

GREAT LAKES WATER AUTHORITY

REPORT ON FEDERAL AWARDS

For the Year Ended June 30, 2019

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 December 20, 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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
December 20, 2019

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 December 20, 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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
December 20, 2019

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
FEDERAL PROGRAMS				
U.S. ENVIRONMENTAL PROTECTION AGENCY				
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				
State Revolving Fund Loan	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>-</u>	<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				
State Revolving Fund Loan	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	4,315,007	4,315,007
Total Drinking Water State Revolving Fund Cluster			<u>4,702,588</u>	<u>4,920,476</u>
TOTAL FEDERAL PROGRAMS			<u>\$ 4,702,588</u>	<u>\$ 10,693,789</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

NOTE 1 – BASIS OF PRESENTATION

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.

NOTE 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). 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.

NOTE 3 – INDIRECT COST RATE

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

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

None reported.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported.