

**INDEPENDENT ACCOUNTANT'S REPORT**

June 28, 2019

Members of the Boards of the Albany Water Board  
and Albany Municipal Water Finance Authority:

We have examined the assertion of management of the Albany Water Board and Albany Municipal Water Finance Authority's, which collectively comprise the City of Albany Water and Sewer System (the "System"), that the System complied with the requirements of Section 201.3 of Title Two of the *Official Compilation of Codes, Rule and Regulations of the State of New York* during the period January 1, 2018 to December 31, 2018. The System's management is responsible for this assertion. Our responsibility is to express an opinion on management's assertion about the System's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion about compliance with the specific requirements is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence supporting the System's assertion is fairly stated, in all material respects. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the System's compliance with specified requirements.

In our opinion, management's assertion that the System complied with the requirements of Section 201.3 of Title Two of the *Official Compilation of Codes, Rule and Regulations of the State of New York* during the period January 1, 2018 to December 31, 2018 is fairly stated, in all material respects.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements and instances of fraud and abuse that are direct and material to the System's compliance with the requirements of Section 201.3 of Title Two of the *Official Compilation of Codes, Rule and Regulations of the State of New York* that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on management's assertion that the System complied with the requirements of Section 201.3 of Title Two of the *Official Compilation of Codes, Rule and Regulations of the State of New York* and not for the purpose of expressing an opinion on the internal control over compliance with those requirements, compliance with the provisions of other laws, regulations, contracts, or grant agreements or other matters referred to above; accordingly, we express no such opinion. The results of our tests disclosed no matters that are required to be reported under *Government Auditing Standards*.

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(Continued)

**INDEPENDENT ACCOUNTANT'S REPORT (Continued)**

The purpose of this report is to provide our opinion on management's assertion that the System complied with the requirements of Section 201.3 of Title Two of the *Official Compilation of Codes, Rule and Regulations of the State of New York* during the period January 1, 2018 to December 31, 2018. Accordingly, this report is not suitable for any other purpose.

Bonadio & Co., LLP

## REQUIRED COMMUNICATIONS

June 28, 2019

Members of the Boards  
Albany Water Board and Albany Municipal  
Water Finance Authority

We have audited the financial statements of the Albany Water Board and the Albany Municipal Water Finance Authority (the System), which is a discretely presented component unit of the City of Albany, New York for the year ended December 31, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 8, 2019. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies were not significantly changed during 2018.

We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

#### *Significant 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 System's financial statements were:

- Management's estimate of the depreciable lives of capital assets which is based on judgements regarding the length of time an asset will provide value to the System.
- Management's estimate of unbilled customer accounts receivable at December 31, 2018.
- Management's estimate of the allowance for uncollectible accounts receivable at December 31, 2018.

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

### *Financial Statement Disclosures*

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of capital assets in Note 4 to the financial statements describes the historical cost of the property, plant, and equipment. Note 4 also discloses the current year activity for these classifications.
- The disclosures of Bonds and Notes payable in Note 5 to the financial statements describes the types of bonds and notes issued by the System. Note 5 also discloses the current year activity for these classifications.
- The disclosure of the transaction with the City of Albany in Note 8 describes the balances of amounts due to and from the City.
- The disclosures related to the Albany Pool – Long-Term Control Plan in Note 12 describes the Systems and six other municipalities obligations regarding the consent order with the New York State Department of Environmental Conservation to address the combined sewer overflow discharges into the Hudson River and the improvement of overall water quality.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing 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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. A material misstatement related to the need to \$8.146 million in New York State Environmental Facility Corporation notes and the related cash with fiscal agent was detected as a result of our audit procedures and was corrected by management.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated as of the date of this letter.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the System's financial statements or a determination of the type of auditor's 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, there were no such consultations with other accountants.

*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 System'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 management's discussion and analysis, which is 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.

*Restriction on Use*

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

Very truly yours,

*Bonadio & Co., LLP*

Bonadio & Co., LLP

June 28, 2019

Members of the Boards

Albany Water Board and Albany Municipal  
Water Finance Authority

In planning and performing our audit of the financial statements of the Albany Water Board and the Albany Municipal Water Finance Authority (the System) as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered the System's internal control over financial reporting (internal control) as a basis for designing auditing 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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. Attachment A that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate letter dated June 28, 2019, contains our communication of significant deficiencies or material weaknesses in the System's internal control. This letter does not affect our report dated June 28, 2019, on the financial statements of the System.

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

This communication is intended solely for the information and use of management, the Members of the Boards, and others within the System, and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,

*Bonadio & Co., LLP*

Bonadio & Co., LLP

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## **ATTACHMENT A**

### **2018 Matters**

We have no new matters to report as a result of our 2018 audit.

### **Update on 2017 Matters**

#### **Policies and Procedures**

The System has established written policies and procedures related to most aspects of its accounting operations. However, during our audit we noted two areas that the System may want to consider establishing additional written policies and procedures as follows:

The System provides rate discounts to approximately 1,500 senior citizens. We inquired of the policy in which this discount was provided, establishes eligibility or provides for the approved rate. We were told that it's a policy of the City to provide these discounts and the City Assessor provides the System with a list of properties that are to be given the senior citizen discount and those accounts are billed accordingly.

We also noted that the System has a policy that establishes thresholds and criteria for capitalization of certain "pre-determined" projects. However, we noted that the System has certain repair projects that can be extensive and extend the useful life of a portion of the System's infrastructure.

We recommended that the System consider modifying existing capitalization policies to address certain repair projects. We recommended that the System consider adopting the City's senior citizen discount policy and monitor the list of eligible properties for compliance.

#### *2018 Update*

The Senior Discount Program was approved by the Board on March 22, 2019, by resolution # 19-08. The Capital policy and procedure manual has been completed. Procedures are being utilized at the department level. The policies are pending Board approval.

#### *2018 Recommendation*

No further recommendation is necessary as the matters are resolved.

### **Grant and Project Accounting and Compliance**

#### **Grant and Project Accounting**

In 2016, the System was awarded four project finance agreements from the New York State Environmental Facilities Corporation with a total value of \$25.7 million to complete a number of capital improvements to the System. The agreements provide for a variety of funding sources including grants, long term financing and financial participation from other CSO Long-term Control Plan participating communities. From our experiences during the audit with these project finance agreements, each agreement is unique and the accounting for the revenue streams associated with each can be complex. Further, the sources of grant funding can be from State and/or Federal sources and as a result the System needs to keep accounting records for the sources of revenue to determine if a Uniform Guidance audit is required. Lastly, the grant funding can be in form of reimbursement or advances and the tracking of grant receipts against grant disbursements is critical to determine if receivables or unearned revenue entries are needed at year end.

During our audit we noted that the System has not fully implemented procedures to address the complex nature of the project finance agreements and other grant funding that the System may receive in the future, as such we recommended the following:

- Review all grant agreements and project finance agreements upon execution to determine the source (State, Federal, other Communities, bonding) of funding and establish a tracking system for each grant agreements and project finance agreements.

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- Reconcile the tracking system back to the general ledger and confirm balances with the funding source (i.e. EFC) on a periodic basis to ensure source of funds have been properly applied and receivables and/or unearned revenues are recorded at year end.
- Monitor Federal grant disbursements to determine if the \$750,000 Uniform Guidance audit threshold has been pierced and create a Schedule of Expenditures of Federal Awards to be audited.

### *2018 Update*

The System has implemented several mechanisms to track grants and projects. New processes have been developed with EFC to ensure compliance, including bi-weekly calls with EFC are held to review compliance with funding requirements. The calls are attended by the Deputy Commissioner, CFO, Engineer, MWBE Officer, and Accountant.

### *2018 Recommendation*

No further recommendation is necessary as the matter is resolved.

### Uniform Guidance Compliance

In 2016, the System was the recipient of Federal grants for the first time. As a result, the System is now required to comply with the Uniform Guidance requirements (2 CFR Part 200) and the additional requirements that are contained in grant agreements. The adherence to these requirements are essential to ensure that funds are not recouped and that future grant opportunities are not comprised due to the System's noncompliance with federal requirements. The Uniform Guidance contain numerous requirements the System "must" comply that include having certain policies and procedures related to the administration of federal awards in writing. Further, new Federal procurement regulations are effective July 1, 2018 that are to be followed for all procurement using Federal award which may be different that the system's current procurement policies.

We recommended that the System perform the following:

- Review Uniform Guidance and other grant agreement requirements and create a compliance matrix for significant requirements for which the System has to comply.
- From the compliance matrix develop a gap analysis and develop a plan to remediate any gaps in compliance
- For applicable policies and procedures related to the administration of federal awards that must be in writing, determine if a written policy exists and if not establish a written policy.
- Establish a process to monitor compliance with Federal requirements and to periodically review existing policies and procedures against Federal regulations and new grant agreements to ensure continued compliance.

### *2018 Update*

No formal written policy has been developed. The department reviews new grant agreements to determine the source of the funding. If it is determined that the funds are federal grant dollars, the grant proceeds are tracked to ensure that if proceeds received exceed \$750k in a single fiscal year, that a single audit over the grant must be performed.

### *2018 Recommendation*

The System should consider implementing our 2017 recommendations.

### **Access to General Ledger**

The System accounting records have been established as a fund in the City of Albany's (the City) New World Accounting Software. The City has established a policy that limits the System's access to read-only and the System cannot make any entries into the System's established fund in the New Work System. During our audit we observed that the City does not always make timely entries provided by the System into the System's accounting records. We also observed that the City makes entries not

## **ATTACHMENT A**

provided by System in the System's accounting records which have to be subsequently reviewed and verified and the System maintains a "shadow system" of excel spreadsheets and other accounting records that would not be fully necessary if the System were able to post their own transactions. This policy creates great inefficiencies for the System and slows down the year end closing process, can make interim reporting not complete and accurate and does not allow the System full responsibility for the accounting records of the System.

We recommended that the System work with the City to establish a new policy such that the City and the System each have the necessary New World Accounting Software access to create a more efficient accounting and financial reporting process.

### *2018 Update*

Access to the General Ledger was approved by the Mayor. The System is awaiting physical access rights through the Treasurer's Office.

### *2018 Recommendation*

No further recommendation is necessary as the matter is resolved.

## **Reconciliation of Due to/from City Accounts**

The System has two significant accounts that capture transactions with the City of Albany. The amounts due from the City primarily represent tax rollover amounts which totals approximately \$15.7 million at December 31, 2017. Identified tax rollover balances date back to 2013 and represent 25% of the balance. The remaining 25% of the balance is an unknown auditor adjustment from 2013 for \$1.14 million and an unidentified balance in the amount of \$2.82 million.

The due to the City account is the means for which the System funds the payments to its employees and vendors. The System on a monthly basis funds the accounts with cash to cover the disbursements the City is going to make for payroll and vendor payments. The system currently closely monitors the amounts deposited to the account and amounts withdrawn. At December 31, 2017, the balance due to the City is \$11.4 million. Much of the components of this balance are not known and appear to go back many years.

We recommended that the System work with the City to determine the nature of the unreconciled amounts represented in the Due from and Due to balances.

### *2018 Update*

The System completes an annual reconciliation of amounts due to and from the City. Further, the balance is reviewed monthly by the Board.

### *2018 Recommendation*

Although current year activity was monitored and reconciled, there continues to be older amounts contained in the balance for which no support or knowledge appears to exist for these amounts. The System should meet with the City to determine if such amounts should be written off or if further investigation is warranted to resolve. The decision should be brought to the Board for approval.

## **Inventory**

The System maintains an inventory of parts for repairs and maintenance purposes and other consumables that are purchased in advance of use. The value of this inventory is not captured and presented in the financial statements. We understand that the System currently has a project to implement an information technology solution to capture the value and track inventory movements.

We recommended that the System continue with its efforts to implement the inventory system and develop policies and procedures once implemented to ensure that inventory balances are complete and accurate on a periodic basis.

## **ATTACHMENT A**

### *2018 Update*

System management has chosen not to value inventory for balance sheet purposes. However, management recognizes the benefits from valuing and tracking inventory. The System has invested in a work order management software, which will interface with an inventory module. An inventory module that can interface with the work order system has not been selected.

### *2018 Recommendation*

The System should continue implementing our 2017 recommendation.

### **Accounting Function Staffing Levels**

As part of our audit we observed that the System's accounting function is diligent in their duties to provide complete and accurate accounting of the System's financial transactions and are looking to make improvements to gain efficiencies whenever possible. However, we also noted that there is not an adequate back up and support system to ensure that if an employee is on vacation or otherwise becomes unavailable that their accounting duties are adequately supported during that period. Further, the addition of State and Federal grants, the increase in CSO Long-term Control Plan spending, the implementation of an inventory system and other initiatives will put pressure on the current staffing levels.

Given the increase in accounting activities described above and the need for backup provisions for accounting staff, we recommended that the System consider the need to increase staffing levels with an experienced accountant level professional to complement existing staff.

### *2018 Update*

An additional Accounting Assistant position was added to the 2019 budget. The position has been filled, effective June 24, 2019

### *2018 Recommendation*

No further recommendation is necessary as the matter is resolved.