

Office of Legislative  
**Auditor General**

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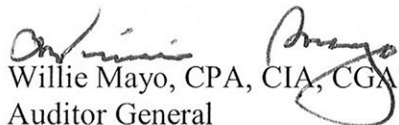
November 2, 2011

**FINAL REPORT TRANSMITTAL LETTER**

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Financial Assessment – Limited Review Report for the Sewage Disposal Systems financial statements for the fiscal year ended September 30, 2010. Our report is dated July 28, 2011; DAP No. 2011-57-903. The contents of this report did not change from the draft report previously issued. The draft report was accepted by the Audit Committee at its meeting held on Tuesday, October 11, 2011, and formally received by the Wayne County Commission on October 20, 2011.

We are pleased to inform you that officials from the Department of Environment (DOE) – Facilities Management Division provided their full cooperation. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website: <http://www.waynecounty.com/commission/lagreports.htm>

  
Willie Mayo, CPA, CIA, CGAP, CICA  
Auditor General

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**Facilities Management Division**

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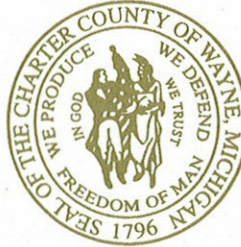
Carla E. Sledge, Chief Financial Officer  
Terry L. Hasse, Director, Grants Compliance and Contracts Management

**Wayne County Executive**



Office of Legislative  
**Auditor General**

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July 28, 2011

**DAP No. 2011-57-903**

Honorable Ilona Varga, Chairwoman  
Audit Committee  
Wayne County Commission  
County of Wayne, Michigan  
500 Griswold, Suite 766  
Detroit, MI 48226

**Subject:** Office of Legislative Auditor General's Financial Assessment – Limited Review  
Report of the Sewage Disposal Systems for the fiscal year ended September 30,  
2010.

Dear Chairwoman Varga:

At the June 28, 2011 Audit Committee meeting, the Sewage Disposal Systems financial statements for fiscal year ended September 30, 2010 were referred to the Wayne County Office of Legislative Auditor General (OAG) for review, assessment and recommendation. Because we have performed more extensive financial reviews of the Sewage Disposal Systems financial statements in the past few years, in accordance with professional attestation standards, and determined they were complete, thorough and in accordance with generally accepted accounting principles, we elected to conduct a limited review of their financial statements for fiscal year ended September 30, 2010.

Our limited review is substantially less in scope than an examination or audit in accordance with Generally Accepted Government Auditing Standards or Generally Accepted Auditing Standards, the objective of which is the expression of an opinion on the audited financial statements. Accordingly, we do not express such an opinion.

Our limited review of the Sewage Disposal Systems audited financial statements, for the fiscal year ended September 30, 2010, included, but was not necessarily limited to, a thorough and complete review of these statements, limited inquiries of Department of Public Services (DPS) – Division of Environment (DOE) finance personnel, and analytical review procedures.

Below, we have summarized some key items from the Sewage Disposal Systems financial statements and other reports for consideration by the Committee and Commission members.





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### **Background**

- The Downriver Sewage Disposal System, Rouge Valley Sewage Disposal System, Northeast Sewage Disposal System, and Combined Sewer Overflow Basins (CSO Basins) are collectively referred to as the Sewage Disposal Systems (Systems) of the County of Wayne, Michigan.
- The Sewage Disposal Systems are classified as both major (i.e., Downriver, Rouge Valley) and non-major (i.e., Northeast, CSO Basins) enterprise funds within the county's Comprehensive Annual Financial Report (CAFR). Enterprise funds operating revenue and expenses generally result from providing services and producing and/or delivering goods.
- The Downriver, Rouge Valley, and Northeast Sewage Disposal Systems' revenues are based on sewage disposal usage. These revenues are collected from business and residential customers according to established sewage treatment rates, based on the amount of water consumed and treated. The CSO Basins' revenues are based on billings to respective communities served. These billings recover 100 percent of the actual cost for labor and supplies incurred to maintain and operate the CSO holding stations during the fiscal year.

### **External Auditors Reports and Letters**

- The financial statements of the Sewage Disposal Systems have been included in the county's Comprehensive Annual Financial Report (CAFR) as enterprise funds.
- The Sewage Disposal System received an "unqualified opinion" on the audited financial statements from Plante & Moran, PLLC.

### **Financial Results/Operations**

#### **Net Assets**

- The Sewage Disposal Systems reported combined net assets of \$345.6 million. Net assets decreased by \$5.6 million in fiscal year 2010, primarily due to \$15.4 million of depreciation expense that is not recouped through rates charged to participating communities.
- The majority of the Systems' net assets are not available for spending: they are restricted or invested in capital assets. Combined restricted net assets for FY 2010 totaled \$338.5 million; a decrease of \$4.6 million from the prior year mainly due to payments on debt.



### **Unrestricted Net Assets**

<b>Net Assets/ (Deficit)</b>					
<b>In Thousands</b>					
	<b>Downriver</b>	<b>Rouge Valley</b>	<b>Northeast</b>	<b>CSO Basins</b>	<b>Total</b>
<b>FY 2009</b>	<b>\$ 9,932</b>	<b>\$(1,634)</b>	<b>\$(1,036)</b>	<b>\$440</b>	<b>\$7,702</b>
<b>FY 2010</b>	<b>10,714</b>	<b>(2,918)</b>	<b>(472)</b>	<b>(213)</b>	<b>7,111</b>
<b>Increase/ (Decrease)</b>	<b>\$ 782</b>	<b>\$(1,284)</b>	<b>\$ 564</b>	<b>\$(653)</b>	<b>\$ (591)</b>

- Three (Rouge Valley, Northeast and the CSO Basin) of the four Sewage Disposal Systems have an unrestricted net asset deficit as of September 30, 2010.
- For the second consecutive fiscal year Rouge Valley and Northeast have an unrestricted net asset deficit.
- Inquiry was made of management as to whether a deficit elimination plan has been filed with the State of Michigan Treasurer. As of our report date a response has not been received from DOE management.

### **Internal Controls/Compliance**

The County's report on Federal Awards (A-133) and Auditor's Report to the Audit Committee (SAS 114) indicated no deficiencies or material weaknesses for the Sewage Disposal Systems and no instances of non-compliance with laws, statutes or award/grant agreements.

### **Potential Risk Exposures**

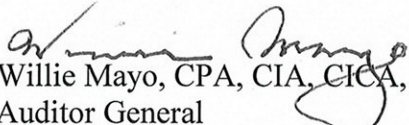
- According to the notes to the financial statements, principal and interest payments on all the Sewage Disposal Systems' bonds are payable from contributions of the participating local governmental units or system net revenues. In the event of default, the county has agreed to advance funds sufficient for payment of principal and interest on sewage disposal system bonds. As of September 30, 2010, the Sewage Disposal Systems had outstanding debt service payments of \$230.9 million.
- With unrestricted net asset deficits in the Rouge Valley, Northeast, and CSO Basins, county management will need to monitor the financial operations of the Sewage Disposal Systems to mitigate any impact on the county's general fund.

**Conclusion and Recommendation**

Based on our limited review, nothing came to our attention that caused us to believe the Systems' audited financial statements; and the County's A-133 report and letter to audit committee are not presented in conformity with generally accepted accounting principles.

It is our recommendation that the Sewage Disposal Systems audited financial statements for fiscal year ended September 30, 2010 is forwarded to the Wayne County Commission to receive and file.

Respectfully submitted,

  
Willie Mayo, CPA, CIA, CICA, CGAP  
Auditor General

P.C: Hassan A. Saab, Director, Department of Public Services  
Lavonda Jackson, Deputy Director, Department of Environment  
Kerreen Conley, Director, Department of Environment - Facilities Management Division  
Dennis Scully, Department Administrator, Department of Environment  
Carla E. Sledge, Chief Financial Officer  
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