

COTUIT FIRE DISTRICT

FINANCIAL REPORT PURSUANT TO OMB UNIFORM GUIDANCE

FOR THE YEAR ENDED JUNE 30, 2017

COTUIT FIRE DISTRICT
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FOR THE YEAR ENDED JUNE 30, 2017

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LYNCHMARINI & ASSOCIATES INC.
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Honorable Prudential Committee
Cotuit Fire District

Report on Compliance for Each Major Federal Program

We have audited the Cotuit Fire District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Cotuit Fire District's major federal programs for the year ended June 30, 2017. The Cotuit Fire District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Cotuit Fire District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cotuit Fire District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Cotuit Fire District's compliance.

Opinion on Each Major Federal Programs

In our opinion, the Cotuit Fire District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2017-004, 2017-005, and 2017-006. Our opinion on each major federal program is not modified with respect to these matters.

The Cotuit Fire District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and question costs. The Cotuit Fire District's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Cotuit Fire District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Cotuit Fire District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cotuit Fire District's internal control over compliance.

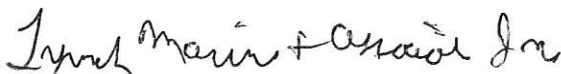
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cotuit Fire District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Cotuit Fire District's basic financial statements. We issued our report thereon dated June 19, 2018, 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 awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 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 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 awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Norwell, Massachusetts
June 19, 2018

COTUIT FIRE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

FEDERAL GRANT GRANTOR/ PROGRAM/ TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH NUMBER	FEDERAL EXPENDITURES
<u>U.S. Department of Agriculture</u>			
Direct:			
Water and Waste Disposal Systems for Rural Communities:			
Water and Waste Disposal Systems for Rural Communities - Grant	10.760	N/A	\$ 423,992
Water and Waste Disposal Systems for Rural Communities - Loan	10.760	N/A	<u>2,000,000</u>
Total U.S. Department of Agriculture			<u>2,423,992</u>
Total Federal Programs			<u>\$ 2,423,992</u>

The accompanying notes are an integral part of this schedule.

COTUIT FIRE DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

1. Basis of Presentation

The Cotuit Fire District (the District) is a governmental agency established by the laws of the Commonwealth of Massachusetts. All operations related to the District's federal grant programs are included in the scope of the OMB Uniform Guidance. The U.S. Department of Agriculture is the District's oversight agency because it is the federal agency providing the most federal assistance.

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity for the District for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR), Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, or changes in financial position of the District.

2. Summary of Significant Accounting Policies

Accounting policies and financial reporting practices permitted for municipalities in Massachusetts are prescribed by the Uniform Municipal Accounting System (UMAS) promulgated by the Commonwealth of Massachusetts Department of Revenue. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The information included in the Schedule may not fully agree with other federal award reports the District submits to federal awarding or pass-through entities. The District has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance. The District reported no sub-recipients.

3. Loan Transactions

The District has outstanding federally-funded program loans without continuing compliance requirements. As of June 30, 2017, Federal loan balances of \$2,000,000 are reported by the District.

COTUIT FIRE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the Cotuit Fire District (the District).
2. Material weaknesses relating to the audit of the financial statements were reported in the *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*.
3. One instance of noncompliance, material to the financial statements of the Cotuit Fire District, was reported in accordance with *Government Auditing Standards*.
4. No material weaknesses or significant deficiencies in internal control over major federal award programs were reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance*.
5. The auditor's report on compliance for the District's major federal programs expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The programs tested as major programs included the following:
 - U.S. Department of Agriculture
 - Water and Waste Disposal Systems for Rural Communities (CFDA #10.760)
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The District did not qualify as a low risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2017-001 – Segregation of Duties (Material Weakness)

Criteria and condition: Massachusetts' General Laws established the overall framework for the organizational structure in which the District operates; accordingly, there is an inherent lack of segregation of duties. The District's Treasurer either performs or supervises all controls and functions that initiate, record, and/or process all of the District's financial transactions and financial reporting. Additionally, the clerk in the water department has the responsibility for committing and collection of water fees.

Cause: Inherent nature of the organizational structure as required by Massachusetts' General Laws.

Effect: Potential for misstatements due to error or fraud that may not be prevented, detected and/or corrected.

Isolated Instance or Systemic Problem: Systemic problem.

Repeat Finding from Prior Year: Yes.

COTUIT FIRE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Auditor's Recommendation: We recommend that the District establish internal controls to mitigate the lack of segregation of duties by separating responsibility for those individuals with custodial, record retention and authorization duties.

View of Responsible Official and Planned Corrective Action: The District's response is that it is providing administrative services to the District in a cost effective manner and in compliance with the statutory provision of Massachusetts General Law. The District recognizes the weakness and will continue to monitor its internal control policies accordingly.

2017-002 – Lack of Controls Over Cash Reconciliation Procedures (Material Weakness)

Criteria and condition: Upon commencement of the audit, we noted significant additional work had to be performed as a non-audit service to assist 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. Despite this variance, the District was able to provide a list of reconciling items, some of which were improperly posted to the general ledger. As a result of the non-audit service, the treasurer's cash book and the accounting ledger reconcile as of June 30, 2017.

Cause: Lack of controls over timely reconciliation between the Treasurer's cash book and the general ledger.

Effect: Potential for material misstatements of accounting system reports due to an incomplete general ledger.

Isolated Instance or Systemic Problem: Systemic problem.

Repeat finding from prior year: No.

Auditor's Recommendation: We recommend that the Treasurer's cash book and the accounting ledger are reconciled on a monthly basis to ensure that financial reports used by management are accurate and complete.

View of Responsible Official and Planned Corrective Action: The District alerted the Auditors to the problem and requested their assistance in resolving the problem. When the Auditors were contacted all months were reconciled (but without adjustment). Adjustments, largely related to BAN transactions, were not made by the District due to problems related to the new accounting system. In reviewing the monthly expenditure reports, there does not appear to be a material misrepresentation of interim results. Currently, The District is maintaining monthly reconciliations with appropriate adjustments.

2017-003 – Budgetary Noncompliance

Condition and Criteria: 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.

Cause: Over expending debt service expenditures with respect to the authorized budgetary appropriation.

COTUIT FIRE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Effect: Noncompliance with Massachusetts General Law Chapter 44, Section 31.

Isolated Instance or Systemic Problem: Isolated instance.

Repeat Finding from Prior Year: No.

Auditor's Recommendation: The District should adhere to authorized budgetary amounts. If necessary, approval should be obtained through District Meeting to authorize expenditures in excess of original budgetary appropriations.

View of Responsible Official and Planned Corrective Action: In January 2017, bond counsel determined that the \$325,000 BAN budgeted for renewal had not been initially issued in accordance with State required notice and thus could not be renewed. The BAN notice period was based on the District's by-laws which did not comply with State requirements. Legal counsel determined that the BAN could be paid but not renewed, accordingly the BAN was retired. The District has since amended its by-laws to conform to State requirements.

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS

2017-004 – Other Matters – Short Lived Asset Reserve Fund

Criteria and condition: Per the USDA Rural Utilities Service (RUS) Letter to the District dated July 19, 2016, loan and grant terms include the requirement for a “Short Lived Asset Reserve Fund” whereby at least \$15,500 is to be deposited into the fund annually for the life of the loan (40 years) to pay for repairs and/or replacement of major system assets. The District did not establish a “Short Lived Asset Reserve Fund” for the fiscal year ended June 30, 2017.

Cause: The District did not establish or contribute to a “Short Lived Asset Reserve Fund.”

Effect: Noncompliance with USDA RUS loan terms.

Isolated Instance or Systemic Problem: Isolated instance.

Repeat Finding from Prior Year: No.

Auditor's Recommendation: We recommend the District establish and annually contribute adequate resources into the “Short Lived Asset Reserve Fund.”

View of Responsible Official and Planned Corrective Action Plan: The District will plan on establishing a “Short Term Asset Reserve Fund” to ensure compliance with loan terms and conditions.

2017-005 – Other Matters – Compliance with reporting requirements of OMB – Single Audit

Criteria and condition: The Office of Management and Budget (OMB) requires single audits to be submitted to the Federal Audit Clearinghouse (FAC) no later than nine (9) months after the fiscal year end for the period under audit. The District did not submit the single audit to the FAC within the required timeframe pursuant to Uniform Guidance.

Cause: The timing of the financial statement and single audit causes a delay in report submission.

Effect: Noncompliance in regards to report submission.

Isolated Instance or Systemic Problem: Isolated instance.

COTUIT FIRE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Repeat Finding from Prior Year: No.

Auditor's Recommendation: We recommend the District meet annual filing requirements.

View of Responsible Official and Planned Corrective Action: The District is working on meeting annual filing requirements.

2017-006 – Other Matters – Recommend enhancement of formalized documentation surrounding grant compliance

Criteria and condition: Implementation of the Uniform Guidance highlighted the importance and requirement for grantees to maintain internal control policies and procedures surrounding the administration of federal grants, focusing on clearly defining the key components (control environment, risk assessment, control activities, information and communication, monitoring). The District has yet to fully formalize documentation of all aspects of control environment surrounding grant administration as recommended by federal guidance.

Cause: Lack of formal documentation surrounding grant compliance.

Effect: Noncompliance with 2 CFR 200, Subparts D and E (2 CFR sections 200.300 and 200.400, respectively)

Isolated Instance or Systemic Problem: Isolated instance.

Repeat Finding from Prior Year: No.

Auditor's Recommendation: We recommend the District enhance the documentation surrounding aspects of grant administration.

View of Responsible Official and Planned Corrective Action: The District will assess the benefit of documenting grant administration in accordance with Uniform Guidance.

D. SUMMARY OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None. The District was not required to have a single audit conducted in the prior year.