UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION III
1650 Arch Street
Philadelphia, Pennsylvania 19103-2029

OCT 1 6 2008

Ms. Barbara S. Taylor, Director
Office of Environmental Health Services
West Virginia Department of Health and Human Resources
Capitol and Washington Streets
1 Davis Square, Suite 200
Charleston, WV 25301-1798

Dear Ms. Taylor:

Enclosed is the final Program Evaluation Report (PER) on the West Virginia Drinking Water Treatment Revolving Fund (DWTRF) program. The PER is the result of the U.S. Environmental Protection Agency's (EPA's) annual review of the program. The report covers the program's performance during the period July 1, 2006 through June 30, 2007.

The Bureau for Public Health (BPH) submitted its DWTRF Annual Report in accordance with Section 1452 of the Safe Drinking Water Act. The Annual Report outlined BPH's efforts and accomplishments in achieving the goals identified in the State's Intended Use Plan. EPA conducted an on-site evaluation from May 13-15 and June 3 to 5, 2008. The evaluation identified programs strengths and areas of concern.

The State's DWTRF exhibits sound financial strength. The State continues to do an excellent job of meeting the needs of small and disadvantaged communities. EPA, however, continues to be concerned that the low Return on Equity (ROE, 1.61%) resulting from very low average interest rates on loans will limit the financial growth of the Fund, reducing the purchasing power of the Fund over time.

The State's FY 2007 program pace decreased to 73%, from 76% in FY 2006, and BPH continues to lag far behind the national average of 88% for loan closings as a percentage of total funds available. EPA recommends that BPH update its implementation plan showing priorities and a schedule for increasing loan pace. The enclosed PER outlines a number of other recommended action items for BPH to enhance DWTRF program management. EPA requests that BPH provide a plan of action to EPA within 30 days of receipt of the final FY 2007 PER which outlines steps that BPH has taken or will take to expeditiously address the identified action items. Key required and recommended action items include:

- Continue efforts to fill grant-funded positions needed to manage DWTRF and earmark projects;

- Review the procurement process to identify delays and implement measures to expedite set-aside procurement actions;
- Implement measures to draw funds from the oldest grants first;
- Submit a copy of its reconciliation of FY 2006 and 2007 Single Audit expenditures to EPA within 30 days of receipt of the draft PER;
- Increase efforts to obtain required financial statement audits from each borrower annually; and
- Reconcile the Financial Status Reports and Federal Cash Transaction Reports and provide EPA with the supporting documentation.

When we meet in Charleston on November 7, we will discuss program pace and how EPA can assist you in moving the DWTRF program forward. If you have any questions, please contact me at (215) 814-5345 or have your staff contact Mary Brewster at (215) 814-5456.

Sincerely,

Lorraine H. Reynolds

Lorraine H. Reynolds, Associate Director
Office of Infrastructure and Assistance
Water Protection Division

Enclosure

cc: Robert DeCrease, BPH
Walter Ivey, BPH