



**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, 2015

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

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Management and Budget (OMB) Circular A-133  
and Related Information

Year ended June 30, 2015

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Exhibit I

**Independent Auditors' Report on Compliance for Each Major Program, 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, 2015. 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 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, 2015.

***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of



findings and questioned costs as item 2015-001. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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 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, 2015, and have issued our report thereon dated August 26, 2015, 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



**Exhibit I**

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*

March 23, 2016

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

<b>Federal grantor/pass-through grantor/program title</b>	<b>CFDA number</b>	<b>Expenditures</b>
		\$ —
Total expenditures of federal awards		\$ —

See accompanying notes to schedule of expenditures of federal awards.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

**(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, 2015.

**(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, 2015, the Authority received reimbursements from the Massachusetts Water Pollution Abatement Trust (the Trust) for expenditures incurred in fiscal years ending June 30, 2012 and 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 2015 that qualified for federal participation:

	<u>CWSRF*</u>	<u>DWSRF^</u>	<u>Total</u>
Federal reimbursements received in 2015	\$ 33,514,907	3,836,902	37,351,809
Expenditures incurred in 2015 and reported on the schedule of expenditures of federal awards	—	—	—
Expenditures incurred in 2014 and prior not reported on the schedule of expenditures of federal awards	<u>\$ 33,514,907</u>	<u>3,836,902</u>	<u>37,351,809</u>

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

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

The 2014 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 2015, the Authority received notification from the Trust identifying federal reimbursements for those 2012 and prior expenditures. However, in the 2015 OMB Circular A-133 Audit of the Authority, the 2014 and prior expenditures noted in the above table were subject to the same procedures as would be applied to the 2015 expenditures. Any findings required to be reported under OMB Circular A-133 for the 2014 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, 2015

(1) Summary of Auditors' Results

*Financial Statements*

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes   x   no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes   x   none reported

Noncompliance material to the financial statements noted? \_\_\_\_\_ yes   x   no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes   x   no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes   x   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?   x   yes \_\_\_\_\_ 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

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

None.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

**(3) Findings and Questioned Costs Relating to Federal Awards**

**Finding 2015-001**

**Federal Program Name and CFDA #:**

Capitalization Grants for Clean Water State Revolving Funds (CFDA# 66.458)

*Federal Agency:* U.S. Environmental Protection Agency

*Pass-through Entity:* Not applicable

*Federal Award Number:* CS-25000112-0

*Federal Award Year:* September 1, 2012 through July 30, 2019

**Requirement**

*Period of Availability*

Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged for obligations of a subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-Federal entity during the same or a future period (A-102 Common Rule, §\_\_.23; OMB Circular A-110 (2 CFR section 215.28)).

Non-Federal entities shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation). The Federal agency may extend this deadline upon request (A-102 Common Rule, §\_\_.23; OMB Circular A-110 (2 CFR section 215.71)).

**Condition Found**

The Massachusetts Water Resources Authority (Authority) receives Federal reimbursement from the Massachusetts Clean Water Trust (Trust) under the Capitalization Grants for Clean Water State Revolving Funds (CFDA #66.458) for project costs incurred by the Authority. As such the Authority is considered a subrecipient of the Trust.

When awarded to the Trust, the Capitalization Grants for Clean Water State Revolving Funds specified the time period during which the Trust, the primary recipient, could use the Federal funds. Under the award, the budget period and project period for the use of these funds was specified as being from September 1, 2012 through July 30, 2019.

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

During fiscal 2015, the Authority, at the request of the Trust, provided project costs to the Trust for reimbursement that were incurred outside the specified period of availability. Specifically, the costs incurred by the Authority were incurred prior to the project period start date of September 1, 2012.

**Cause**

The Authority did not receive the necessary information from the Trust regarding the period of availability related to the costs.

**Effect**

For the Authority, the effect is that costs incurred outside of the grant award period should not have been reimbursed by the Trust from the Capitalization Grants for Clean Water State Revolving Funds.

**Questioned Costs**

Not determinable.

**Recommendation**

We recommend that Authority management work with the management of the Trust to ensure costs provided by the Authority for Federal reimbursement have been incurred within the grant's period of availability. This arrangement could be codified prospectively in the loan or subrecipient agreement between the Trust and the Authority.

**Views of Responsible Officials, Corrective Action Plan and Scheduled Date of Completion**

Management of the Clean Water Trust has instituted controls to ensure compliance of project expenses with the period of availability for grant funds. The Authority expects that these controls will ensure that the Trust provides the Authority the necessary information regarding the period of availability related to these costs. The Authority will comply with all requirements.

**Responsible Official**

Robert Belkin, Controller, Phone: 617-788-2254



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Exhibit IV

**Independent Auditors' 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***

The Board of Directors  
Massachusetts Water Resources Authority:

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 Massachusetts Water Resources Authority as of and for the year then ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated August 26, 2015. Our report includes a paragraph on other matters related to the Authority's implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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



## Exhibit IV

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

August 26, 2015