

Great Lakes Water Authority

Year Ended
June 30, 2016

Single Audit Act
Compliance

GREAT LAKES WATER AUTHORITY

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INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

July 31, 2017

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

We have audited the financial statements of the 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, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated July 31, 2017, 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



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Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2016

Federal Agency / Cluster / Program Title	CFDA Number	Pass-through / Grantor Number	Federal Expenditures
U.S. Environmental Protection Agency			
Passed-through the Michigan Department of Environmental Quality -			
Capitalization for Clean Water State Revolving Fund Cluster:			
State Revolving Funds	66.458	5486-01	\$ 356,215
State Revolving Funds	66.458	5619-02	4,837,809
State Revolving Funds	66.458	5619-03	2,434,479
State Revolving Funds	66.458	5635-01	<u>1,284,986</u>
Total Expenditures of Federal Awards			<u>\$ 8,913,489</u>

See notes to schedule of expenditures of federal awards.

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Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Great Lakes Water Authority (the "Authority") under programs of the federal government for the year ended June 30, 2016. 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 Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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). The Authority reports its expenditures using this method based on guidance it received from the Michigan Department of Environmental Quality (MDEQ), which serves as the pass-through entity for all of the Authority's federally funded loan programs.
- *Retainage.* Amounts are contractually withheld from various contractors working on the Authority's projects until the projects are complete, at which time the retainage is remitted (with interest) to the contractor. As these funds are withheld from each pay application, they are deposited by the Authority into interest earning cash accounts. Amounts so deposited are considered to be "remitted" as described above, and are reported on the Schedule. No further reporting is then required upon release of the retainage and accumulated interest to a contractor at the end of a project.
- *Pre-award costs.* In addition to the above, the MDEQ 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 MDEQ.

The above referenced 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

For purposes of charging indirect costs to federal awards, the Authority has elected not to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.



INDEPENDENT AUDITORS' 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*

July 31, 2017

To the Board of Commissioners of the
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, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 31, 2017.

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 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2016-001 and 2016-002 that we consider to be significant deficiencies.

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*.

Great Lakes Water Authority's Responses to Findings

The Authority’s responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Authority’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.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

July 31, 2017

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

Report on Compliance for the Major Federal Program

We have audited the compliance of the *Great Lakes Water Authority* (the "Authority") 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, 2016. 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.

Independent 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 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 the 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, 2016.

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 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.

The image shows a handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

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Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

SECTION I - SUMMARY OF AUDITORS' RESULTS

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(es) identified? _____ yes X no

Significant deficiency(ies) identified? X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major programs and type of auditors' report issued on compliance for each major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
66.458	Capitalization for Clean Water State Revolving Fund Cluster	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? _____ yes X no

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

2016-001 - Timely Year-end Closing

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. The timely preparation and issuance of financial statements in accordance with generally accepted accounting principles requires a coordinated effort between management and the external auditors, and places the burden on management to properly prepare for the audit, including timely closing of the accounting records, preparation of workpapers to support the significant account balances and obtaining the necessary documents needed by the auditors to perform their work.

Condition. Fieldwork started in April 2017 and at that time bank reconciliations were still being completed and adjustments were being posted to the general ledger. Additionally, a reasonably adjusted trial balance was not provided until June 2017.

Cause. The complex nature of the bifurcation of the balance sheet, and separation from the City of Detroit, caused delays in completion of the bank reconciliations and adjusting various accounts to the final balances.

Effect. As a result of this condition, the Authority was exposed to the risk that misstatements (whether caused by error or fraud) could exist and not be detected and corrected by not reconciling in a timely manner.

Recommendation. Management has already taken appropriate corrective action by completing year-end bank reconciliations and adjusting all accounts to the proper balances. However, we recommend that going forward the Authority complete its bank reconciliations as close to month-end as possible and prepare a reasonably adjusted trial balance and all supporting workpapers at the start of audit fieldwork.

View of Responsible Officials. We have reviewed the findings and concur with the recommendations. This timing was unique to the standup of GLWA for fiscal year 2016 due to the delay in the financial close of the predecessor entity, implementation of new or previously non-existing systems, and recruitment of staff vacancies due to the bifurcation. During the fiscal year 2017 significant progress has been made building on the foundation established in fiscal year 2016. Presently bank reconciliations are prepared on a monthly basis, year-to-date revenues and expenses are reported, and a significant number of procedures have been documented. The strategic objectives to structure and organize the financial operations of GLWA to achieve a best practices state continue.

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Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

2016-002 - Segregation of Duties

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. Management is responsible for establishing effective internal controls to safeguard the Authority's assets, and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the Authority's unique circumstances. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Condition. The Authority has two individuals who are able to set up vendors, enter an invoice for payment and approve the invoice for payment.

Cause. This condition appears to be the result of turnover in the accounting department and the resulting lack of personnel to create adequate segregation of duties.

Effect. As a result of this condition, the Authority is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

Recommendation. We recommend that management actively seeks ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials. We have reviewed the findings and concur with the recommendations. During the implementation period there were limited number of personnel for certain functions. Alternative controls were in place during the period. During the fiscal year 2016 and 2017 the Chief Financial Officer (CFO) continues to implement the strategic objectives to structure and organize the financial operations of GLWA during its first year of implementation. The CFO is in the process of documenting all policies and procedures and filling vacant positions. During this implementation period alternative controls were in place: (a) review of check registers by CFO and (b) under direction of CFO, the Management Professional for Budget reviewed all transactions with cost center budget managers.



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Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2016

2016 was the Authority's first single audit. Accordingly, there are no prior audit findings to report.

