



## **Financial Services Audit Committee Communication**

### **Audit Committee Meeting**

**December 6, 2019**

Binder 2

Agenda Item 6C - Annual Financial Audit Update

Additional Materials

1. Auditor Presentation: Report on Fiscal Year 2019 Financial and Single Audit Presented by: Jodi Dobson, CPA, Partner, Baker Tilly Virchow Krause, LLP Page 1
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# Great Lakes Water Authority Audit Committee Report on Fiscal Year 2019 Financial and Single Audit

Presented by:

Jodi Dobson, CPA, Partner  
Baker Tilly Virchow Krause, LLP

December 6, 2019



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## Audit presentation topics

- > Audit overview
- > Auditor Communication with Those Charged with Governance
- > Internal control communication
- > Questions

## Audit overview

- > Audit was conducted smoothly with no major snags or difficulties.
- > Management and staff were cooperative and readily available.
- > Audit schedule was maintained and communication between management and auditors was good.
- > Fieldwork began in September and concluded October 25<sup>th</sup>.
- > CAFR preparation and review throughout November
- > No audit adjusting journal entries were noted.
- > No single audit findings noted.

## Audit overview

- > Audit performed in accordance with Generally Accepted Auditing Standards and Government Auditing Standards.
- > Audit is based on assessment of control risk in key business process areas. Below are several key areas of review:
  - Cash and investments
  - Revenues and receivables
  - General disbursements
  - Payroll
  - Pension liabilities
  - Long-term debt
  - Intangible asset and related lease obligation
  - Assets under construction and plant in service
  - Net position calculations
  - Analytical review of statement of net position and statement of revenues, expenses and changes in net position

## Audit overview

- > Audit objective – obtain reasonable assurance that financial statements are free from material misstatement.
- > Financial statements receive an *Unmodified Opinion* (clean opinion).
- > Single audit results in *Unmodified Opinion* on compliance and controls over major program.

# Auditor Communication with Those Charged with Governance

## *Significant Findings from the Audit*

Area to Be Communicated	Auditor's Response
Auditor's View on Qualitative Aspects of Significant Accounting Policies	<ul style="list-style-type: none"><li data-bbox="952 682 1924 910">&gt; The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements.</li><li data-bbox="952 948 1924 1465">&gt; Accounting estimates are an integral part of the financial statements prepared by management's knowledge and experience about past and current events and assumptions about future events. We feel that all estimates made by management are in accordance with generally accepted accounting principles.</li></ul>

# Auditor Communication with Those Charged with Governance

*Significant Findings from the Audit*

Area to be Communicated	Auditor's Response
Significant Difficulties Encountered in Performing the Audit	> We encountered no difficulties in performing our audit.
Uncorrected Misstatements	> By Professional Auditing Standards, uncorrected misstatements refer to immaterial passed audit adjustments – there were no passed audit adjustments.

# Auditor Communication with Those Charged with Governance

*Significant Findings from the Audit*

Area to be Communicated	Auditor's Response
Disagreements with Management	> Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements were encountered during the course of the audit.
Other Findings or Issues	> There are no other issues to disclose as part of the audit in connection with these Professional Auditing Standards.

# Auditor Communication with Those Charged with Governance

*Significant Findings from the Audit*

Area to be Communicated	Auditor's Response
Material Corrected Misstatements	<ul style="list-style-type: none"><li data-bbox="946 703 1820 1106">&gt; Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.</li><li data-bbox="946 1209 1727 1323">&gt; There were no adjustments as part of this year's audit.</li></ul>

# Auditor Communication with Those Charged with Governance

*Significant Findings from the Audit*

Area to be Communicated	Auditor's Response
Management Representations	<p>&gt; We have requested certain representations from management that are included in the management representation letter. A copy of this letter is included with our final communication document.</p>

## Auditor Communication with Those Charged with Governance

*Significant Findings from the Audit* (cont.)

Area to Be Communicated	Auditor's Response
Management's Consultations with Other Accountants	> Professional standards require the consulting accountant to discuss any such contacts with the current auditor to determine that the consultant has all the relevant facts. We have been involved in any such consultations with other accountants.

# Auditor Communication with Those Charged with Governance

*Significant Findings from the Audit*

Area to be Communicated	Auditor's Response
Auditor Independence	> We are not aware of any relationships between Baker Tilly Virchow Krause, and Great Lakes Water Authority that, in our professional judgment, may reasonably be thought to bear on our independence.

## Internal control communication

### AU-C Section 265

#### *Communicating Internal Control Related Matters Identified in an Audit*

Material weaknesses noted in GLWA's internal control:

- > None noted

Significant deficiencies noted in GLWA's internal control:

- > None noted

## Audit summary

### Thank You!

We appreciate the work performed by GLWA's accounting staff and management in preparing for and assisting in the audit!

We would be happy to answer any questions regarding the audit.

**GREAT LAKES WATER AUTHORITY**  
Southeast Michigan

COMMUNICATION TO THOSE CHARGED WITH  
GOVERNANCE AND MANAGEMENT

As of and for the Year Ended June 30, 2019

DRAFT

## GREAT LAKES WATER AUTHORITY

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DRAFT

**REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS IDENTIFIED  
IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE**

**DRAFT**

To the Board of Directors  
Great Lakes Water Authority  
Detroit, Michigan

In planning and performing our audit of the financial statements of the Great Lakes Water Authority (the Authority) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

Madison, Wisconsin  
\_\_\_\_\_, 2019

**COMMUNICATION OF OTHER RECOMMENDATIONS AND INFORMATIONAL POINTS TO  
MANAGEMENT THAT ARE NOT MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

**DRAFT**

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## INFORMATIONAL POINTS

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### **GASB UPDATES**

The Government Accounting Standard Board (GASB) has been very active in recent years, issuing new standards at a fast pace. Over the next few years, your government will have many new standards to evaluate and implement. Here are the standards which may impact you in the next year:

- > GASB 84 improves guidance regarding the identification of fiduciary activities and how they should be reported, effective for fiscal year ended June 30, 2020. See additional information in the informational point which follows.

Other GASB pronouncements on the horizon, while the implementation dates is in the near term these are anticipated to have significant impacts on many government financial statements:

- > GASB 87 improves accounting and financial reporting for leases, effective for fiscal year ended June 30, 2021. See the informational note above for more detail on this standard. See additional information in the informational point which follows.

Looking even further ahead, the Technical Agenda, below, outlines significant areas GASB is currently working on:

- > Conceptual Framework
  - Disclosure
  - Recognition
- > Major Projects
  - Financial Reporting Model
  - Revenue and Expense Recognition
  - Public-Private Partnerships
- > Practice Issues
  - Deferred Compensation Plans
  - Secured Overnight Financing Rate
  - Subscription-Based IT arrangements
  - Implementation Guidance
  - Omnibus
- > Pre-Agenda Research
  - Going Concern
  - Compensated Absences
  - Prior-Period Adjustments, Accounting Changes and Error Corrections
  - Capital Assets
  - Interim Financial Reporting
  - Investment Fees

Through our firm involvement on AICPA committees, Baker Tilly follows these developments closely so that we can help you prepare for the changes as they evolve. This participation also allows us to share with GASB the experiences and perspectives of our clients to potentially influence the direction of future projects.

Full lists of projects, as well as many resources, are available on GASB's website which is located at [www.gasb.org](http://www.gasb.org).

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## INFORMATIONAL POINTS (cont.)

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### ***NEW REPORTING REQUIREMENTS FOR FIDUCIARY ACTIVITIES***

In January 2017, GASB issued new guidance to address how governments report fiduciary activities which is effective for fiscal years ending on or after December 31, 2019. Statement No. 84, *Fiduciary Activities*, supersedes reporting of agency funds and replaces it with a newly coined custodial fund, and requires several additional reporting requirements for fiduciary funds.

Under current guidance, Statement 34 requires that governments report fiduciary activities in fiduciary funds, but that statement does not provide a clear definition of what constitutes a fiduciary activity. GASB sought to reduce inconsistencies in reporting and provide a clear foundation for future reporting.

The new guidance will impact a significant amount of local governments. Many local governments have activities that may be considered fiduciary, including postemployment benefit plans.

Under the recently issued Statement 84, governments will need to apply specific criteria to determine if a fiduciary activity exists. The criteria focuses on determining if a government is controlling the assets of the potential fiduciary activity and determining who the beneficiaries are. A few of the major changes that will impact many governments include:

- > Pension/OPEB Plans as Fiduciary Component Units: Pension and other postemployment benefit (OPEB) plans will need to be evaluated to determine if they meet the fiduciary component unit criteria.
- > Other Fiduciary Activities: There are various other types of assets that a government controls which will need to be evaluated under the new standard. Part of this evaluation will include identification of the beneficiary of the funds, consideration of how the assets are derived and the extent of administrative or direct financial involvement with the assets.

The following is a summary of two significant changes in the reporting requirements:

- > The standard requires that governments recognize a liability to the beneficiaries in a fiduciary fund only when an event has occurred that compels the government to disburse fiduciary resources.
- > Presentation of additions and deductions on the statement of changes in fiduciary net position for all fiduciary funds, including custodial funds

The time to start assessing your government's fiduciary activities is now. We have an archived webinar to explain the requirements, which can be found at <https://bakertilly.com/insights/fiduciary-activities-changes-affecting-existing-agency-funds/>. Along with the presentation, there is a fiduciary activities tool for you to download. These resources will give you an understanding of the new criteria and requirements and help you identify the fiduciary reporting changes that will impact your financial statements

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## INFORMATIONAL POINTS (cont.)

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### ***UPCOMING LEASE STANDARD***

In June 2017, the Governmental Accounting Standards Board (GASB) issued new guidance to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This standard is effective for the Authority's fiscal year ending June 30, 2021. Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognize as inflows of resources or outflow of resources based on the payment provisions of the contract.

Under the new standard a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Control is defined by: 1) the right to obtain the present service capacity from the use of the underlying asset; and 2) the right to determine the nature and manner of use of the underlying asset. Any contract that meets this definition should be accounted for under the lease guidance, unless specifically excluded in this statement. Leases include contracts that, although not explicitly identified as leases, meet the above definition of a lease.

The following are contract exclusions and exceptions from applying lease accounting:

- > Intangible assets (mineral rights, patents, software, copyrights)
- > Biological assets (including timber, living plants, and living animals)
- > Service concession arrangements (See GASB Statement 60)
- > Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- > Supply contracts
- > Inventory
- > Short-term leases - maximum possible term of 12 months or less
- > Leases that transfer ownership and do not contain termination options
- > Leases of assets that are investments
- > Certain regulated leases (e.g., airport-airline agreements)

We understand the Great Lakes Water Authority has reviewed this standard and started planning how this will affect your financial reporting. An inventory of all contracts that might meet the definition of a lease should be started. The contract listing should include key terms of the contracts such as:

- > Description of contract
- > Underlying asset
- > Contract term
- > Options for extensions and terminations
- > Service components, if any
- > Dollar amount of lease

In addition, the Authority should begin to establish a lease policy to address the future treatment of common lease types, including a dollar threshold for each lease. We are available to discuss this further and help you develop an action plan.

**REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE**

**DRAFT**

To the Board of Directors  
Great Lakes Water Authority  
Detroit, Michigan

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of Great Lakes Water Authority (the Authority) for the year ended June 30, 2019, and have issued our report thereon dated \_\_\_\_\_, 2019. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE  
UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE***

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the Board of Directors of their responsibilities.

We considered the Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion(s) on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. We also considered internal control over compliance with types of requirements that could have a direct and material effect on a major federal program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for a 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.

As part of obtaining reasonable assurance about whether the Authority'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. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the Authority'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 its major federal programs for the purpose of expressing an opinion on the Authority's compliance with those requirements. While our audit provides a reasonable basis for our opinion on compliance, it does not provide a legal determination on the Authority's compliance with those requirements.

We have issued a separate document which contains the results of our audit procedures to comply with the Uniform Guidance.

## ***OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS***

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

### ***PLANNED SCOPE AND TIMING OF THE AUDIT***

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated September 11, 2019.

### ***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES***

#### ***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

#### ***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- > Management's estimate of the allowance for doubtful accounts is based on an outstanding customer receivable balance. The Authority and the customer have ongoing litigation in an attempt to resolve the dispute.
- > Management's estimate of the workers' compensation claims incurred but not reported (INBR) is based on information provided by management's third-party administrators and subsequent claim activity
- > Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed those assets will provide economic benefit.
- > Management's estimate of the net pension liability is based on actuarial reports provided by GRS Consulting.
- > Management's estimate of accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation balances.
- > Management's estimate of the shared services between the Authority and the City of Detroit subject to joint review and true up.

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

#### ***Financial Statement Disclosures***

The disclosures in the notes to the financial statements are neutral, consistent, and clear.

#### ***DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT***

We encountered no significant difficulties in dealing with management in performing our audit.

#### ***CORRECTED AND UNCORRECTED MISSTATEMENTS***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

There were no such misstatements identified.

#### ***DISAGREEMENTS WITH MANAGEMENT***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### ***CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, we were included in any consultations with other accountants.

#### ***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

#### ***INDEPENDENCE***

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the Great Lakes Water Authority that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the Authority for the year ended June 30, 2019, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the Authority in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the Authority other than audit services provided in connection with the audit of the current year's financial statements.

#### ***OTHER AUDIT FINDINGS OR ISSUES***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**OTHER MATTERS**

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the other information, which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

***RESTRICTION ON USE***

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

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

Madison, Wisconsin  
\_\_\_\_\_, 2019

**MANAGEMENT REPRESENTATIONS**

**DRAFT**

Baker Tilly Virchow Krause, LLP  
Ten Terrace Court  
PO Box 7398  
Madison, WI 53707

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Great Lakes Water Authority as of June 30, 2019 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the financial position of the Great Lakes Water Authority (Authority), each major enterprise fund, and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

*Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the Authority required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, if any, are reasonable.

6. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of expenditures of federal and state awards.
7. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal and state awards.
8. There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.
9. Guarantees, whether written or oral, under which the Authority is contingently liable, if any, have been properly recorded or disclosed.

*Information Provided*

10. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
12. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
13. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
14. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
15. There are no known related parties or related party relationships and transactions of which we are aware.

*Other*

16. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

17. We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that you have reported to us.

18. We have a process to track the status of audit findings and recommendations.

19. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

20. The Authority has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

21. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

22. There are no:

- Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
- Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
- Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
- Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

23. The Great Lakes Water Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

24. The Great Lakes Water Authority has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

25. The financial statements properly classify all funds and activities.

26. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

27. The Great Lakes Water Authority has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

28. Provisions for uncollectible receivables, if any, have been properly identified and recorded.

29. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

30. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).

31. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
32. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
33. Tax-exempt bonds issued have retained their tax-exempt status.
34. We have appropriately disclosed the Great Lakes Water Authority's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy.
35. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
36. With respect to the supplementary information, (SI):
  - a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - b. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
37. We are responsible for the fair presentation of the Authority's net pension liability based upon calculations by the City of Detroit General Employees' Retirement System ("GRS") and related amounts. We appropriately allocated the net pension liability based on the assumptions in the lease agreements, pension agreement and the allocation letter signed by the GLWA Chief Executive Officer and the Detroit Water & Sewerage Department ("DWSD") Director on January 24, 2017. We have properly disclosed our special funding situation under GASB 68, *Accounting and Financial Reporting for Pension Plans*. We have reviewed the information provided by GRS for inclusion in the Authority's financial statements.
38. We have evaluated and considered all debt reported as defeased in substance and believe all material amounts held in trust that are not expressly prohibited from substitution in monetary assets that are not essentially risk-free are properly disclosed.
39. We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as the measurement date in accordance with the requirements of GASB 72 – *Fair Value Measurement*. In addition our disclosures related to fair value measurements are consistent with the objectives outlined in GASB 72. We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements.

40. We have evaluated the existing outstanding debt for potential arbitrage liability. Any potential liability has been properly recorded.

41. We have evaluated existing contracts and agreements and are responsible for the accounting and financial reporting of any related capital or intangible assets, liabilities, receivables or deferred items in compliance with generally accepted accounting principals.

42. We are responsible for compliance with the funding requirements and the flow of funds as outlined in the Master Bond Ordinance.

43. With respect to federal award programs:

- a. We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, *OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).
- b. We acknowledge our responsibility for presenting the SEFA in accordance with the requirements of the Uniform Guidance and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
- c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditors' report thereon.
- d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e. We are responsible for understanding and complying with, and have complied with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provide reasonable assurance that we are administering our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to the programs and related activities.
- h. We have received no requests from a federal agency to audit one or more specific programs as a major program.

- i. We have complied with the direct and material compliance requirements including when applicable, those set forth in the OMB Compliance Supplement relating to federal awards .
- j. We have disclosed any communications from grantors and pass-through entities including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- k. Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance.
- l. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- m. We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- n. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- o. We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- p. No changes have been made in internal control over compliance or other factors that might significantly affect internal control subsequent to the date as of which compliance was audited.
- q. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- r. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- s. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the Uniform Guidance .
- t. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditors' reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- u. We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.
- v. We have charged costs to federal awards in accordance with applicable cost principles.
- w. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- x. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

Sincerely,

Great Lakes Water Authority

Signed: \_\_\_\_\_

Signed: \_\_\_\_\_

Signed: \_\_\_\_\_

DRAFT

December 4, 2019

T: +1 (608) 249 6622  
F: +1 (608) 249 8532

[bakertilly.com](http://bakertilly.com)

To the Great Lakes Water Authority Audit Committee:

We are presenting, for your consideration, our comments and management recommendations, which were identified during our audit of the financial statements of the Great Lakes Water Authority (Authority) for the year, ended June 30, 2019.

This letter, by its nature, focuses on improvements and does not comment on the many strong areas of the Authority's systems and procedures. The comments and suggestions are not intended to reflect in any way on the integrity or ability of the personnel of Authority's operations. Additionally, this letter is meant to provide management with information which may be useful when considering operating enhancements to your operation and are provided in the spirit of advisory assistance. The comments in this report are not required as part of our annual audit but are offered only as a process to assist your operations.

#### **OVERVIEW**

The focus for the 2019 Information Technology (IT) review was to continue developing our understanding of the general computer control (GCC) environment at Authority and perform detailed tests per the request of the Baker Tilly financial audit team. This document is intended to summarize the results of our review and provide any additional guidance regarding the IT environment at Authority.

The GCC review utilized the IT Risk Assessment Standards framework to obtain a more detailed understanding of the Authority IT control environment. As part of the GCC review, the following areas related to the IT function were reviewed:

- > Software Acquisition
- > Change Management
- > Data Conversion
- > Unique User Authentication
- > Passwords
- > User Account Management
- > Elevated Privileges
- > User Account Access Review
- > Access Violation Monitoring
- > Physical Security
- > Third-Party Service Providers
- > Backup and Restoration
- > Automated/Scheduled Processes

**GENERAL COMPUTER CONTROL FINDINGS**

Below lists some of the specific GCC findings that did not warrant a management letter comment but should be considered by the Authority.

<b>Control Objective</b>	<b>IT Finding</b>	<b>Recommendation to Address Finding</b>	<b>Management's Response</b>
<b>Review of third party service provider controls</b>	No documentation retained to support review of the SOC reports from Ceridian, Capturis, Comerica and review of the Authority's complementary user controls.	We recommend the Authority proactively obtain and review SOC reports for all third party providers where data is hosted and retain documentation to support the review. The Authority should review the results of IT testing and ensure they have required user entity controls in place at the Authority to ensure the security of its data.	Starting in January 2020, we will request that Ceridian, Capturis, and Comerica IPW provide their annual SOC or equivalent assessment report. We will then review the report to ensure that the appropriate user entity and require them to report remediation of any findings.
<b>Backup Testing</b>	Backup restores are not tested periodically.	We recommend the Authority proactively test full back up restoration on all in scope applications hosted at the Authority to test if the disaster recovery procedures are effective. We noted the Authority does perform tabletop exercises, which is a good mitigating control; however, a full restore test provides additional assurance that disaster recovery procedures are effective.	We currently have the capability to perform a full restore of BS&A and WAM if necessary. We will establish a formal process for restoration of BS&A and WAM from backups and test it annually beginning June 2020.
<b>User Access Review</b>	Periodic user access reviews are not consistently documented on an ongoing basis.	We recommend the Authority establish periodic access reviews for in-scope financial applications including BS&A, Capturis, Ceridian Dayforce and Comerica IPW. Periodic access reviews should include documentation of who conducted the review, if changes were made and who reviewed the changes to ensure they were appropriately modified.	We currently review Ceridian user access on a monthly basis. We have recently established a formal cadence to review BS&A, Comerica IPW, and Capturis access on a monthly basis. We began user access reviews for WAM in September 2019 and will continue on a semiannual basis.  We will establish formal procedures to document all user access reviews starting in January 2020.

To the Great Lakes Water Authority Audit Committee

December 4, 2019

Page 3

**GENERAL INTERNAL CONTROL RECOMMENDATIONS**

During our review of internal controls surrounding the accounts payable/ disbursement process it was noted some vendors, which were established as part of the creation of the Authority, did not have completed vendor approval forms available. These vendors include, DTE Energy, Verizon, US Bank and general employee benefit payments. While we recognize, the Authority's policies have evolved during its short life, we recommend the Authority identify all vendors which do not have vendor approval form as part of the entity's creation formally document the approval of these vendors as required by the current policy.

We considered internal controls over the accounts payable/ disbursement process to be effective as we performed alternate procedures of viewing the vendor contract and W-9 for each of the vendors noted above. The documentation provided supported sufficient approval of the vendor at the creation of the Authority.

**Management Response:** Baker Tilly noted that the Authority did not maintain vendor forms for regulated utility and health and welfare vendor relationships. Management will review current processes to determine optimal internal control procedures and necessary remediation.

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

We appreciate the courtesy and assistance extended to us by all your personnel during the audit. If you have any questions on our comments, or if we can offer our services in any other way during the year, please do not hesitate to contact us. Thank you for allowing us to serve you.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

*Baker Tilly Virchow Krause, LLP*

# **GREAT LAKES WATER AUTHORITY**

## REPORT ON FEDERAL AWARDS

For the Year Ended June 30, 2019

**DRAFT**

## GREAT LAKES WATER AUTHORITY

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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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Great Lakes Water Authority  
Detroit, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of the Great Lakes Water Authority (the "Authority") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated \_\_\_\_\_, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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.

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, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Madison, Wisconsin

\_\_\_\_\_, 2019

DRAFT

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL  
AWARDS REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Great Lakes Water Authority  
Detroit, Michigan

**Report on Compliance for the Major Federal Program**

We have audited the Great Lakes Water Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2019. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the Authority's major federal program 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 the 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 Authority'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 the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

### **Report on Internal Control Over Compliance**

Management of the Authority 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 Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Authority'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 a 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.

### **Purpose of this Report**

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 business-type activities and each major fund of the Great Lakes Water Authority, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Great Lakes Water Authority's basic financial statements. We issued our report thereon dated \_\_\_\_\_, 2019, 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 to 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.

Madison, Wisconsin  
\_\_\_\_\_, 2019

DRAFT

## GREAT LAKES WATER AUTHORITY

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2019

Federal Grantor/ Program Title	CFDA Number	Pass-through Agency Grant Number	Payments Made to Subrecipients	Federal Expenditures
<b>FEDERAL PROGRAMS</b>				
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>				
Passed-through the Michigan Department of Environment, Great Lakes and Energy: Clean Water State Revolving Fund Cluster:				
Capitalization Grants for Clean Water State Revolving Funds	66.458	5635-01	\$ -	\$ 1,620,556
State Revolving Fund Loan	66.458	5636-01	-	299,436
State Revolving Fund Loan	66.458	5651-01	-	3,853,321
Total Clean Water State Revolving Fund Cluster			-	<u>5,773,313</u>
Passed-through the Michigan Department of Environment, Great Lakes and Energy: Drinking Water State Revolving Fund Cluster:				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	7412-01	355,501	573,389
State Revolving Fund Loan	66.468	7413-01	32,080	32,080
State Revolving Fund Loan	66.468	7414-01	<u>4,315,007</u>	<u>4,315,007</u>
Total Drinking Water State Revolving Fund Cluster			<u>4,702,588</u>	<u>4,920,476</u>
<b>TOTAL FEDERAL PROGRAMS</b>				
			<u><b>\$ 4,702,588</b></u>	<u><b>\$ 10,693,789</b></u>

See accompanying notes to schedule of expenditures of federal awards.

## **GREAT LAKES WATER AUTHORITY**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** For the Year Ended June 30, 2019

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#### **NOTE 1 – BASIS OF PRESENTATION**

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The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of the Great Lakes Water Authority under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the 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). Because the schedule presents only a selected portion of the operations of the Great Lakes Water Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Great Lakes Water Authority.

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#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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Expenditures reported on the schedule are reported on the modified cash basis of accounting, which is described as follows:

##### ***BASIS OF ACCOUNTING***

In general, expenditures are reported in the Schedule when the Authority remits payment to a vendor or contractor, rather than when an expense is incurred by the Authority in accordance with Generally Accepted Accounting Principles (GAAP). Additionally, any amounts paid to subrecipients are included when paid or transferred instead of when incurred. The Authority reports its expenditures using this method based on guidance it received from the Michigan Department of Environment, Great Lakes, and Energy (EGLE), which serves as the pass-through entity for all of the Authority's federally funded loan programs.

##### ***PRE-AWARD COSTS***

In addition to the above, the EGLE may approve reimbursement of costs related to projects undertaken (and paid to vendors) in prior periods. In those cases, as the payments were not previously reported as federal expenditures, they are reported on the Schedule in the period reimbursement is approved by the EGLE which is normally with the initial project cash draw.

Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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#### **NOTE 3 – INDIRECT COST RATE**

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The Great Lakes Water Authority has not elected to use the 10% de minimis indirect cost rate.

**GREAT LAKES WATER AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2019

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**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

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***FINANCIAL STATEMENTS***

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- > Material weakness identified? \_\_\_\_\_ yes  no
- > Significant deficiency identified? \_\_\_\_\_ yes  none reported

Noncompliance material to financial statements noted?

- \_\_\_\_\_ yes  no
- \_\_\_\_\_ yes  none reported
- \_\_\_\_\_ yes  no

***FEDERAL AWARDS***

Internal control over the major program:

- > Material weakness identified? \_\_\_\_\_ yes  no
- > Significant deficiency identified? \_\_\_\_\_ yes  none reported

The type of auditors’ report issued on compliance for the major program:

*Unmodified*

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance?

\_\_\_\_\_ yes  no

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes  no

Identification of major federal programs:

CFDA Number

66.468

Name of Federal Program or Cluster

Drinking Water State Revolving Fund Cluster - Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

**GREAT LAKES WATER AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2019

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**SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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None reported.

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**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

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None reported.

**DRAFT**