PROGRAM EVALUATION REPORT

WEST VIRGINIA

Drinking Water Treatment Revolving Fund Program

STATE FISCAL YEAR 2009

Final

September 2010

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 2009

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" or "the State") 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, 2008 through June 30, 2009. EPA conducted its on-site programmatic and financial review from May 12-13, 2010.

The State continues to do an excellent job of meeting the needs of small and disadvantaged communities. The State met the binding commitments ("BCs") requirement during FY 2009, the State's program pace increased to 74.5% from 70% in FY 2008. Although the program exhibits sound financial strength, BPH continues to lag behind the national average (87%) for loan closings as percentage of total funds available and the slow pace might slow the growth of the Fund.

The following are among the recommended and/or required actions for improving the State's DWTRF program implementation. A more complete list can be found later in the report:

- Increase pace of loan issuance;
- Implement options for utilizing set-aside funds in a more timely manner; and
- Increase efforts to obtain and review all required financial statement audits from each borrower annually.

EPA requests that the State respond to the identified FY 2009 action items within 45 days of receipt of the final FY 2009 PER. In its response, the State should identify actions already taken and outline a plan with a schedule for expeditiously taking additional steps to address the identified concerns. The plan must clearly identify how and when the State expects to resolve the action items.

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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 2009 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 for FY 2009. 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's 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, 2008 through June 30, 2009. EPA conducted its on-site review from May 12-13, 2010.

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Background

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 SDWA. The DWTRF program resides in the Department of Health and Human Resources ("DHHR") which also provides management for the Drinking Water State Revolving Fund ("DWSRF") 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, 2009, total capitalization for the DWTRF project fund and drinking water set-aside program activities was $110,152,200[1], which consists of Federal grant funds and state match. During FY 2009, BPH closed five loans for a total of $11,875,000. On a cumulative basis, the State has made 42 loans totaling $74,788,309.

[1] * Reflects a $10,000 reduction to FY 2002 grant for In-kind payment retained by EPA HQ. This "In-kind" is not reflected in DWNIMS. The total capitalization does not include the $19,500 FY 2009 ARRA grant.

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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 IUPs and in its Annual Report. EPA commends BPH for its detailed benefit descriptions. The State highlighted the four projects shown below.

City of Ronceverte Water Systems Upgrades and Interconnection with the City of Lewisburg

The City of Ronceverte water treatment facility was constructed in 1925 with minor updates in 1985. The water treatment facility reached its useful life. Due to deterioration of the facility infrastructure the water system 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 City of Ronceverte water treatment facility from service by interconnecting the water system to the City of Lewisburg. This project was made possible by a DWTRF loan of $2,000,000 (0% for 30 years), a State Infrastructure and Jobs Development Council ("IJDC") grant of $100,000, and a Small Cities Block grant of $1,500,000. Due to this project, Ronceverte is in compliance by providing safe drinking water to its existing customers.

City of Petersburg Treatment Plant Upgrade and Storage Tank Upgrade and Replacement

The City of Petersburg operates a surface water treatment plant and provides water to most of Grant County. The plant could not produce water when its source water was very muddy, had less than 60% of the state required storage, and was in operation for up to 23 hours per day. These infrastructure and operational issues posed a public health threat to the 6,000 residents' serviced by the treatment plant.

To correct these ongoing health threats, the most feasible and cost effective alternative was to upgrade the existing water treatment plant by increasing the treatment capacity and replacing the old storage tank. This project was made possible by two DWTRF loans of $2,700,000 (2% for 20 years) and $2,500,000 (0% for 30 years), an ARRA loan of $2,915,000 (principal forgiveness), and a State and Tribal Assistance Grant ("STAG") of $2,931,400. This project provides an economical solution to deliver safe drinking water to the City of Petersburg residents.

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Town of Wardensville Treatment Plant Upgrade and Water Line Extension

The Town of Wardensville is located in eastern Hardy County. Since 1967 Wardensville has owned and operated a water distribution system using ground water from Hawkins Springs to serve 665 people. Since Hawkins Springs has limited capacity Wardensville declared a moratorium on any new connections in 2005. Also the water system chlorination process did not meet the required standards, presenting a potential public health threat.

The most feasible solution to provide safe and adequate water supply for residents was to upgrade and extend Wardensville service system to meet current SDWA standards along with increasing water demands. A DWTRF loan of $1,550,000 (0% for 30 years) covered the total project cost.

City of White Sulphur Springs Design Loan

The City of White Sulphur Springs received a design loan to begin the design on a project to rehabilitate the existing treatment plant and distribution system. This loan aids the project reach the construction phase. Ultimately, correcting possible public health threat. This design was provided by a DWTRF loan of $625,000 (2% for 20 years).

Program Pace

During FY 2009, BPH closed five drinking water loans totaling $11,875,000. BPH's fund utilization rate (program pace) rose from 70% to 74.5% for FY 2009, although this is an improvement, it is still lower than the national average of 87%. Competiveness of the program in comparison with other available funding sources has posed a major obstacle to improve pace. In FY 2009 the State applied for and received a grant under ARRA. New requirements of the ARRA grant should have a positive impact on the pace of the fund.

The State has taken positive 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;

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- Continuing to work on the goal of closing loans within 18 months of issuing the binding commitments; and

- Leveraging DWTRF funded projects with ARRA funds to improve pace.

Action Item: BPH should take additional measures to increase the pace of loan issuance.

Unexpended Grant Balances

In January 2010, EPA's Office of Inspector General ("OIG") began a study of un-liquidated obligations in water grant programs to determine if EPA has adequate controls in place to identify unneeded funds. In addition, EPA's 2010 appropriation includes a $40 million recision of unobligated grant funds. There is a potential for unexpended funds in selected grants to be de-obligated from grants and returned to the Federal Treasury. As a result, timeliness of state application submittals and EPA grant awards will be a priority, and EPA's efforts to monitor grant expenditures in all states will increase. EPA advises states to take appropriate steps to avoid the appearance that grant funds are not needed or are not being used expeditiously.

BPH and EPA discussed the unexpended balance of grant funds, the need to draw funds in a timely manner, and the State's FY 2010 grant application. The State needs to be concerned about the potential recision of unexpended DWSRF grant funds on open grants. 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. EPA encourages the State to close grants within four years.

Action Items: BPH must take appropriate actions to accelerate set-asides spending.

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 provide 15% of available funding to small systems (up to 10,000 population). As of June 30, 2009, the State has provided 39 loans to small systems totaling $62.3 million, or 83% of total DWTRF dollars. The national average is 38%. This places the State among the top five states in small system funding. BPH also provided 31 loans totaling $53.6 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 18.9% and placing the State among the top five states for

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disadvantaged funding. EPA commends BPH for its commitment to providing DWTRF assistance to small and disadvantaged communities.

Environmental Review

EPA reviewed the State's project files for the Town of Wardensville and the City of Weirton 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.

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 to support the water systems long-term viability. BPH also educates staff on the value of the water system's assets. EPA commends the State for its current participation and promotion of SI activities.

Operating Agreement

In 2005 BPH prepared and submitted for EPA consideration proposed amendments to the OA. Due to unforeseen circumstances, EPA did not review the proposed OA amendment in a timely matter. In an effort to have the most current information, EPA retuned the proposed amendments to BHP. EPA will work with the State to review and update the current OA.

Action Item: EPA will work with the State to amend the current OA.

Programmatic Reporting

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Annual Report for the DWTRF Program

BPH continues its practice of submitting an Annual Report instead of a Biennial Report as required by the DWSRF regulations. EPA commends BPH for reporting more frequently, facilitating EPA's annual review process. The State submitted its FY 2009 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 IUPs goals were fulfilled.

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 2010).

Drinking Water Set-Aside Activities

Set-Aside Obligations and Expenditures

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, 2009, the national cumulative average rates of state set-aside expenditures were 79.7% for Technical Assistance, 83.9% for Program Management, and 69.2% 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; above the national average for Local Assistance and below the national average for Program Management,

SET-ASIDE UTILIZATION FOR ALL GRANTS Cumulative As of June 30, 2009				
	Technical Assistance	Program Managemen t	Local Assistance	Total

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CUMULATIVE AWARDED	$1,823,591	$8,008,542	$11,527,326	$21,359,459
CUMULATIVE OBLIGATED	$1,729,397	$6,366,543	$8,808,478	$16,904,418
% OBLIGATED	94.8%	79.5%	76.4%	79.0%
***EXPENDED**	$1,729,397	$6,214,310	$8,254,192	$16,197,899
% EXPENDED	94.8%	77.6%	71.6%	75.8%
% EXPENDED U.S. Average	79.7%	83.9%	69.2%	

*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, workplan activities continue to move forward and most of the contracts are in place. EPA's staff had discussions with the State on the status of DWSRF set-asides as a result of the State applying for the FY 2009 and FY 2010 capitalization grants just a few months apart. EPA does acknowledge that the FY 2009 grant award did not include funding for salaries and staff expenses. Spreadsheets developed by the State provided a detailed allocation of the redirected 10% and 15% set-asides. The State has shown a dramatic increase in the rate of spending from SFY 2008 to SFY 2010 with an average of $2.9M each year. This is an increase of $1.2M from the previous 3 grant award years (FY 2005-2007). The State projects future spending to continue to increase. EPA will continue to monitor closely and follow-up on the status of surplus funds periodically. 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.

FINANCIAL AREAS REVIEWED

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Health of the Fund

Capitalization grants and state match earmarked for the DWTRF as of June 30, 2009 totaled $110,152,200. 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, 2009, net assets of the DWTRF loan fund were approximately $72,461,178, not counting approximately $23,814,117 in unexpended Federal capitalization grant funds. That is 10.51 percent over FY 2008 net assets of $65,568,752. Net assets include $67,543,406 in EPA grants and state match received and $4,917,772 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 DWTRF program as of June 30, 2009 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; 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, 2009	
Cumulative Federal Grants & State Match	$110,152,200*
Net Assets	$72,461,178
Loan Repayments	$12,114,741
Investment Earnings	$2,857,510
Loan Disbursements	$74,788,309

* Reflects a $10,000 reduction to FY 2002 grant for in-kind payment retained by EPA HQ. This is not reflected in DWNIMS. Does not include the $19,500 FY 2009 ARRA grant.

The FY 2009 financial statement audit did note an internal control deficiency finding. This is discussed in the Audits section of this PER.

As of June 30, 2009, the State closed 42 loans totaling $74,788,309, of which, $56,865,212 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 are not likely to default. BTI repurchase agreements are collateralized by U.S. treasury securities at 102 percent of principal.

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The 12 month average yields for the West Virginia and Government Money Market Pools for the FYE June 30, 2009 were:

Account	Yield*	
	2009	2008
West Virginia Money Market Pool	1.29 %	4.09 %
Government Money Market Pool	1.13 %	3.96 %

* Source: Board of Treasury Investments Annual Report June 30, 2009 and 2008.

Return on Equity ("ROE") is a measure of the growth of capital within the DWTRF. The ROE for the DWTRF was 0.73% for FY 2009, which is less the ROE for FY 2008 of 1.33%. An ROE of 0.73% 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 0.73%.

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 DWTRF 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 DWTRF assets will grow to approximately $248 million by 2041, based upon a 31 year projection horizon, in nominal dollars. The average annual amount of assistance disbursed will be approximately $14 million. This is based upon continued Federal grants and state matching contributions through 2021, which is not guaranteed. When adjusted for inflation, the amount of purchasing power reflected in these projections will be less than the nominal amounts.

In the FY 2006, 2007 and 2008 PERs, EPA suggested that the State consider changing some of the terms it provides borrowers that receive disadvantaged assistance to ensure that the DWTRF 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

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DWTRF revenues against maintaining an acceptable demand for loans at terms that are 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 the West Virginia Water Development Authority ("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: EPA will work with BPH, WDA and IJDC to develop strategic planning scenarios using the EPA model to project cash flows for a variety of funding alternatives to address critical state drinking water needs.

DWTRF Financial Indicators

All of the indicators generally demonstrate that the DWTRF program's financial performance is adequate. However, funds are not being committed to loans commensurate with EPA expectations. Note that each of the indicators reflects calculations on a cumulative basis:

DWNIMS Financial Indicators				
Indicator	**2007**	**2008**	**2009**	**National Average**
Program Pace (Loans as a % of Funds Available)	73%	70%	74.5%	87%
Return on Federal Investment	123%	123%	126%	182%
Disbursements as a % of Assistance	92%	92%	87%	83%
Net Return After Forgiving Principal	$3,410,770	$4,201,488	$4,664,645	$516,031,956
Net Return on Contributed Capital	6.0%	6.8%	6.9%	

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				6%

Program Pace (Loans as percentage 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 increased from 70% to 74.5% in 2009; however, it remains far below the national average of 87%. 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 ("ROI") 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 182%. The State's result on this indicator is far below the national average; however, for states that have not leveraged, such as West Virginia, the national average for ROI is 128%. Using this indicator as a measure of performance, BPH ROI is 126%, which approximates 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.

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 87%, BPH remains above the national average of 83%. 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

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earnings to yield the net return to the DWTRF. The State does not issue bonds to generate its state match and does not offer principal forgiveness on loans. 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, 2009, 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. At 6.9%, the net return on contributed capital for BPH is above 0%, and remains above the national average of 6.0%.

Audits of the Fund

On November 2, 2009, 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.

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 two findings included in the audit, indicating a deficiency in the State's accounting system and internal controls, and a finding of non-compliance with Federal regulations or questioned costs.

2009-1 Sub-recipient Monitoring

The State did not monitor sub-recipient compliance through the review of required sub-recipient audits in FY 2009. As of June 30, 2009, there were no procedures in place to monitor the receipt and review of these audit reports.

The auditors recommended that management recruit qualified individuals with which to fill vacant positions which formerly performed sub-recipient monitoring or reassign this responsibility to an outside entity.

2009-2 Internal Control over Financial Reporting

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The auditors found that contract accountants create and post journal entries in the general ledger without supervisory approval. The auditors recommended that the DWTRF establish appropriate policies and procedures, and hire supervisory personnel to oversee the entire accounting process.

Both of these findings were due to a loss of several key accounting and financial reporting staff members during FY 2009. According to the Executive Director of the WDA, new staff including a Chief Financial Officer will be hired during FY 2010 to address these deficiencies.

The FY 2009 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 2009 Federal expenditures related to the DWTRF program identified in the Single Audit were $7,351,444 determined on a cash basis. This amount differs from the $7,418,575 total expenditures reported on the FY 2009 Financial Statement Reports by $67,131. DHHR provided a detailed reconciliation of this difference. EPA is satisfied that WV 2009 DWTRF expenditures were reported properly to EPA and on the Single Audit.

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.

As stated in the two audit findings reported above, during FY 2009, no one actively performed 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.

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

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Erroneous Payments Review

EPA tested two DWSRF cash draws totaling $203,137 of a total of $7,353,348.28 EPA cash draws for FY 2009, to determine if BPH made any erroneous payments:

Grant No.	Date	Amount
FS-99390005	1/9/2009	$95,630
FS-99390005	5/19/2009	$107,507
Total		$203,137

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

GRANT COMPLIANCE AREAS REVIEWED

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Payments

Consistent with the payment schedules in the grant agreements, during FY 2009 EPA released and the State accepted Federal payments totaling $10,013,788 from the Automated Standard Application for Payments ("ASAP") account. Of this amount, $7,771,362 was for projects and $2,242,426 was for set-asides. Cumulative payments as of June 30, 2009 totaled $90,286,177: $66,088,827 for projects and $24,197,350 for set-asides.

State Match

Based on cumulative Federal payments as of June 30, 2009, the required match was $18,095,879. As of June 30, 2009, the State had deposited $18,358,700 into the Fund, as shown in the State's FY 2009 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 $822,894 in state match funds based on Federal disbursements made during FY 2009. The State provided the required match as shown in the State's FY 2009 Annual Report. This amount agrees with what was reported in DWNIMS.

Binding Commitments

Total BCs required as of June 30 2009 were $77,684,706 based on Federal grant payments of $58,317,465 and a state match of $15,943,526. Actual BCs as of June 30 2009 were $99,372,888. The State exceeded the BC requirement by approximately $21,688,182. The State complied with the BC requirement for each quarter of FY 2009.

Financial Status Reports

BPH reported $7,418,575.21 in Federal outlays on the FSRs submitted for the reporting period July 1, 2008 to June 30, 2009. The amount reported on the Federal Cash Transaction Reports ("FCTRs") for net disbursements was $7,418,584.38. This results in a difference of $9.17 between the two reports which is a result of rounding.

Federal Cash Transaction Reports

The State's FCTRs showed capitalization grant receipts of $7,353,348.28. However, there is a $583,718.50 difference between what the state reported as having received and what EPA grant payment record of $6,769,629.78. This is a timing difference between the two agencies as to when the cash draws are posted. BPH also

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reported net disbursements of $7,418,584.38, which with the exception of $9.17, a rounding difference, reconciles to the expenditures reported to EPA on the FSRs.

Administrative Costs

In its FY 2009 Annual Report (Table 2), the State reported $253,024 in administrative expenses charged against the capitalization grants during FY 2009. The information agrees with the information shown in DWNIMS. Cumulative administrative costs charged to the DWSRF capitalization grants as of June 30, 2009 total $2,493,754 or 2.72% of the total grants awarded. This is within the 4% ceiling set by the SDWA.

RECOMMENDATIONS AND REQUIREMENTS

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Action Items for BPH

1. BPH should take additional measures to increase the pace of loan issuance.
2. BPH must take appropriate actions to accelerate set-asides spending.
3. WDA and BPH must obtain adequate professional staff to assure that required audits are received and reviewed timely. **Repeated from 2008.**

Action Items for EPA

1. EPA will work with the State to amend the current OA.
2. EPA will work with BPH, WDA and IJDC to develop strategic planning scenarios using the EPA model to project cash flows for a variety of funding alternatives to address critical state drinking water needs.

PRIOR YEAR ACTION ITEMS

Prior Year Action Items for BPH

Freedom_0005773_0021

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

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

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

4. BPH must develop and implement procedures for drawing cash from oldest grant first in order to close out older grants. **The current DHHS policy regulates all cash draws procedures. Due to the limitations of the current policy this item is consider to be closed.**

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. **In Process.**

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. **Resolved.**

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

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

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

Prior Year 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. **Not Resolved**.

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