

June __, 2020

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, 2019, 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 __, 2020, contains our communication of significant deficiencies or material weaknesses in the System's internal control. This letter does not affect our report dated June __, 2020, 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

ATTACHMENT A

2019 Matters

We have no new matters to report as a result of our 2019 audit.

Update on 2018 Matters

Grant and Project Accounting and Compliance

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.

2019 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 expended exceed \$750,000 in a single fiscal year, then a single audit over the grant must be performed.

2019 Recommendation

The System should consider implementing our prior recommendations.

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.

ATTACHMENT A

2019 Update

The System completes an annual reconciliation of amounts due to and from the City. Further, the balance is reviewed monthly by the Board. In addition, as part of the 2019 year-end close, the Water Board CFO is working with Treasury to determine an appropriate transaction to net balances, rather than carry large multimillion due to and due from balances.

2019 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.

2019 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.

2019 Recommendation

The System should continue implementing our 2017 recommendation.