PROGRAM EVALUATION REPORT

WEST VIRGINIA

Drinking Water Treatment Revolving Fund Program

STATE FISCAL YEAR 2008

FINAL

September 2009

U.S. Environmental Protection Agency
Region III
Philadelphia

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PROGRAM EVALUATION REPORT
West Virginia
Drinking Water Treatment Revolving Fund

STATE FISCAL YEAR 2008

EXECUTIVE SUMMARY

This Program Evaluation Report (PER) is the U.S. Environmental Protection Agency (EPA) evaluation of the West Virginia Bureau of Public Health's (BPH's) Drinking Water Treatment Revolving Fund (DWTRF) program. The report identifies strengths and areas for improvement in the program. The review covers the period July 1, 2007 through June 30, 2008. EPA conducted its on-site programmatic and financial review from June 23-25, 2009.

The State continues to do an excellent job of meeting the needs of small and disadvantaged communities. The State met the binding commitment (BC) requirement during FY 2008, however the State's program pace decreased to 70% from 73% in FY 2007. Although the program exhibits sound financial strength, BPH continues to lag far behind the national average (90%) for loan closings as percentage of total funds available and the slow pace might slow the growth of the Fund.

The PER identifies recommended and required actions for the State to address including:

- Continue efforts to fill grant-funded positions needed to manage DWTRF and earmark projects;
- Reduce the unexpended balance of grant funds in the infrastructure and set-aside accounts;
- Review the procurement process to identify delays and implement measures to expedite set-aside procurement actions;
- Implement options for utilizing set-aside funds in a more timely manner;
- Implement measures to draw funds from the oldest grants first in order to close out older grants; and
- Increase efforts to obtain required financial statement audits from each borrower annually.

EPA requests that the State respond to the identified FY 2008 action items as well as the unresolved FY 2007 PER action items within 30 days of receipt of the final FY 2008 PER. In its response, the State should identify actions that it has already taken and outline a plan with a schedule for expeditiously taking additional steps to address the identified concerns.

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INTRODUCTION

Purpose

The purpose of an annual review is to assess the State's management of the program, including:

- Performance in achieving goals and objectives identified in the Intended Use Plans (IUPs) and Annual Report;
- Compliance with the terms of the capitalization grant agreements, Operating Agreement (OA), and regulations;
- Financial status and performance of the Fund and set-aside accounts;
- Status of resolution of prior year PER action items;
- Resolution of audit findings and recommendations; and
- Discussion of future direction and initiatives for the program.

Scope

The FY 2008 annual review of West Virginia's DWTRF program was conducted in accordance with EPA's Interim Final Annual Review Guidance and Region III's Annual Review Plan dated September 28, 2008. The annual review process included EPA's consideration of BPH's Annual Report, evaluation of the State's program, and issuance of this PER.

EPA conducts separate reviews of the technical aspects of the drinking water program activities undertaken with set-aside funds in conjunction with its review of the State's Public Water System Supervision (PWSS) program. The current DWTRF review examined the administrative and financial aspects of the set-aside activities.

This PER is the EPA evaluation of West Virginia's DWTRF program and documents the annual review process, as required by the Safe Drinking Water Act (SDWA). The PER identifies strengths and areas for improvement in the program. The annual review covered the period July 1, 2007 through June 30, 2008. EPA conducted its on-site review from June 23-25, 2009.

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Background

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Title 64 of the West Virginia Code, authorized BPH to implement and manage the DWTRF program in accordance with the requirements and objectives of the Safe Drinking Water Act. The DWTRF program resides in the Department of Health and Human Resources (DHHR) which also provides management for State Revolving Fund financial matters, including grants management and disbursement of funds. Additional coordination with offices of the State Treasurer and the State Auditor ensure proper coordination, management, and oversight as well as program integrity.

In addition to the DWTRF construction fund, BPH administers several set-aside accounts used for: (1) administration of the loan program, (2) small system technical assistance, (3) state program management, and (4) local assistance and other state activities.

As of June 30, 2008, total capitalization for the DWTRF project fund and drinking water set-aside program activities was $100,277,400, which consists of Federal grant funds and state match. During FY 2008, BPH closed three loans for a total of $4,781,838. On a cumulative basis, the State has made 37 loans totaling $62,913,309.

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OBSERVATIONS

PROGRAMMATIC AREAS REVIEWED

Public Health Benefits

Consistent with EPA's supplemental guidance, BPH described the public health benefits of the drinking water projects in its Intended Use Plan and in its Interim Annual Report. EPA commends BPH for its detailed benefit descriptions. The State highlighted the three projects shown below.

Fairmont Line Extension to Mannington Water Works

The Mannington Water Works water treatment plant in Marion County has been in operation since 1964. The Water Works failing treatment facility was incapable of meeting current and future regulations, posing a public health threat.

To correct these ongoing health threats, the most cost-effective solution was to remove the Mannington water treatment plant from service by connecting the plant to the Fairmont treatment facility. This project was made possible with a DWTRF loan of $2,750,000 (0% for 30 years), a State Infrastructure and Jobs Development Council (IJDC) grant of $913,668, and a Small Cities Block grant of $1,025,000. Due to this project, Mannington is in compliance by providing safe drinking water to the 4,450 existing customers.

Preston County Public Service District #1

The Preston County PSD # 1 in Preston County covers a rural area with no public water service. Residents living in the surrounding locality depend on individual wells that provide inadequate quantity of low quality drinking water, posing a public health threat.

To correct these ongoing health threats, the most feasible and cost effective alternative to eliminate the need for groundwater sources of poor quality was to extend the water system to provide service to the areas that have a deficient water source. This project is made possible with a DWTRF loan of $806,838 (0% for 30 years), a State IJDC loan of $1,391,300, and a Small Cities Block grant of $1,402,700 covered the total project cost for upgrades and line extension to the distribution system. The project provides an economical solution to deliver 514 area residents and 214 new customers with safe and reliable water.

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Marshall County Public Service District # 4 Line Extensions

The Marshall County PSD # 4 service a rural area were the residents living in the surrounding localities have no public water service relying exclusively on private wells and natural springs. These individual water supplies provide substandard and unreliable drinking water of inadequate quality.

The most feasible solution to provide safe and adequate water supply for residents having inadequate, poor quality drinking water was to upgrade and extend PSD #4 service system to the subservice areas. A DWTRF loan of $1,225,000 (0% for 30 years), a State IJDC grant of $1,500,000, a Rural Utilities Service loan of $2,308,800 with a $1,446,700 grant, an EPA earmark grant of $962,200, and a Small Cities Block grant of $317,241 covered the total project cost for upgrades and line extension of PSD #4. This project provides 605 area residents and 247 new customers with a safe and reliable water supply.

Program Pace

During FY 2008, BPH closed three drinking water loans totaling $4,781,838. Although the State's goal is to improve program pace, BPH's fund utilization rate (program pace) decreased from 73% to 70% for FY 2008, lower than the national average (90%). Inadequate staffing and competiveness of the program is a major obstacle to improving pace. Additional staff is needed to follow up on project milestones and move applicants to closing. EPA commends the BPH for filling the Assistant Manager position and its on-going efforts to reduce the impact of the vacancies by temporarily re-assigning staff to assist with DWTRF projects.

The State has taken steps to increase pace, including:

- Marketing the DWTRF program at the West Virginia Rural Water Association Conference and the West Virginia IJDC meetings; and the West Virginia EXPO in Charleston;

- Publishing articles in the West Virginia Rural Water Association Magazine and the West Virginia Bureau for Public Health and Public Service Commission Newsletters for water treatment operators;

- Sending binding commitment letters prior to DWSRF grant award to streamline the loan process; and

- Continuing to work on the goal of closing loans within 18 months of issuing the binding commitment.

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- Leveraging DWTRF funded project with American Recovery and Reinvestment Act of 2009 (ARRA) DWTRF funds to improve pace.

Action Item: BPH should implement measures to reach the agreed 90% pace target.

BPH should continue efforts to fill vacant DWTRF and earmark project management positions.

Unexpended Grant Balances

To avoid potential reductions in future appropriations or actions to recover unspent grant funds, EPA advises states to take appropriate steps to avoid the appearance that grant funds are not needed or are not being used expeditiously.

During the review period, BPH had four open grants with unexpended balances. BPH should continue to review the unexpended balance of grant funds and take appropriate actions to accelerate spending for both infrastructure and set-asides. BPH should instead use first-in, first-out accounting to improve the efficiency of grants management.

In the past, EPA extended grants to give states additional time to draw funds. Extensions for grants open longer than four years will be consider on a case by case basis in light of concerns about unliquidated obligations. EPA encourages the State to establish the goal of closing grants within four years.

BPH has generally applied for grant funds in the second year of availability because of slow pace in the infrastructure program. With increased attention of oversight agencies regarding the timing of grant funds obligation and expenditure, EPA advises the State to work toward the goal of improving pace in order to apply for future Federal allocations in the first year of availability.

Action Items: BPH must take appropriate actions to accelerate spending for both infrastructure and set-asides.

BPH must develop and implement procedures for drawing cash from oldest grant first in order to close out older grants.

Small and Disadvantaged Assistance

BPH has done an excellent job of meeting the needs of small and disadvantaged drinking water systems. The State has exceeded the SDWA minimum requirement to

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provide 15% of available funding to small systems (up to 10,000 population). As of June 30, 2008, the State had provided 34 loans to small systems totaling $50.4 million, or 80% of total DWTRF dollars. The national average is 38%. This places BPH among the top five states in small system funding. BPH also provided 28 loans totaling $45 million to disadvantaged systems (minimum interest rate of 0% and repayment terms of up to 30 years). This represents 71.6% of total loan dollars, exceeding the national average of 18.1% and placing the State among the top three states for disadvantaged funding. EPA commends BPH for its commitment to providing DWTRF assistance to small and disadvantaged communities.

Sustainable Infrastructure

The IJDC reviews all projects requesting State and Federal funds to insure that water systems have adequate revenue from user rates to ensure a positive annual cash flow and adequate debt service coverage. The State continues to participate in the Sustainable Infrastructure initiative through its Capacity Development program. BPH conducts water system assessments to identify improvements that support water system long-term viability. BPH also educates water systems on the value of their assets.

EPA commends the State for its current participation and promotion of SI activities.

Operating Agreement

BPH prepared and submitted to EPA for consideration proposed amendments to the Operating Agreement (OA).

Action Item: EPA will review BPH's proposed amendments to the OA and work with the State to adopt the amended OA.

Drinking Water Set-Aside Activities

Set-Aside Obligations and Expenditures

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The table below shows the State's progress in obligating and expending funds on a cumulative basis for each set-aside category. As of June 30, 2008, the national cumulative average rates of state set-aside expenditures were 78% for Technical Assistance, 81.7% for Program Management, and 66.6% for Local Assistance.

The table shows that BPH's cumulative expenditure rate for the Technical Assistance set-aside is much higher than the national average, below the national average for the Program Management, and close to the national average for the Local Assistance set-aside categories. (The cumulative expenditures for the Program Management set-aside reported in DWNIMS includes the cash one to one match, while the chart below does not.)

SET-ASIDE UTILIZATION FOR ALL GRANTS Cumulative As of June 30, 2008				
	Technical Assistance	**Program Managemen t**	**Local Assistance**	**Total**
CUMULATIVE AWARDED	$1,659,011	$7,597,092	$10,292,976	$19,549,079
CUMULATIVE OBLIGATED	$1,564,819	$5,376,874	$6,947,421	$13,889,114
% OBLIGATED	94.3%	70.8%	67.5%	71.0%
***EXPENDED**	$1,564,819	$5,139,833	$6,869,915	$13,574,567
% EXPENDED	94.3%	67.6%	66.7%	69.4%
% EXPENDED U.S. Average	78.0%	81.7%	66.6%	

*Source:DWNIMS

Revised Set-Aside Spending Plan

The State's inability to spend down set-aside funds in a timely manner has been a major concern. However, work plan activities are now moving forward. BPH was able to fill two full time program positions. The increased of full time employees has allowed the State to re-allocate resources to focus on set-aside activities, increasing the drawdown of funds.

Although the state had been unable to start up most of these activities due to the delays in procuring contracts an increased number of contracts for set-aside activities have been approved and are on track since last reporting period. To assist the state further in expending surplus funds, EPA has provided a contractor (in-kind service) to conduct AWOP Performance Base Training which occurred early 2009.

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The State provided EPA with spreadsheets detailing allocations of the redirected 10% and 15% set-asides funds remaining from previous grant awards that have been redirected to activities of the 2007 supplemental work plan. BPH continues to have a surplus nonetheless. Now that more contracts are in place the State remains optimistic that the drawdown rate of surplus funds will continue to improve. EPA will continue to monitor closely and follow up on the status of surplus funds in December 2009.

Action Items: The state should be spending oldest monies first and is encouraged to maintain a maximum allowable carryover of 150% for prior year funding in accordance with the DWSRF Work Plan Supplemental Guidance.

Programmatic Reporting

Drinking Water National Information Management System (DWNIMS)

BPH submitted its DWNIMS data in a timely manner, with no data quality problems. Any differences in amounts between DWNIMS and the Annual Report are minor and are due to timing. (DWNIMS is prepared earlier than the Annual Report.) BPH will reconcile differences and make necessary changes to DWNIMS during the next reporting cycle (August 2009).

Annual Report

Although the DWTRF regulations require states to submit a Biennial Report, BPH submits an Annual Report. EPA commends BPH for reporting more frequently, facilitating EPA's annual review process. The State submitted its FY 2008 Annual Report on time.

The report complied with SDWA, Drinking Water State Revolving Fund regulations, and Region III Supplemental Guidance with respect to the following:

- All of the required compliance statements and financial charts, and
- A description of how the short-term and long-term IUP goals were fulfilled.

Disadvantage Business Enterprises (DBE)

Under the Disadvantaged Business Enterprises (DBE) regulations in effect during FY 2008, the State was required to do the following:

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- Negotiate fair share goals every three years with EPA Region III;
- Identify projects totaling an amount at least equal to the capitalization grants and ensure that loan recipients of these identified projects apply the six affirmative steps; and
- Provide quarterly reports to EPA indicating utilization of disadvantaged businesses.

New DBE regulations became effective on May 27, 2008. The most fundamental change in these regulations for the State Revolving Fund (SRF) Program is that some of the burden of ensuring and documenting compliance is now assigned directly to SRF loan recipients. Previously, it was just the State agency as the recipient of the capitalization grant that was held responsible for ensuring and documenting compliance. EPA will provide technical assistance on the implementation of the new regulations, as needed, which will include developing summary and explanatory documents and answering questions as they occur.

Environmental Review

EPA reviewed the State's project files for the City of Fairmont and Marshall County PSD #4 for consistency of BPH's environmental review documentation with its approved State Environmental Review Process (SERP). The files included a cross-cutter checklist to document compliance with each cross-cutting requirement and sufficient documentation to show that BPH's issuance of a Finding of No Significant Impact for each project was consistent with the SERP.

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OBSERVATIONS

FINANCIAL AREAS REVIEWED

Health of the Fund

Capitalization grants and state match Earmarks for the DWTRF as of June 30, 2008 totaled $100,277,400. The overall financial growth of the DWTRF has been good due to the continuation of EPA grants and state match funding. As of June 30, 2008, net assets of the DWTRF loan fund were approximately $65,568,752, not counting approximately $22,621,272 in unexpended Federal capitalization grant funds (for projects). That is 9.26 percent over FY 2007 net assets of $60,012,044. Net assets include $61,152,893 in EPA grants and state match received and $4,415,859 in net loan and investment interest, and user fees received. Almost all of the growth in net assets to date is from the EPA grants and state match received.

The financial health of the West Virginia DWTRF program as of June 30, 2008 is good. All loans are secured by system revenues and reserves pledged by the borrowing entities. The DWTRF fund account has a strong cash flow. Financial management is sound; the State's internal controls are in place; there is no debt; and, there have been no loan defaults. A summary of the financial status of the DWTRF program is shown in the table below:

Financial Health Summary As of June 30, 2008	
Cumulative Federal Grants & State Match	$100,277,400
Net Assets	$65,568,752
Loan Repayments	$9,742,379
Investment Earnings	$2,667,071
Loan Disbursements	$58,094,386

As of June 30, 2008, the State closed 37 loans totaling $62,913,309, of which, $49,886,425 is outstanding as loans receivable.

The State Treasurer invests DWTRF funds in the West Virginia and Government Money Market Pools managed by the West Virginia Board of Treasury Investments (BTI). BTI investments include very safe securities such as U.S. Government obligations, repurchase agreements, highly-rated corporate bonds, and commercial paper. U.S. Government obligations are secured by the full faith and credit of the U.S. government. The corporate bonds and other securities have high ratings because they

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are not likely to default. BTI repurchase agreements are collateralized by U.S. treasury securities at 102 percent of principal.

The 12 month average yields for the West Virginia and Government Money Market Pools for the FYE June 30, 2008 were:

Account	Yield*
West Virginia Money Market Pool	4.09%
Government Money Market Pool	3.96%

* Source: Board of Treasury Investments Annual Report June 30, 2008.

Return on Equity (ROE) is a measure of the growth of capital within the DWTRF. The ROE for the DWTRF was 1.33% for FY 2008, which is less the ROE for FY 2007 (1.61%). An ROE of 1.33% for a subsidized lending program that issues loans for rates between 0 and 2% is not unexpected; however, it will not maintain purchasing power if the rate of inflation over time is higher than 1.33%.

In addition, the relatively low ROE indicates that the DWTRF is not sufficiently accumulating capital from its lending and investing activities to achieve significant financial growth. This provides further evidence that most of the financial growth in the DWTRF is due to EPA grants and state match.

Long-Term Financial Planning and Modeling

EPA and BPH prepared long-term, baseline financial projections for the DWSRF based upon current financial policies (e.g., interest rates, term of loans, construction period interest). These projections were not discounted by the anticipated rate(s) of inflation over the same time period in the baseline scenario. EPA provided assistance to BPH in using the EPA Financial Planning Model.

These projections showed that DWSRF assets will grow to approximately $165 million by 2038 (based upon a 39 year projection horizon) in nominal dollars. The average annual amount of assistance disbursed will be approximately $8 million. When adjusted for inflation, the amount of purchasing power reflected in these projections will be less than the nominal amounts.

In the FY 2006 and 2007 PERs, EPA suggested that the State consider changing some of the generous terms it provides borrowers that receive disadvantaged assistance to ensure that the DWSRF will continue to provide assistance in perpetuity as required by the SDWA.

BPH responded that it did not see the need to change the terms under which loans are closed. EPA recognizes that BPH has to balance its ability to increase DWTRF revenues against maintaining an acceptable demand for loans at terms that are

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competitive with other Federal and state sources of funding. BPH also has to consider the ability of communities to repay the loans.

Financial modeling of the DWTRF is designed to be a management tool to be used to plan for the most effective use of resources to achieve the goals and objectives of the DWTRF program, and to protect the long-term financial viability of the DWTRF. The emphasis is on strategic long-term financial planning. The actual modeling and resulting financial projections are estimates of future capacity of the DWTRF for any given set of assumptions. Effective planning should be done in conjunction with the state's water infrastructure needs, legal requirements, and resources provided from all other Federal and state funding agencies.

Close coordination of planning activities between BPH and WDA and IJDC is also essential to developing any strategic financial plan. EPA is confident that BPH will continue to work with these agencies to develop and assess financial planning strategies that most effectively address the state's goals and objectives. The EPA Financial Planning Model is an appropriate and effective tool for BPH to use to develop and modify its financial plans.

Action Item: WV BPH should engage in ongoing strategic financial planning and develop various financial scenarios building upon the baseline cash flow projections prepared during the 2008 EPA Annual Review, in conjunction with its state partners on the IJDC and at WDA. EPA will assist BPH in any modeling or financial planning as requested.

DWTRF Financial Indicators

All of the indicators generally demonstrate that the DWTRF program's financial performance is good. However, funds are not being committed to loans commensurate

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with EPA expectations. Note that each of the indicators reflects calculations on a cumulative basis:

NIMS Financial Indicators for DWSRF				
Indicator	**2006**	**2007**	**2008**	**National Average**
Program Pace (Loans as a % of Funds Available)	76%	73%	70%	90%
Return on Federal Investment	131%	137%	138%	180%*
Disbursements as a % of Assistance	78%	92%	92%	80%
Net Return After Forgiving Principal	$2,562,867	$3,410,770	$4,201,488	–
Net Return on Contributed Capital	5.9%	6.5%	7.4%	6.2%

* Return on Federal Investment for Leveraged States

Program Pace (Loans as a % of Funds Available)

The Loans to Funds Available indicator represents the percent of money available in the DWTRF program which has been lent (i.e., executed loans). Performance on this critical indicator decreased from 73% to 70% in 2008, and it remains far below the national average (90%). As discussed in the "Program Pace" section of the PER, BPH must take additional measures to increase the pace of loan issuance.

Return on Federal Investment

The Return on Federal Investment indicator shows the amount of financial assistance or loans disbursed for each dollar of Federal cash draws made on a cumulative basis. The national average for this indicator is 180%. The State's result on this indicator is far below the national average; however, for states that have not leveraged, the national average for ROI is 127%. Using this indicator as a measure of performance, BPH ROI is 138%, above the national average for states that do not leverage.

Increasing the pace of project construction and reimbursement of incurred expenses will positively impact this measure. This indicator measures actual fund disbursements. For closed loans, the State should regularly monitor project construction and, as appropriate, assist loan recipients in resolving construction delays.

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Disbursements as a Percentage of Assistance

Loan Disbursements as a Percentage of Assistance Provided shows the speed at which funds are disbursed to closed loans. It is calculated by dividing cumulative loan disbursements by cumulative assistance provided. The value of the indicator ranges from 0% to no more than 100%. At 92%, BPH remains above the national average (80%). This shows that, although BPH is not closing loans at the expected pace, when it closes loans, BPH is timely in disbursing funds and completing projects.

Net Return after Forgiving Principal

Net Return after Forgiving Principal, also called Net Return, shows the net earnings of the DWTRF after loan principal has been forgiven. The Net Return indicator shows how well the DWTRF is maintaining invested or contributed capital. The operating earnings are calculated first by subtracting the net bond interest expenses. Then match bond principal and loan principal forgiven are subtracted from these earnings to yield the net return to the DWTRF. West Virginia does not issue bonds to generate its state match and does not offer principal forgiveness on loans. (If provided, loan forgiveness would be a reduction in the amount of contributed capital or an expense against operating revenues.) The Net Return indicator shows how well the DWTRF is maintaining invested or contributed capital. Note that performance is expected to be a net positive return.

Net Return on Contributed Capital

Net Return on Contributed Capital gives context to the Net Return indicator by comparing the net return of the DWTRF to the dollar amount of contributed capital. It is calculated by dividing the Net Return by cumulative contributed capital and expressed as a percentage. As of June 30, 2008, the DWTRF returned approximately $1.07 for each dollar of contributed capital invested. Contributed capital is equal to total Federal cash draws less set-aside expenses plus state match deposited into the DWTRF. The net return increased in 2008 to 7.4% from 6.5%. At 7.5%, the net return on contributed capital for BPH is above 0%, and remains above the national average of 6.2%.

Audits of the Fund

On October 13, 2008, the independent certified public accountants (CPAs) issued their opinion on the DWTRF audited financial statements which includes the State construction loan portion of the DWTRF. The auditors expressed an unqualified opinion on these financial statements, indicating that they are fairly presented and conform to generally accepted accounting principles.

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As part of their audit, the CPAs performed a Single Program Audit of the State's Federal financial assistance in accordance with generally accepted governmental auditing standards and Office of Management and Budget (OMB) Circular A-133, and issued that report on the same date as the financial statements. There were no notes or disclosures indicating any deficiencies in the State's accounting system or internal controls. In addition, the audit contained no findings of non-compliance with Federal regulations or questioned costs.

The reconciliation of grant funds paid to the state to DWTRF expenditures reported on the FSRs, EPA found that cash draws exceeded the total expenditures on the FSRs by $65,227. BPH stated that it would provide a reconciliation of this amount to EPA.

The FY 2008 West Virginia Statewide Single Audit has been issued. It contained no DWTRF findings. The Single Audit covers both set-aside and project loan expenditures. Total FY 2008 Federal expenditures related to the DWTRF program identified in the Single Audit were $5,186,114 determined on a cash basis. This amount agrees with the total expenditures reported on the FY 2008 FSRs.

Loan Monitoring

EPA reviewed the State's loan compliance monitoring program procedures and found them effective. The system includes a review of the Municipal Bond Commission (MBC) collection reports on each of BPH's loans, the annual budgets of all borrowers, and annual financial statement audits for all of borrowers. In addition, required Single Audits are reviewed and any findings and recommendations resolved.

In addition, the State uses the MBC as the collection agent on all loans. The MBC's rate coverage and debt service reserve requirements reduce the likelihood of delinquencies or loan defaults.

EPA limited its review of loan monitoring to a review of the borrower audit tracking sheets and information reported in the Annual Report. No borrowers were selected for review.

While WDA had adequately monitored the financial and Single Audits of DWTRF borrowers through FY 2008, currently, no one is actively performing audit monitoring duties. The two financial professionals charged with these responsibilities are no longer employed by WDA. Timely and comprehensive monitoring of borrower audits assures that the DWTRF has an effective loan monitoring system to assure the long-term financial health of the DWTRF.

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Action Item: WDA and BPH must obtain adequate professional staff to assure that required audits are received and reviewed timely.

Erroneous Payments Review

EPA tested two DWTRF cash draws totaling $355,221 of a total of $5,251,350 EPA cash draws for FY 2008, to determine if BPH made any erroneous payments:

Grant No.	Date	Amount
FS-99390004	10/18/2007	$256,694
FS-99390005	5/12/2008	98,527
Total		$355,221

EPA found that the selected cash draws were properly made for eligible DWTRF expenditures and were properly recorded in the BPH accounting records.

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OBSERVATIONS

GRANT COMPLIANCE AREAS REVIEWED

Payments

Consistent with the payment schedules in the grant agreements, during FY 2008 EPA released and the State accepted Federal payments totaling $9,501,754 from the Automated Standard Application for Payments (ASAP) account. Of this amount, $6,345,618 was for projects and $3,156,136 was for set-asides. Cumulative payments as of June 30, 2008 totaled $80,272,389: $58,317,465 for projects and $21,954,924 for set-asides.

State Match

Based on cumulative Federal payments as of June 30, 2008, the required match was $16,712,900. As of June 30, 2008, the State had deposited $16,712,900 into the Fund, as shown in the State's FY 2008 Annual Report. BPH met the 20% state match requirement for projects. This agrees with the amount reported in DWNIMS.

Under the Program Management set-aside, BPH was required to provide $1,227,664 in state match funds based on disbursements made during FY 2008. The State provided $1,227,664 as shown in the State's FY 2008 Annual Report. This amount agrees with the amount reported in DWNIMS.

Binding Commitments (BCs)

Total BCs required as of June 30, 2008 were $68,236,825 based on Federal grant payments of $53,647,044 and a state match of $14,589,781. Actual BCs as of June 30, 2008 were $86,916,346. The State exceeded the BC requirement by approximately $18,679,521. The State complied with the BC requirement for each quarter of FY 2008.

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Financial Status Reports (FSRs)

BPH reported $5,186,123.39 in Federal outlays on the FSRs submitted for the reporting period July 1, 2007 to June 30, 2008. The amount reported on the FCTRs for net disbursements was $5,186,113.71. This results in a difference of $9.68 between the two reports which is a result of rounding.

The reconciliation of grant funds paid to the state to DWTRF expenditures reported on the FSRs found that cash draws exceeded the total expenditures on the FSRs by $65,227. BPH stated that it would provide a reconciliation of this amount.

Action Item: BPH will provide reconciliation and explanation of the $65,227 excess cash draws to EPA.

Federal Cash Transaction Reports (FCTRs)

The State's FCTRs showed capitalization grant receipts of $3,848,890.66. However, there is a $1,402,459.15 difference between what the state reported as having received and what EPA grant payment records show ($5,251,349.81). This is a timing difference between the two agencies as to when the receipts/cashdraws are posted. BPH also reported net disbursements of $5,186,113.71, which with the exception of $9.68, a rounding difference, reconciles to the expenditures reported to EPA on the FSRs.

Administrative Costs

In its FY 2008 Annual Report, the State shows administrative expense disbursements of $185,769 for the reporting period and $2,263,890 cumulatively. The annual amount reconciles to what is reported in DWNIMS. However, the cumulative amount reported in the Annual Report ($2,258,730.29) is $5,159.71 different than what is reported in DWNIMS. The $5,159.71, with the exception of a four cent difference, is the amount EPA reported as the difference in the cumulative administrative expense disbursements between the Annual Report and DWNIMS in its 2008 PER.

Notwithstanding the difference in the cumulative amounts reported in the Annual Report and DWNIMS, cumulative administrative costs represent 2.71% of the total capitalization grants awarded to BPH. This is within the 4% ceiling set by the SDWA.

Action Item: BPH must make the necessary correction to the Annual Report or DWNIMS and provide the corrected report to EPA.

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RECOMMENDATIONS AND REQUIREMENTS

Action Items for BPH

1. BPH should implement measures to reach the agreed 90% pace target.

2. BPH should maintain efforts to fill vacant DWTRF and earmark project management positions.

3. BPH must take suitable actions to accelerate expenditure for both infrastructure and set-asides.

4. BPH must develop and implement procedures for drawing cash from oldest grant first in order to close out older grants.

5. The state should be spending oldest monies first and is encouraged to maintain a maximum allowable carryover of 150% for prior year funding in accordance with the DWSRF Workplan Supplemental Guidance.

6. WV BPH should engage in ongoing strategic financial planning and develop various financial scenarios building upon the baseline cash flow projections prepared during the 2008 EPA Annual Review, in conjunction with its state partners on the IJDC and at WDA. EPA will assist BPH in any modeling or financial planning as requested.

7. WDA and BPH must obtain adequate professional staff to assure that required audits are received and reviewed timely.

8. BPH will provide reconciliation and explanation of the $65,227 excess cash draws to EPA.

9. BPH must make necessary correction to the Annual Report or DWNIMS and provide the corrected report to EPA.

Action Items for EPA

1. EPA will review BP's proposed amendments to the OA and work with the State to adopt the amended OA.

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PRIOR YEAR ACTION ITEMS

Prior Year Action Items for BPH

1. BPH must identify and implement additional measures to increase the pace of loan closing. **In process.**

2. BPH should continue efforts to fill vacant DWTRF and earmark project management positions. **Not resolved. BPH has made some progress.**

3. BPH must take appropriate actions to accelerate spending for both infrastructure and set-asides. **Not Resolved.**

4. BPH must implement measures to draw funds from oldest grants first**. Not Resolved.**

5. BPH must review the procurement process to identify delays and implement measures to reduce delays in set-aside funded procurement actions. **Resolved.**

6. BPH must implement options for utilizing set-aside funds in a more timely manner. **In process.**

7. BPH should pursue a 1.5% MHI disadvantaged assistance threshold to determine the terms of assistance it will provide to future borrowers. **Resolved.**

8. BPH should consider adjusting its policies regarding administrative fees and construction period interest. **BPH prefers to stay with current policy.**

9. BPH must submit a copy of its reconciliation of FY 2006 and 2007 Single Audit expenditures to its accounting records and FSRs to EPA within 30 days of receipt of the draft PER. **Resolved.**

10. WDA and BPH should increase efforts to obtain required financial statement audits from each borrower annually. **Resolved.**

11. BPH must reconcile the FSRs and FCTRs and provide EPA with the supporting documentation. **Resolved.**

12. BPH must make the necessary adjustments between the Annual Report and DWNIMS and provide corrected reports to EPA. **Not Resolved.**

Prior Year Action Items for EPA

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1. EPA will review BP's proposed amendments to the OA and work with the State to adopt the amended OA. **Not resolved.**

2. EPA will arrange a convenient time with BPH to discuss progress and options in more detail. **Resolved.**

3. EPA and BPH should conduct additional financial modeling to better understand various interest rate/program fee scenarios and to manage the Fund in perpetuity. **Resolved.**

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