



MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)

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

Year ended June 30, 2015

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)

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

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KPMG LLP
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Exhibit I

**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by OMB Circular A-133,
*Audits of States, Local Governments, and Non-Profit Organizations***

The Board of Trustees
Massachusetts Clean Water Trust:

Report on Compliance for Each Major Federal Program

We have audited the Massachusetts Clean Water Trust's (the Trust), a component unit of the Commonwealth of Massachusetts, 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 the Trust's major federal program for the year ended June 30, 2015. The Trust's major federal program is 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 Trust's major federal program 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 Trust'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 the Trust's major federal program. However, our audit does not provide a legal determination of Trust's compliance.

Opinion on the Trust's Major Federal Program

In our opinion, the Trust complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 2015-001. Our opinion on the Trust's major federal program is not modified with respect to this matter.

The Trust's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Trust'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 Trust 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 Trust's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 Trust'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be significant deficiency.

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

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 Trust as of and for the year ended June 30, 2015, and have issued our report thereon dated October 21, 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 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Boston, Massachusetts
October 21, 2015, except for the Schedule of Expenditures
of Federal Awards which is as of March 17, 2016

MASSACHUSETTS CLEAN WATER TRUST
 (A Component Unit of the Commonwealth of Massachusetts)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

| Federal grantor/program title | CFDA number | Total expenditures |
|---|------------------------|-------------------------------|
| U.S. Environmental Protection Agency: | | |
| Capitalization Grants for Clean Water State Revolving Funds: | 66.458 | |
| 2012 CS25000112 | | \$ 23,797,260 |
| 2013 CS25000113 | | 40,357,969 |
| Total | | <u>64,155,229</u> |
| Capitalization Grants for Drinking Water State Revolving Funds: | 66.468 | |
| 2012 FS99191412 | | 24,185 |
| 2013 FS99191413 | | 12,357,702 |
| 2014 FS99191414 | | 4,673,679 |
| Total | | <u>17,055,566</u> |
| Total expenditures of federal awards | | <u>\$ 81,210,795</u> |

See accompanying notes to schedule of expenditures of federal awards.

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

(1) Definition of the Reporting Entity

The Massachusetts Clean Water Trust (the Trust) is an authority established by the Massachusetts General Laws and is a component unit of the Commonwealth of Massachusetts (the Commonwealth). The accompanying schedule of expenditures of federal awards presents the activity of all expenditures of federal awards of the Trust. All expenditures of federal awards received directly from federal agencies are included on the schedule.

(2) Summary of Significant Accounting Policies

The Trust's accounting policies conform with U.S. generally accepted accounting principles applicable to governmental units as set forth by the Governmental Accounting Standards Board.

Basis of Presentation

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

(3) Subrecipient Disbursements

For the year ended June 30, 2015, the Trust provided \$75,805,425 of federal reimbursements to its subrecipients, for expenses incurred by the subrecipients in the fiscal year ended June 30, 2015. The following lists the amounts disbursed to each subrecipient:

| Recipient Name: | Funding |
|---|----------------------|
| Bellingham | \$ 4,909,268 |
| Billerica | 3,017,191 |
| Cambridge | 8,117,986 |
| Chicopee | 4,661,622 |
| Dracut | 1,705,408 |
| Fall River | 6,903,721 |
| Fitchburg | 5,456,946 |
| Malden | 862,080 |
| Massachusetts Water Resources Authority | 37,351,808 |
| Springfield Water and Sewer Commission | 2,819,395 |
| | <u>\$ 75,805,425</u> |



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Exhibit III

**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 Trustees
Massachusetts Clean Water Trust:

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 Clean Water Trust (the Trust), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust'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 the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust'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 Trust'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 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 Trust'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 Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Boston, Massachusetts
March 17, 2016

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)

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 | <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? | <u> x </u> | yes | _____ 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? | <u> x </u> | yes | _____ no |

Identification of Major Programs

| <u>Funding source</u> | <u>Program</u> | <u>CFDA number</u> |
|--------------------------------------|---|--------------------|
| U.S. Environmental Protection Agency | Capitalization Grants for Clean Water State Revolving Funds | 66.458 |

| | |
|--|---------------------------|
| Dollar threshold used to distinguish between type A and type B programs: | \$2,436,324 |
| Auditee qualified as low-risk auditee? | <u> x </u> yes _____ no |

MASSACHUSETTS CLEAN WATER TRUST
(A Component Unit of the Commonwealth of Massachusetts)
Schedule of Findings and Questioned Costs
Year ended June 30, 2015

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

None

(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 Clean Water State Revolving Funds award specified a time period during which the Trust may use the Federal funds. There was a budget period and project period of September 1, 2012 through July 30, 2019. During the testwork performed, we reviewed fifteen (15) payments made to three (3) borrowers for five (5) different projects and noted that three (3) payments made to one (1) borrower were outside the specified period of availability as they were incurred significantly prior to the project period start date of September 1, 2012.

MASSACHUSETTS CLEAN WATER TRUST
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Schedule of Findings and Questioned Costs

Year ended June 30, 2015

Cause

The Trust's review process does not appear to address the specified period of availability of costs incurred in relation to the grant award period.

Effect

The effect is that costs may be incurred outside of the grant award period and therefore should not be charged to the Federal award.

Questioned Costs

Not determinable.

Recommendation

We recommend that management strengthen the controls in place to ensure compliance of the period of availability requirement.

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

Management has instituted controls to ensure compliance of project expenses with the period of availability for the grant funds.

Responsible Official

Susan Perez, Executive Director, Phone 617-367-9333, ext 816