material weakness.

We continue to recommend the Prudential Committee continue to monitor its financial activities on an ongoing basis and implement changes where and when practical and cost effective for the District.

### Internal Risk Assessment & Documentation of Policies and Procedures

As we have discussed, auditing standards require auditors to inquire and evaluate what their clients are doing internally to assess and to mitigate financial risks, including the risk of fraud. The District does not have a formal policy or program relating to internal risk assessment documentation of policies and procedures.

We continue to recommend the District adopt a formal, documented risk assessment program. Such a program should include, but not be limited to: identification of various risks of loss confronted by the District; examining and documenting departmental internal controls; examples and definitions of fraud; formal communication of established policies and procedures to employees; instituting reporting mechanisms for fraud or abuse; and provide for ongoing monitoring and re-assessment.

### Improve procedures over receipt process

We continue to recommend that all receipts should be documented on a schedule of departmental receipts (turnover) and turnovers should include: date of receipt, date receipt is turned over to District Treasurer, sufficient information to provide an audit trail to source documents, signature of person submitting turnover and signature of District Treasurer acknowledging receipt of funds.

During the fiscal year 2017 audit, we continued to note missing adequate documentation attached to the turnovers. Most of the receipts turnovers are still not signed by the person submitting the turnover or the District Treasurer. We continue to recommend that the receipt process is further documented and a proper audit trail is provided.

### Improve application of procurement laws

In the prior year audit, we noted that the District tried to use the Massachusetts Statewide Contract list for vendors used in order to stay compliant with the provisions of MA GL 30B procurement laws. We continue to recommend that the District keep supporting documentation on file to show that the vendor is on the list at the time of procurements, inclusive of purchase orders/contracts.

### **Improvement of Tax Title support obtained from the Town**

In the prior year audit, we noted that the District gets a control sheet from the Town which provides a rollforward of amounts in total, but does not provide the underlying detail of what taxes make up the tax title receivable.

Upon our request, the Town provided a detailed list for June 30, 2017. We continue to recommend that the District ask the town to provide this detail, attested to, by the Town Treasurer, at a minimum of a quarterly basis during the year to ensure that the balances held by the District are supported by valid tax title takings.

### **Improve procedures over water commitments**

During the prior year audit, we noted that the Water Commissioners are not approving the commitments prior to the bills being mailed out. We recommend that the District ensure that water commitments be signed off by a majority of the Water Commissioners to ensure the commitments are correct and have been reviewed prior to mailing. As said earlier, the Clerk in the water department has responsibility for committing and collecting water fees, which is a control deficiency. We are not aware of any changes as a result of our audit in the current year.

### **Improve Budgetary Financial Reporting**

Previously, the District has not entered estimated receipts in the accounting system. As the District has updated the accounting software, it is our recommendation that the District enter the estimated receipts reported on the tax rate recapitulation. This will allow the District to track receipts in relation to what has been reported.

During the fiscal year 2017 audit, we noted that the estimated revenues were properly entered into the accounting software.

## **CURRENT YEAR COMMENTS**

### **Lack of timely cash reconciliation procedures – material weakness**

Upon commencement of the audit, we noted significant additional work had to be performed as a non-audit service to assist the District personnel in reconciling cash balances maintained in the treasury with the accounting ledger. This was due in part of the implementation of a new accounting system during fiscal year 2017. Prior to commencement of the audit, we noted cash variances between the treasurer's cash book and the accounting ledger of approximately \$410,000. As a result of the non-audit service, the treasurer's cash book and the accounting ledger reconcile as of June 30, 2017.

It is recommended that the Treasurer's cash book is reconciled with the accounting ledger on a monthly basis to ensure that financial reports used by management are complete and accurate.

### **Over-expending budgeted debt service appropriations – material noncompliance**

During the audit, we noted that debt service appropriations were over-expended by roughly \$164,000. This was primarily due to actual short term debt principal expenditures of \$473,000 compared to budgeted short term debt principal expenditures of \$157,000. The difference between the unfavorable variance for aggregate debt service expenditures and short term debt principal expenditures was due to favorable variances in long term debt expenditures of \$152,000. Overall, the aggregate debt service expenditures caused an unfavorable budgetary variance which was considered material noncompliance with Massachusetts General Law Chapter 44, Section 31. In addition, the appropriation deficit was not include on the FY18 tax rate recapitulation.

It is recommended that anticipated expenditures in excess of budgetary amounts are approved by the District during Special District Meetings. In addition, any appropriation deficits should be included on the subsequent tax rate recapitulation so that it is funded by the subsequent tax levy or use of available funds.

**Establishment of “Short Lived Asset Reserve Fund” and annual contributions – single audit finding**

During the fiscal year 2017 single audit, we noted that the District did not establish a “Short Lived Asset Reserve Fund” in accordance with the terms and conditions of the USDA loan. Per the USDA Rural Utilities Service letter dated July 19, 2016, the District must establish a “Short Lived Asset Reserve Fund” and annually contribute a minimum of \$15,500 for the life of the loan (40 years). Contributed resources can be used to pay for repairs and/or replacement of major water tower system assets.

It is recommended that the District establish a “Short Lived Asset Reserve Fund” and contribute the required amount on an annual basis. The contribution should be appropriated through District Meeting.

**Water basic use charge segregated into Capital Project Fund**

In the current year, we noted that District by-laws indicate that water basic use charges should be accounted for separately in a Special Revenue Fund. Article IX, Section 5 of the by-laws calls for the assessment of basic charges to be accounted for by the Water Commissioners separately and shall only be used for capital improvements in the District’s water system. It has been represented to us that although there is no separate fund for the basic use charges, water capital expenditures have exceeded the basic use charges in the aggregate since the establishment of this by-law.

We recommend that the District account for these basic use charges into a separate fund so that the District can accurately measure the accumulated water basic use charges and expend funds accordingly, in accordance with established by-law.

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