



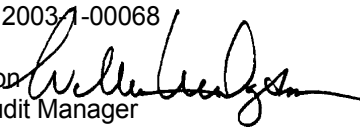
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

February 21, 2003

Memorandum

Subject: Auditor's Report for the Washington Drinking Water State Revolving Fund
as of June 30, 2001
Audit Report No.2003-1-00068

From: William M. Dayton 
National SRF Audit Manager

To: John Iani
Regional Administrator
EPA, Region 10
Seattle, WA

Attached is a copy of the subject audit we sent to the State of Washington. The audit contains reports on the financial statements, internal controls, and compliance requirements applicable to the Drinking Water State Revolving Fund (SRF) program in Washington for the year ended June 30, 2001.

We issued an unqualified opinion on the financial statements and on the compliance requirements applicable to the Drinking Water SRF program. In addition, we did not note any matters involving the internal control system and operations that we consider to be material weaknesses.

Since we did not have any compliance matters or costs questioned, and we are closing the audit report on issuance.

The OIG has no objection to the release of this report to any member of the public upon request. The report contains no confidential business or proprietary information.

If you have any questions or concerns regarding this matter, please feel free to contact me at (916) 498-6590 or Mr. Paul Felz at (303) 312-6270.

Attachment



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

February 21, 2003

Ms. Peggy Johnson, Deputy Director
Headquarters Operation
Division of Drinking Water
Washington Department of Health

Re: Final Report of Audit of Financial Statements of Washington Drinking Water State Revolving Fund for the year ended June 30, 2001

Dear Ms. Johnson:

Attached please find an electronic copy of the Washington Drinking Water State Revolving Fund audited financial statements of the year ended June 30, 2001.

In order to present the financial statements in accordance with generally accepted accounting principles, we made certain proposed adjustments to the state's financial statements, which your staff has agreed with.

We would like to take this opportunity to thank you and your staff for the cooperation and courtesies we received during our audit. Please call me at (916) 498-6590 or Mr. Paul Felz at (303) 312-6270 should you have any comments or questions.

Sincerely,

A handwritten signature in black ink, appearing to read "William M. Dayton".

William M. Dayton
SRF Audit Manager



OIG
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

Washington Drinking Water State Revolving Fund

**Financial Statements with
Independent Auditor's Report, June 30, 2001**

Audit Report Number 2003-1-00068

Issued February 21, 2003

Inspector General Division
Conducting the Audit:

Western Audit Division
San Francisco, California

Region Covered:

Region 10

Program Office Involved:

Drinking Water Unit

State Offices:

Department of Health
Public Works Board
Department of Community Trade &
Economic Development

Auditors Conducting Audit:

Paul Felz
Darren Schorer

**Washington Drinking Water State Revolving Fund
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Independent Auditor's Report

To: Ms. Peggy Johnson, Deputy Director
Headquarters Operation
Division of Drinking Water
Washington Department of Health

We have examined the accompanying balance sheet of the Washington Drinking Water State Revolving Fund Program (the Program) as of June 30, 2001, and the related statement of revenues, expenses and fund balance for the year then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Program as of June 30, 2001, and the results of its activities for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis of the combined financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

As discussed in Note 1, the financial statements referred to above are intended to present the financial position and results of operations of the Program, a component of the General Fund of the State of Washington. These statements are not intended to present the financial position or results of operations for the State of Washington or the Washington Department of Health, of which the Program is a part.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 15, 2002, on our consideration of the Program's internal control structure and a report dated July 15, 2002, the Program's compliance with laws and regulations.

A handwritten signature in black ink, appearing to read "William J. ...".

Office of Inspector General
Washington, D.C.

July 15, 2002

Washington Drinking Water State Revolving Fund

Balance Sheet
For The Year Ended June 30, 2001

Assets	<u>DWSRF Fund</u>	<u>Loan Fee Acct</u>	<u>TOTAL</u>
Current Assets:			
Cash and cash equivalents	\$13,896,708	\$728,640	\$14,625,348
Loans receivable	298,488		298,488
Loan interest receivable	563,072		563,072
Investment interest receivable	53,831	25,729	79,560
Due from other funds	245,713	45,000	290,713
EPA grant receivable	6,629,887		6,629,887
Other receivables	24,351		24,351
	<hr/>	<hr/>	<hr/>
Total Current Assets	21,712,050	799,369	22,511,419
Long-Term Assets:			
Long-term loan receivable	24,433,228		24,433,228
	<hr/>	<hr/>	<hr/>
Total Long-term Assets	24,433,228		24,433,228
	<hr/>	<hr/>	<hr/>
Total Assets	<u><u>\$46,145,278</u></u>	<u><u>\$799,369</u></u>	<u><u>\$46,944,647</u></u>
Liabilities And Fund Balance			
Current Liabilities:			
Due to Other Agencies	\$6,245,454		\$6,245,454
Vouchers Payable	302,078		302,078
Other Current Liabilities	14,561		14,561
	<hr/>		<hr/>
Total Current Liabilities	6,562,093		6,562,093
Fund Balance			
Reserved for Receivables	25,319,139		25,319,139
Reserved for Restricted Accounts	14,264,046	\$799,369	15,063,416
	<hr/>	<hr/>	<hr/>
Total Fund Balance	39,583,185	799,369	40,382,554
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balance	<u><u>\$46,145,278</u></u>	<u><u>\$799,369</u></u>	<u><u>\$46,944,647</u></u>

See accompanying notes to the financial statements.

Washington Drinking Water State Revolving Fund
Statement Of Revenues, Expenses, and Changes in Fund Balance
For The Year Ended June 30, 2001

Revenues	<u>DWSRF Fund</u>	<u>Loan Fee Acct</u>	<u>Total</u>
Federal Grants in Aid	\$15,093,369		\$15,093,369
Charges for Services		471,821	471,821
Interest Income	1,422,483	36,197	1,458,680
Total Revenue	<u>16,515,852</u>	<u>508,018</u>	<u>17,023,870</u>
Total Expenses	<u>15,093,368</u>		<u>15,093,368</u>
Excess of Revenues over Expenses	1,422,484	508,018	1,930,502
Fund Balance Prior Year	<u>38,160,701</u>	<u>291,351</u>	<u>38,452,052</u>
Ending Fund Balance	<u><u>\$39,583,185</u></u>	<u><u>\$799,369</u></u>	<u><u>\$40,382,554</u></u>

See accompanying notes to the financial statements.

WASHINGTON DRINKING WATER STATE REVOLVING FUND
Notes to the Financial Statements
June 30, 2001

1. Organization of the Fund

The Washington Drinking Water State Revolving Fund (DWSRF) was established in 1997 pursuant to the Washington State Safe Drinking Water Act (RCW70.119A) and the Federal Safe Drinking Water Act (SDWA). The DWSRF was established to provide assistance to public water systems for projects that meet the eligibility requirements of the SDWA. The SDWA also allows the State to "set aside" up to 31% of the annual capitalization grants for administration of the DWSRF (up to 4%), supplemental funding for the State's Public Water System Supervision program (up to 10%), for technical assistance to public water systems (up to 2%), and for other technical or financial assistance to public water systems (up to 15%).

The Department of Health's Drinking Water Division (DOH) and the Public Works Board (Board) along with its administrative agent, the Department of Community, Trade and Economic Development (CTED), jointly manage the DWSRF. DOH determines the level of set-aside funding needed to meet its obligations, reviews loan applications for eligibility and prioritizes eligible projects. The Board reviews each loan applicant to determine its ability to repay the loan, its readiness to proceed with the project, its ability to complete the project, and the environmental impacts of the project. A list of prioritized loan applications is forwarded to the Public Works Board for approval. Funding is offered to the highest-ranking projects that are ready to proceed, until all funds are used.

Beginning in 1997, the DWSRF received annual capitalization grants from the U.S. Environmental Protection Agency (EPA). States are required to provide an additional 20 percent of the Federal capitalization grant as matching funds in order to receive a grant. As of June 30, 2001, EPA awarded \$97,800,454 in capitalization grants to the State of Washington, and Washington is required to provide \$19,560,091 to the DWSRF as its matching share. Washington's match is transferred to the DWSRF from the State's Public Works Assistance Account.

DOH and CTED have numerous staff dedicated solely or in part to work on DWSRF activities. The portion of salaries and benefits of employees for time spent working on Fund activities, as well as indirect costs based on direct costs, are charged to the Fund. Employees charging time to the Fund are covered by the State of Washington personnel benefits plan.

The DWSRF balances and activities are included in Washington's Comprehensive Annual Financial Report (CAFR) as part of the general fund, which uses the modified accrual basis of accounting. Because the Fund is included in the State's general fund, the assets, liabilities, and equity of the Fund as reported here may not be identifiable in Washington's CAFR.

2. Summary of Significant Accounting Policies

Basis of Accounting

The DWSRF's financial statements are presented as a general fund using the modified accrual method of accounting. Revenues are recognized when both measurable and available. Expenditures are recorded when the related liability is incurred. Washington follows the accounting pronouncements of the Governmental Accounting Standards Board (GASB).

Cash and Cash Equivalents

All monies of the Fund are deposited with the Washington State Treasurer's Office and are considered cash or cash equivalents. According to Washington law, the State Treasurer is responsible for managing cash balances and investing excess cash of the Fund, as further discussed in Note 3. Therefore, management of the DWSRF does not have control over the investment of excess cash, and the statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments. Deposits with the Washington State Treasurer are accounted for on the balance sheet as cash or cash equivalents.

WASHINGTON DRINKING WATER STATE REVOLVING FUND
Notes to the Financial Statements
June 30, 2001

Loans Receivable

Washington operates the DWSRF as a direct loan program, whereby the majority of loans made to water systems are funded by the Federal capitalization grant and/or match from State funds. Additional loans can be made from revolving funds that have been repaid to the Fund and fund earnings. The DWSRF loans are evidenced by a formal loan agreement between the Board and the borrower, executed by CTED and a promissory note executed with CTED. Loan funds are disbursed to borrowers after they expend funds for the purposes of the loan and request reimbursement from the Fund.

Interest rates range from zero to 5.0 percent and are calculated from the date that funds are advanced, and interest is accrued during the construction period. After the final loan disbursement has been made, the loan and agreement amounts are adjusted for the actual amounts disbursed. No provision for uncollectible accounts has been made as all loans are current, and management believes that all loans will be repaid according to the loan terms.

Administration Fees

The DWSRF charges an administration fee on all loans. Initial DWSRF loans were charged a 3 percent administration fee with 1.5 percent due at the time of the first loan draw and 1.5 percent due at the closing of the project. Any adjustments due to the final level of funding were made on the final fee payment. In 1999, the fee was 2 percent due at the time of the first project draw. Proceeds from these administration fees are available to fund administration of the DWSRF and other eligible activities. The DWSRF collected \$471,821 in administration fees in fiscal year June 30, 2001.

Fund Balance

Fund balances represent the amount available for funding future operations. The reserved fund balances represent the amount that has been legally restricted to a specific purpose or that is not available for appropriation or expenditure. The DWSRF had the following reserved fund balances at year end:

Reserved for receivables – An account used to indicate receivables that do not represent available expendable resources.

Reserved for restricted accounts – An account used to recognize the remaining fund balance that is restricted for use for activities eligible under the SDWA.

Budget Information

Under the provisions of the DWSRF's enabling legislation, funds shall be deposited into the State Treasury and may only be drawn from the State Treasury by legislative appropriation.

3. Cash and cash equivalents

All monies of the Fund are deposited with the Washington State Treasurer and are considered cash and cash equivalents. The Treasurer is responsible for maintaining the cash balances in accordance with Washington laws. Details of the investments of the State Treasurer can be obtained from the State Treasurer.

WASHINGTON DRINKING WATER STATE REVOLVING FUND
Notes to the Financial Statements
June 30, 2001

3. Cash and cash equivalents (continued)

As of June 30, 2001, the Fund investments with the State Treasurer totaled \$13,896,708. The Fund earned \$739,775 from investments with the Treasurer during fiscal 2001. Investments with the Treasurer are not categorized because they are not evidenced by securities that exist in physical or book entry form.

	Cost	Market Value
Not subject to categorization:		
Government investment pool - DWSRF	\$13,896,708	\$13,896,708
Government investment pool - Fees	<u>728,640</u>	<u>728,640</u>
	<u>\$14,625,348</u>	<u>\$14,625,348</u>

4. Loans Receivable

The DWSRF makes loans to qualified public water systems for projects that meet the eligibility requirements of the SDWA. Loans are financed by federal capitalization grants, state match, and revolving funds. Effective interest rates on loans vary between zero and 5.0 percent, and are generally repaid over 20 years starting one year after the project is completed. Loans receivable as of June 30, 2001, are as follows:

Category	Loan Amount Authorized	July 1, 2000 Balance	Disbursements	Repayments	June 30, 2001 Balance
Funding completed	\$ 4,920,307	\$ 3,303,030	\$ 1,367,951	\$ 70,414	\$ 4,500,567
Funding in progress	<u>56,862,409</u>	<u>7,498,278</u>	<u>13,044,808</u>	<u>311,933</u>	<u>20,231,153</u>
Totals	<u>\$61,782,716</u>	<u>\$10,801,308</u>	<u>\$ 14,412,759</u>	<u>\$ 482,347</u>	<u>\$24,731,720</u>

Loan disbursements were comprised of \$10,596,447 in federally reimbursable funds, less \$24,347 recorded as other receivables, and \$3,840,659 provided from State match.

Loans mature at various intervals through October, 2020. The scheduled principal and interest payments on completely disbursed loans maturing in subsequent years are as follows:

Year ending June 30:	Principal	Interest	Total
2002	\$ 246,167	\$ 173,262	\$ 419,429
2003	256,146	187,766	443,912
2004	256,146	176,616	432,762
2005	256,146	165,466	421,612
2006	256,146	154,316	410,462
Thereafter	<u>3,229,815</u>	<u>1,010,422</u>	<u>4,240,237</u>
Total	<u>\$ 4,500,566</u>	<u>\$ 1,867,848</u>	<u>\$ 6,368,414</u>

5. Fund Balance

The DWSRF is capitalized by EPA grants authorized by SDWA and matching funds from Washington. All funds drawn from EPA and all state match deposits from Washington are recorded as revenues. As of June 30, 2001, EPA had awarded capitalization grants of \$97,800,454 to Washington, of which \$25,356,946 had been drawn for reimbursement of loan disbursements and set-aside expenses. An additional \$6,741,187 was due from EPA. Washington had provided matching funds of \$17,649,000. The following summarizes the federal capitalization grants awarded, amounts drawn on each grant as of June 30, 2001, and balances available:

WASHINGTON DRINKING WATER STATE REVOLVING FUND
Notes to the Financial Statements
June 30, 2001

5. Fund Balance (continued)

<u>Grants</u>		<u>Total</u>
As of June 30, 2000	\$70,406,100	
Awards July 1, 2000 through June 30, 2001	<u>\$27,394,354</u>	\$ 97,800,454
<u>Cash Draws</u>		
As of June 30, 2000	\$12,188,978	
Draws July 1, 2000 through June 30, 2001	<u>\$13,167,968</u>	(\$ <u>25,356,946</u>)
Total Available as of June 30, 2001		\$ <u>72,443,508</u>

As of June 30, 2001, Washington matching contributions were:

	<u>June 30, 2000 Balance</u>	<u>FY 2001 Contribution</u>	<u>June 30, 2001 Balance</u>
State of Washington	\$17,649,000	\$0	\$17,649,000
Amount Used on Loans			(<u>6,781,491</u>)
Amount Available			<u>\$10,867,509</u>

The DWSRF Fund Balance determined on a regulatory basis as of June 30, 2001 consisted of the following:

EPA capital contributions	\$18,504,106
State of Washington capital contributions	17,649,000
Retained Fund Earnings	<u>3,430,079</u>
Total Fund Balance	<u>\$39,583,185</u>

6. Contingencies and Subsequent Events

Contingencies

The DWSRF is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to state employees while performing Fund business; or acts of God. Washington is self-insured against certain property and liability claims. There have not been any claims against the DWSRF since its inception.

Subsequent Events

Subsequent to year end, EPA awarded Washington the remainder of its 2001 capitalization grant for \$6,160,320.00. Washington's matching share for this grant is \$1,232,064.

**Independent Auditor's Report on the
Washington Drinking Water State Revolving Fund
Internal Control Structure Based on an
Audit of the Financial Statements
Performed in Accordance with
*Government Auditing Standards***



Ms. Peggy Johnson, Deputy Director
Headquarters Operation
Division of Drinking Water
Washington Department of Health

We have audited the financial statements of the Washington Drinking Water State Revolving Fund (the Fund) as of and for the year ended June 30, 2001, and have issued our report thereon dated July 15, 2002

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Fund for the year ended June 30, 2001, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of management of the Fund and the U.S. Environmental Protection Agency. However, this report is a matter of public record and distribution is not limited.

A handwritten signature in black ink, appearing to read "William E. Anderson".

Office of Inspector General
Washington, D.C.
July 15, 2002

**Independent Auditor's Report
on Compliance with Requirements Applicable to the
Washington Drinking Water State Revolving Fund Program
in Accordance with
*Government Auditing Standards***



Ms. Peggy Johnson, Deputy Director
Headquarters Operation
Division of Drinking Water
Washington Department of Health

We have audited the financial statements of the Washington Drinking Water State Revolving Fund (the Fund) as of and for the year ended June 30, 2001, and have issued our report thereon dated July 15, 2002.

We have also audited the Fund's compliance with specific program requirements governing allowability for specific activities, allowable types of assistance, state matching, period of availability of funds and binding commitments, cash management, program income, and subrecipient monitoring that are applicable to the Fund for the year ended June 30, 2001. The management of the Fund is responsible for the Fund's compliance with those requirements. Our responsibility is to express an opinion on those requirements based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Fund complied, in all material respects, with the specific program requirements that are applicable to the Fund for the year ended June 30, 2001.

This report is intended for the information of management of the Fund and the U.S. Environmental Protection Agency. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "William L. ...".

Office of Inspector General
Washington, D.C.
July 15, 2002

Supplemental Information

**State of Washington
Drinking Water State Revolving Fund
Schedule of Expenditures
June 30, 2001**

	<u>Administrative</u>	<u>State Program Management</u>	<u>Technical Assistance</u>	<u>Local Assistance</u>	<u>Total</u>
Salaries and benefits	\$ 215,975	\$ 771,923	\$ 176,080	\$ 494,540	\$ 1,658,518
Equipment	-		-	71,114	71,114
Contracts	395,176	270,862	61,496	395,746	1,123,280
Travel	5,749	17,359	5,740	16,125	44,973
Other operating costs	117,536	325,281	235,658	920,562	1,599,037
Subtotal	<u>\$ 734,436</u>	<u>\$ 1,385,425</u>	<u>\$ 478,973</u>	<u>\$ 1,898,086</u>	\$ 4,496,921
Expenditures for loans					<u>10,596,447</u>
Total Expenditures					<u>\$ 15,093,368</u>

Report Distribution

EPA, Region 10:

Regional Administrator
Director, Water Division
State Revolving Fund Coordinator
SRF Financial Analyst
Audit Followup Coordinator

EPA, Headquarters:

Director, Grants Administration
Agency Followup Coordinator
Associate Administrator for Congressional
and Legislative Affairs
Associate Administrator for Communication, Education,
And Public Affairs
State Revolving Fund Audit Manager
State Revolving Fund Branch, Office of Wastewater Management

Other:

State of Washington, Department of Health