



Board of Commissioners and Management  
Racine Water and Wastewater Utilities  
Racine, Wisconsin

In planning and performing our audit of the basic financial statements of the Racine Water and Wastewater Utilities as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the entity'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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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.

### **Significant deficiencies**

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 consider the following deficiencies in the entity's internal control to be significant deficiencies:

#### **Preparation of Financial Statements**

The Utilities engage CliftonLarsonAllen LLP to assist in preparing financial statements and accompanying disclosures. However, as independent auditors, CliftonLarsonAllen LLP cannot be considered part of the internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the Utilities have implemented a comprehensive procedure to ensure that the financial statements are reviewed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and knowledge of the Utilities' activities and operations. However, the Utilities' personnel have not monitored recent accounting developments to the extent necessary to enable them to review the financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are less than material, but more than inconsequential, would be identified and corrected.

### Segregation of Duties

Due to a limited number of personnel performing accounting functions, the entity does not have adequate segregation of duties over accounting transactions. As a result of this condition, there is a higher risk that errors or misappropriations could occur and not be detected within a timely period. When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities. As part of this oversight function, known control deficiencies should be re-evaluated periodically in order to determine if the internal control system can be changed to better segregate duties. We noted the following examples of a deficiency associated with segregation of duties:

The accounts receivable clerk has access to payments received in currency and checks and has access to customer accounts. The clerk also has the ability to initiate credit memos.

The administrative manager prepares and records all accounting estimates, such as IBNR, OPEB and Pension related items, and there is no review or approval of the estimates for accuracy.

The administrative manager prepares and posts journal entries throughout the year, and there is no review or approval of these journal entries.

The administrative manager is responsible for the reconciliation of some bank statements and there is no review or approval of these reconciliations. We believe this combined with the administrative manager's ability to post journal entries without further approval increases the risk of the misappropriation of assets.

Segregation of duties are not properly implemented within the IT infrastructure. While several user groups have been established within the Great Plains accounting system, many users are assigned to multiple user groups. There are two power users, and multiple individuals have access to all payable, receivable, purchasing, and banking functions. The billing software does not have user groups established. The administrative staff, meter, and engineering departments have access to the billing software. Most staff have the ability to edit customer details such as consumption and rates.

### **Management's response**

The Utilities cross-train staff to ensure coverage when someone is out sick, on vacation, or even on breaks. To maintain high customer service levels, staff must have access to software accounting features and knowledge in multiple areas to perform various functions when needed.

Racine Water and Wastewater Utilities' written response to the significant deficiencies identified in our audit was not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

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

**CliftonLarsonAllen LLP**

Wauwatosa, Wisconsin  
May 14, 2021