

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

COMPLIANCE AND INTERNAL CONTROL REPORTS

FOR THE YEAR ENDED FEBRUARY 28, 2019

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

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INDEPENDENT AUDITOR'S 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*

Public Service Board - El Paso Water Utilities,
a component unit of the City of El Paso

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 business-type activities and each major fund of the Public Service Board - El Paso Water Utilities, a component unit of the City of El Paso, as of and for the year ended February 28, 2019, and the related notes to the financial statements, which collectively comprise the Public Service Board - El Paso Water Utilities' basic financial statements and have issued our report thereon dated July 3, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Public Service Board - El Paso Water Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Public Service Board - El Paso Water Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Public Service Board - El Paso Water Utilities' 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 a 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 Public Service Board - El Paso Water Utilities' 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

GIBSON RUDDOCK PATTERSON LLC

El Paso, Texas

July 3, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

Public Service Board - El Paso Water Utilities,
a component unit of the City of El Paso

Report on Compliance for Each Major Federal Program

We have audited the Public Service Board - El Paso Water Utilities', a component unit of the City of El Paso, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Public Service Board - El Paso Water Utilities' major federal program for the year ended February 28, 2019. The Public Service Board - El Paso Water Utilities' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Public Service Board - El Paso Water Utilities' 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Public Service Board - El Paso Water Utilities' 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 major federal program. However, our audit does not provide a legal determination of the Public Service Board - El Paso Water Utilities' compliance.

Opinion on Each Major Federal Program

In our opinion, the Public Service Board - El Paso Water Utilities, 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 February 28, 2019.

Report on Internal Control Over Compliance

Management of the Public Service Board - El Paso Water Utilities 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 Public Service Board - El Paso Water Utilities' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Public Service Board - El Paso Water Utilities' 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the business-type activities and each major fund of the Public Service Board - El Paso Water Utilities, a component unit of the City of El Paso, as of and for the year ended February 28, 2019, and the related notes to the financial statements, which collectively comprise the Public Service Board - El Paso Water Utilities' basic financial statements. We issued our report thereon dated July 3, 2019 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic 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 basic financial statements or to the basic 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 basic financial statements as a whole.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

GIBSON RUDDOCK PATTERSON LLC

El Paso, Texas
July 3, 2019

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED FEBRUARY 28, 2019

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's Report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Were material weaknesses in internal control identified? No

Were significant deficiencies in internal control identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal award programs:

Were material weaknesses in internal control over major programs identified? No

Were significant deficiencies in internal control over major programs identified? None reported

Type of auditor's report issued on compliance for the major federal award programs: Unmodified

Were there any audit findings disclosed that are required to be reported in accordance with Title 2 CFR 200.516(a)? No

Major Federal Programs: **CFDA 66.202** - Water Reuse Distribution System Expansion - Haskell North Central Reclaimed Water System Phase I Assistance Agreement XP96638401

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Did auditee qualify as low-risk auditee under 2 CFR 200.520? No

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED FEBRUARY 28, 2019

FINANCIAL STATEMENT FINDINGS

There are no current year findings.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no current year findings.

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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SCHEDULE OF STATUS OF PRIOR FINDINGS

FOR THE YEAR ENDED FEBRUARY 28, 2019

FINANCIAL STATEMENT FINDINGS

There were no prior year findings.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no prior year findings.

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED FEBRUARY 28, 2019

<u>Federal Grantor/Program Title and Number</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency			
Water Reuse Distribution System Expansion - Haskell North Central Reclaimed Water System Phase I Assistance Agreement XP96638401	66.202	\$ 7,941,144	<u>\$ 1,812,217</u>
Total U.S. Environmental Protection Agency			<u>1,812,217</u>
U.S. Department of the Interior -Bureau of Reclamation			
CERRO Process Water Recovery from RO Concentrate Wells R14AP00086	15.507	297,500	<u>139,716</u>
Aquifer Storage & Recovery R17AP00323	15.504	150,000	<u>5,100</u>
Total U.S. Department of the Interior - Bureau of Reclamation			<u>144,816</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,957,033</u></u>

The accompanying notes are an integral part of this schedule.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED FEBRUARY 28, 2019

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Public Service Board - El Paso Water Utilities (EPWater), a component unit of the City of El Paso under programs of the federal government for the year ended February 28, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the EPWater, it is not intended to and does not present the financial position, changes in net position, or cash flows of the EPWater.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE

EPWater has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. OVERSIGHT AGENCY

The U.S. Environmental Protection Agency is EPWater's oversight agency for the single audit.