

1. I reviewed the findings of the financial audit of the Mount Vernon Board of Water Supply (BOW) conducted by Grassi Advisors & Accountants (GA&A) for year ended 12/31/2017 (financial data for 2016 are also included in the report). The audit was *released to the Mount Vernon City Council on March 8th 2021*, and the Management Letter is dated January 5, 2021.

McDonough Comment: That this report was not made widely available to the public¹ in advance of the City Council vote (in April 2021) to divert \$42M in Federal stimulus money (ARRA) around the Comptroller, through the City Clerk, and to the BOW is difficult to understand. When information such as that which is contained in the audit report is not made widely available to the public by the government it strengthens mistrust and has the potential to deny citizens their *right and obligation to give informed consent regarding government decisions made on their behalf*.

2. Quote from Page 1 of the GA&A audit report, “Basis for Disclaimer of Opinion”:

“We were unable to satisfy ourselves by applying auditing procedures concerning balance sheet and revenue and expenditure account balances. In addition, we were unable to confirm or verify account balances through document observation or testing of controls to confirm the efficiency and effectiveness of internal controls over financial reporting. As of the date of our auditors' report [1.5.21], *management was still in the process of ratifying system deficiencies*. As a result of these matters, we were unable to determine whether adjustments were necessary in order to conclude the financial statements are free from material misstatement.” [emphasis added]

Quote from Page 1 of the GA&A audit report, “Disclaimer of Opinion”:

“Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, *we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements as a whole.*” [emphasis added]

McDonough Comment: We do not know if BOW management has brought internal financial control to the agency, and we will not know until any new systems put in place are independently audited (See #7b below).

3. On page 2 of the GA&A audit report, regarding “Prior Period Financial Statements”, GA&A wrote “The financial statements of the Water Fund as of and for the year ended December 31, 2016, *were audited by other auditors, whose report dated December 21, 2017, expressed an unmodified opinion on those statements.*” [emphasis added]

McDonough Comment: The City of Mount Vernon should release to the public the audit report for year ended December 31, 2016 without delay. One mechanism by which this audit report should be released is posting it to the BOW website.

¹ This report is in circulation, but I think the City has an obligation to publish it directly on our City website.

4. Quote from Page 9, Note 2 of the GA&A audit report, “Due From/To City of Mount Vernon”:
“At December 31, 2017 and 2016, the amount due to City of Mount Vernon was \$1,232,562 and \$118,130, respectively. The balance at December 31, 2017 *has been derived by management of the Water Fund and is pending reconciliation with the City.* This balance is not expected to be repaid within the next twelve months.”

McDonough Questions: How did the management of BOW “derive” this \$1.2m figure? How and when will the City of Mount Vernon be reconciling this figure?

5. Page 16 of the GA&A audit report (Schedule of Expenditures):

	2017	2016	Dollar Increase 2016 to 2017	Percent Increase
Total Water Purchases	\$4,777,167	\$4,537,092	\$240,075	5.29%
Total Operating and Maintenance	\$2,351,319	\$1,785,493	\$565,826	31.69%
Total Administrative and General	\$2,579,979	\$1,966,133	\$613,846	31.22%
Total Expenditures	\$9,708,465	\$8,288,718	\$1,419,747	17.13%

McDonough Comment: This is a large year over year increase in expenditures. It is hard to put this in context given the near complete lack of transparency into the BOW finances. However, we do know that the numbers for 2017 are not audited because the auditors “*were unable to confirm or verify account balances through document observation or testing of controls to confirm the efficiency and effectiveness of internal controls over financial reporting*”. (See above).

6. The auditor’s “Management Letter-Recommendations”

McDonough Comment: The auditor’s made 7 recommendations, all of which are necessary steps to gaining internal fiscal control of the BOW. As of the date on the Management Letter (January 5, 2021), the auditors wrote that BOW “*management was still in the process of ratifying system deficiencies.*”

Without sharing this audit broadly with the public (e.g., putting it on the City website), and in consultation with the Mayor, the City Council approved legislation that subverts The City Charter and sends \$42M in Federal Funds to the Board of Water Supply. I understand that the BOW is in the process of putting systems in place that will allow for independent financial audits of the water department in the future. However, we should not be testing the new water department financial system by “flooding” the system with \$42m in funds that do not belong there.

7. The Board of Water Supply Representation Letter

McDonough Comments: beginning on page 6 (the Letter does not have page numbers), with the section titled “Government-Specific”, the BOW lists steps it has taken and is taking to

bring fiscal control to the agency (e.g., a new ERP or “Enterprise Resource Planning” software system; new billing and cash management practices; new budgeting and storage practices). These are all excellent steps in the right direction. However, I will point out 2 things that I think are important:

- a. There is no mention in the Representation Letter of establishing policies and procedures regarding BOW trustee meetings (GA&A recommendation #1). Without ongoing transparency, public trust cannot be restored. Making detailed minutes of regularly occurring trustee meetings available to the public is an essential step that should have been taken already. In fact, all trustee meetings should already be broadcast via zoom, google, and archived.
- b. While these efforts are laudable and necessary, the system has yet to be “audit-tested”. The Letter notes that new financial personnel and new systems were put in place in 2020. **McDonough Questions:** Is an audit of 2020 fiscal operations of the Board of Water Supply currently underway? If not, why not? If so, when can the public expect to have the results of that audit?