



MASSACHUSETTS WATER RESOURCES AUTHORITY

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133
and Related Information

Year ended June 30, 2013

MASSACHUSETTS WATER RESOURCES AUTHORITY

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133
and Related Information

Year ended June 30, 2013

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Exhibit I

**Independent Auditors' Report on Compliance with Requirements That Could Have
a Direct and Material Effect on Each Major Program and on Internal
Control over Compliance and the Schedule of Expenditures of
Federal Awards in Accordance with OMB Circular A-133**

The Board of Directors
Massachusetts Water Resources Authority:

Report on Compliance for Each Major Federal Program

We have audited the Massachusetts Water Resources Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2013. The Authority's major federal programs are 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each 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 each of its major federal programs for the year ended June 30, 2013.

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



Exhibit I

compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Authority as of and for the year ended June 30, 2013, and have issued our report thereon dated August 23, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 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 financial statements or to the 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 financial statements as a whole.

KPMG LLP

October 28, 2013

MASSACHUSETTS WATER RESOURCES AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

| Federal grantor/pass-through grantor/program title | CFDA number | Expenditures |
|--|------------------------|---------------------|
| Environmental Protection Agency: | | |
| Passed-through Massachusetts Water Pollution Abatement Trust: | | |
| Capitalization Grants for Clean Water State Revolving Funds (note 3) | 66.458 | \$ — |
| ARRA – Capitalization Grants for Clean Water State Revolving Funds (note 3) | 66.458 | 91,239 |
| Department of Homeland Security: | | |
| Passed-through Massachusetts Emergency Management Agency: | | |
| Disaster Grants-Public Assistance | 97.036 | 263,942 |
| Passed-through Massachusetts Executive Office of Public Safety and Security: | | |
| Buffer Zone Protection Program (BZPP) | 97.078 | <u>19,347</u> |
| Total expenditures of federal awards | | <u>\$ 374,528</u> |

See accompanying notes to schedule of expenditures of federal awards.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(1) Reporting Entity

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs subject to OMB Circular A-133 of the Authority for the year ended June 30, 2013.

(2) Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented using the cash basis of accounting.

(3) Federal Reimbursements

The Authority has and continues to expend funds for which federal participation is unknown. Those amounts are not considered federal expenditures until the Authority is notified as such.

For the year ended June 30, 2013, the Authority received reimbursements from the Massachusetts Water Pollution Abatement Trust (the Trust) for expenditures incurred in fiscal years ending June 30, 2008 through June 30, 2013 that were determined to qualify for federal participation. The following represents a reconciliation of expenditures included on the schedule of expenditures of federal awards to reimbursements received in 2013 that qualified for federal participation:

| | <u>CWSRF*</u> | <u>DWSRF^</u> | <u>Total</u> |
|--|----------------------|------------------|-------------------|
| Federal reimbursements received in 2013 | \$ 22,672,059 | 6,689,721 | 29,361,780 |
| Expenditures incurred in 2013 and reported on the schedule of expenditures of federal awards | <u>91,239</u> | <u>—</u> | <u>91,239</u> |
| Expenditures incurred in 2012 and prior not reported on the schedule of expenditures of federal awards | <u>\$ 22,580,820</u> | <u>6,689,721</u> | <u>29,270,541</u> |

* = Clean Water State Revolving Fund (CFDA # 66.458)

^ = Drinking Water State Revolving Fund (CFDA # 66.468)

The 2012 and prior expenditures were not, at that time, identified as federal expenditures and were not considered federal expenditures for OMB Circular A-133 purposes in those years. In 2013, the Authority received notification from the Trust identifying federal reimbursements for those 2012 and prior expenditures. However, in the 2013 OMB Circular A-133 Audit of the Authority, the 2012 and prior expenditures noted in the above table were subject to the same procedures applied to the 2013 expenditures. Any findings required to be reported under OMB Circular A-133 for the 2012 and prior expenditures would be reported in the current year schedule of findings and questioned costs.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

(1) Summary of Auditors' Results

Financial Statements

| | | | |
|---|------------|----------------------------|--|
| Type of auditors' report issued: | Unmodified | | |
| Internal control over financial reporting: | | | |
| • Material weakness(es) identified? | _____ yes | <u> x </u> no | |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)? | _____ yes | <u> x </u> none reported | |
| Noncompliance material to the financial statements noted? | _____ yes | <u> x </u> no | |

Federal Awards

| | | | |
|--|------------|----------------------------|--|
| Internal control over major programs: | | | |
| • Material weakness(es) identified? | _____ yes | <u> x </u> no | |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | _____ yes | <u> x </u> none reported | |
| Type of auditors' report issued on compliance for major programs: | Unmodified | | |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | _____ yes | <u> x </u> no | |

Identification of Major Programs

| Name of federal program or cluster | CFDA # |
|---|--------|
| Capitalization Grants for the Clean Water State Revolving Fund | 66.458 |
| Capitalization Grants for the Drinking Water State Revolving Fund | 66.468 |

| | | | |
|--|------------------|----------|--|
| Dollar threshold used to distinguish between type A and type B programs, as those terms are defined in OMB Circular A-133: | \$300,000 | | |
| Auditee qualified as low-risk auditee? | <u> x </u> yes | _____ no | |

MASSACHUSETTS WATER RESOURCES AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

(3) Findings and Questioned Costs Relating to Federal Awards

None.