

June 2, 2022

Members of the 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, 2021, 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. This letter does not affect our report dated June 2, 2022 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,

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ATTACHMENT A

2021 Matters

Year-End Closing Procedures

During the current year we received multiple versions of trial balances and supporting account schedules from the System. There was also a delay in performing year-end closing procedures and reconciling accounts. These factors resulted in our audit being performed in a stop and go fashion.

Future Recommendation

The System should perform year-end closing procedures timely, and a proper cut-off achieved. Once the trial balances are provided, there should be minimal additional adjustments.

Management Response

We acknowledge that the complexity and significance of the on-going capital projects, combined with an early closing of the 2021 year-end books, resulted in several changes to the trial balance. In an effort to avoid similar issues with the 2022 year-end close, the audit start date will be revised from February to March to allow all construction costs to be verified and adjusted before the commencement of the audit.

Journal Entry Review

During our testing of the internal controls over journal entries, we noted that no one reviews and approves the journal entries that are prepared and recorded.

Future Recommendation

The System should implement a practice that designates an individual in the Business Office as the reviewer of all journal entries.

Management Response

An enhancement to the journal entry approval process has been implemented. This procedure now provides for a review and sign-off of all journal entries before posting to the general ledger.

Update on 2020 Matters

Grant and Project Accounting and Compliance

Uniform Guidance Compliance

In 2016, the System was the recipient of Federal grants for the first time. Accordingly, 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.

ATTACHMENT A

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.

2021 Update

A formal written policy documenting the process and requirements of the application of federal awards was drafted and approved by the Albany Water Board on June 25, 2021, by resolution # 21-47.

2021 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. 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.

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.

2021 Update

The System completed an annual reconciliation of amounts due to and from the City. Further, the balance is reviewed monthly by the Board. In addition, the System has negotiated with the City to net down the due to/from balances to a more manageable figure. The System came to an agreement with the City of Albany to net down the due to/due from older balances by an amount of \$15,795,492. However, there still continues to be balances for a few years that have not changed.

2021 Recommendation

Although current year activity was monitored and reconciled, and older amounts were written off, there continues to be amounts for a few years contained in the balance that have not changed year over year. 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.

2021 Management Response

The Due from City account balances are understood to be comprised of current items and open tax roll amounts. Similar to past years, these balances are subject to future transactions which will provide for account offsets. The accounting for these transactions will be discussed with the Board's Finance Committee and consideration will be given for any changes deemed necessary in the current year.

ATTACHMENT A

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.

2021 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 purchased a new inventory management system, Gigatrak. The inventory management system is fully-operational.

2021 Recommendation

No further recommendation is necessary as the matter is resolved.