

Nicolette Bateson

From: Mark Kettner <Mark.Kettner@rehmann.com>
Sent: Wednesday, May 9, 2018 8:47 AM
To: Nicolette Bateson
Subject: Responses to Director Daddow questions/comments

First, let me apologize for being physically unable to attend your Board meeting to address the matters below, in person. As I mentioned to Nicolette on the phone yesterday, I had that “murphy’s law” feeling when I registered for the GFOA Conference in St. Louis back in January that the GLWA report issuance will probably come to a head while I’m away, and sure enough it did. Chalk up another instance for the “law of attraction.”

See my responses to the questions/issues posed by Director Daddow below.

Director Daddow: In addition, the following are comments on the auditor’s letter that will be discussed at the table.

Director Daddow: Auditor’s SAS 114 letter: Fourth paragraph, page 1 – giving rise to the auditor’s responsibility to cite ‘significant matters related to the audit’ involving ‘responsibilities in overseeing the financial reporting process.’ I find this assertion interesting in light of the failure to provide any discussion of the Michigan Warehouse and United House of Prayer matters. I am going to be asking Kettner several questions on this matter involving his scope of work and how it was expanded and why there is no mention of this matter in the SAS 114 report.

The first sentence states – “We are also responsible for communicating significant matters related to the audit that are, in our opinion professional judgment, relevant to your responsibilities in overseeing the financial reporting process.”

Response: After concerns relative to the Michigan Warehouse and similar legal matters was communicated by Director Daddow several months ago, we considered expanding the scope of our work through additional/expanded inquiries with Authority management (including legal staff) and DWSD legal staff. That work was suspended when the MOU negotiations commenced and then ceased when the Terms Sheet was made available (and the respective governing bodies accepted those Terms) as it seemed that this matter was resolved. Now, we could still write a finding if the Board and/or management felt strongly about it, which would cite the need for management to inform the Board of all such matters, but we believe there was a compelling argument regarding this lack of communication (given the very unique situation that the chief executive of the party to a potential legal action sits on the Authority Board and would therefore potentially receive confidential information regarding legal strategy that could be unfavorable to the Authority).

We are satisfied from our audit procedures, both this year and last, that the accruals for these items were appropriate given the understanding and interpretation of the Lease(s) at that time and there was no indication that material information was being withheld from us to suggest that additional accruals may be warranted. When this matter was removed because of the MOU (both the specific accruals and the any future such cases/claims), it was removed from our consideration.

We certainly encourage full and complete communication between management and the Board, and the Board has the responsibility to determine when items should be limited for legal reasons. Our understanding was that a policy related to this was considered (but not adopted) by the Board and this certainly played into our conclusion as to whether this matter merited separate communication.

Director Daddow: Page 2 third paragraph – ‘significant unusual transactions’ – none of the MOU items were considered to be significant or unusual?

Response: As this item is to inform you, the Board, about significant unusual transactions, we felt there was no need to mention the MOU Term Sheet since you were already aware of it and, in fact, had taken specific action on it. In other words, we were not compelled to tell you what you already know. Other users of the financial statements are informed of the MOU items through the financial statement note disclosures on the Special Item.

Director Daddow: Shared services – is Rehmann satisfied that the accruals – both to and from DWSD-R – are properly recorded even as certain services remain open going back into the six months ended June 30, 2016?

Response: We have performed audit procedures, both this year and last, on the shared services and are satisfied that the amounts recorded are adequately supported. We are aware of the potential for further negotiations that may affect these accruals, but such amounts are not reasonably determinable, would most likely be “gain” items to the Authority rather than “loss” items, and there is not compelling evidence to indicate that a net loss (if and when further negotiations actually occur) that the amount would be material to the Authority’s financial statements. For these reasons, we were not compelled to require note disclosure in the financial statements or an emphasis of a matter paragraph in our report. If the Authority would like to add a note regarding this, we would not disagree with it.

Director Daddow: Page 3 – uncorrected / corrected misstatements – while not directly on point and more of an estimate than a misstatement, here might be a decent area where the \$10.9 million in receivables previously identified and in the MOU should be considered. What was recorded as a receivable from DWSD-R on this matter as a starting point in the resolution of this issue? And, what actions to secure engineering services have transpired given that there is a finite time frame identified in the MOU approved a few weeks ago.

Response: This question relates to Item # 14 from the MOU Term Sheet. It is our understanding from the GLWA management that the “MOU Term Sheet” is now being finalized as an “MOU”. The timeline for resolution of that matter is outlined in the MOU Term Sheet (excerpt below) and is based upon execution of the MOU. Given the nature of the additional engineering review, analysis, and collaboration among the parties to resolve, the management team has been conservatively not recorded a receivable as the outcome is dependent on resolution on future actions

14. Water and Sewer Charges to GLWA: GLWA desires a meeting to begin the discussion on the clarification of water supply and sewage disposal services provided by DWSD to the Regional System within thirty (30) days after the execution of the MOU. If this issue is not resolved within ninety (90) days after the meeting, the matter will be brought to the Reconciliation Committee for resolution.

Director Daddow: Page 3 – representations requested from management. Cited as being attached; it wasn’t.

Response: We had previously provided a draft of the management representation letter in a Word file. That letter is now included in the latest draft of the SAS 114 report package.

Director Daddow: Page A1 – should the findings identified in the Information Technology bullet be restated given that no actions have been taken to rectify them from the prior SAS 114 letter. It is hard to understand the issues in reading this document if one does not have access to the prior SAS 114 letter.

Response: Good catch (as are all the other items here); we will modify this finding to put the level of detail from last year into this year’s finding.

Director Daddow: Single Audit Act letter – A little surprised at the single issue of the timely year end closing with no reference to interim financial information needed by the Board to perform their functions (see paragraph 4 of the SAS 114 letter). Not quite sure how the lack of timely, accurate and relevant financial information not submitted to the board cannot be considered a ‘significant matter’ involving ‘the financial reporting process.

Response: It should be noted that we have observed publicly available financial information on a regular basis via the Audit Committee binders in lieu of interim financial statements. We will be adding a finding to the management letter (on page A1 as referenced in the prior bullet point). The finding in the single audit report is compliance-oriented and therefore shown there. The text of that finding is shown below:

Interim Financial Reporting

Due to a variety of reasons, including start-up complexities following bifurcation, software issues and personnel challenges, Authority management has been unable to provide its board with timely and accurate interim financial information. As such information is integral to timely and meaningful decision making, management needs to implement measures to fulfill this obligation.

We look forward to presentation of the final reports at the next Audit Committee meeting.

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