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

JUL 16 2013

Ms. Barbara S. Taylor, Director
Office of Environmental Health Services
West Virginia Department of Health and Human Resources
350 Capitol Street, Room 313
Charleston, West Virginia 25301-3713

RE: FY 2012 DWTRF Program Evaluation Report

Dear Ms. Taylor:

This Program Evaluation Report (PER) is the U.S. Environmental Protection Agency's (EPA) assessment on the West Virginia Department of Health and Human Resources (DHHR), Bureau for Public Health (BPH), Drinking Water Treatment Revolving Fund (DWTRF or DWSRF) program. The PER summarizes our evaluation and identifies strengths and opportunities for improvement in the DWTRF program. The review covered the period July 1, 2011 through June 30, 2012. EPA conducted its on-site review from May 21 to 22, 2013.

No action items for BPH or EPA were identified in the FY 2012 review.

Purpose and Scope

The FY 2012 annual review of BPH's DWTRF program was conducted in accordance with EPA's Interim Final Annual Review Guidance and Region III's Annual Review Plan. The annual review process included EPA's consideration of BPH's Annual Report, completion of the Project File Review Checklist, and issuance of this PER.

EPA conducts separate reviews of the technical aspects of the DWTRF activities undertaken with the Small Systems Technical Assistance, State Program Management, and Local Assistance and Other State Programs set-aside funds in conjunction with its review of the State's Public Water System Supervision (PWSS) Program. The current DWTRF annual review focused on the Loan Assistance activities, the Administration set-aside and financial aspects associated to set-aside activities.

The purpose of the annual review was to assess the BPH's management of the program, including:

- Performance in achieving goals and objectives identified in the Intended Use Plans (IUPs) and Annual Report;
- Compliance with grant agreements, operating agreement, and regulations;

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- Financial status and performance of the Fund and set-aside accounts;

- Resolution of audit findings and prior year PER action items;

Grant Compliance Requirements

EPA reviewed various documents provided by BPH to ensure compliance with all the following requirements.

- Additional Subsidization
- Administrative Costs
- Annual Report
- Binding Commitments
- Davis Bacon
- Drinking Water National Information Management System
- DWSRF Benefits Reporting (PBR)
- Federal Financial Reports
- Fee Income
- Green Project Reserve
- Payments Schedules
- State Match Requirements
- Operating Agreement

*A new Operating Agreement was executed in 2012. EPA met with BPH staff to discuss and review the current agreement for necessary revisions. At this time there are no changes necessary to the Operating Agreement.

Public Health Benefits

The DWTRF program provides financial assistance to improve and maintain the public health throughout the State. The projects financed have been vital in the reduction of drinking water quality related public health concerns throughout the State.

During FY 2012, the DWTRF program financed 3 projects totaling approximately $11 million thus ensuring safe drinking water for at least 19,260 West Virginian's. All of the projects contributed to the joint State/EPA mission of improving the quality of drinking water to better protect the public health.

Program Pace

In FY 2012 DWSRF program attained a program pace of 94 %. This rate is above the national average of 89.7%. BPH has a solid pipeline of projects to close in FY 2013 that will continue strengthening an already high pace.

Program Management

BPH is consistently thorough in the management of the DWTRF program and meeting all SRF requirements. It is essential that the program continue to be adequately staffed and staff

members should attend national trainings such as the Council of Infrastructure and Financing Authorities (CIFA), All States and other SRF related conferences.

Small Systems and Disadvantaged Funding

BPH has been successful in meeting the needs of small drinking water systems, and has exceeded the Safe Drinking Water Act (SDWA) requirement to provide a minimum of 15% of available funding to small systems (population under 10,001). To date BPH has funded 64 small drinking water systems.

As of June 30, 2012, BPH provided disadvantaged assistance to 57 water systems. This amount includes all types of assistance provided to systems identified as disadvantaged by the State, including principal forgiveness, extended loan terms, and lower interest rates.

Drinking Water Set-Aside Activities

The chart below shows the progress that BPH has reported in expending funds on a cumulative basis for each set-aside category.

SET-ASIDE UTILIZATION FOR ALL GRANTS CUMULATIVE AS OF JUNE 30, 2012					
	Administration	**Technical Assistance**	**Program Management**	**Local Assistance**	**Total**
Cumulative Awarded (*)	$4,159,119	$2,606,251	$10,887,234	$16,472,130	$34,124,734
Cumulative Expended (*)	$3,515,791	$2,250,495	$9,988,481	$14,889,467	$30,644,234
Percent Expended	84.5%	86.3%	91.7%	90.3%	89.8%
Percent Expended National Average	82.7%	80.9%	85.2%	76.0%	80.1%

(*) Source: DWNIMS through June 30, 2012

BPH regularly reviews the outstanding ULO balances to ensure the timely and expeditious use of SRF funds. WV BPH continues to exceed the national average in percent expended under the four set-aside categories.

During the time of the annual review, a draft report was issued by BPH's independent auditors on the set-aside activities. The report showed no findings or questioned costs as a result.

Project File Review

EPA reviewed BPH's files for the following projects:

Grant/ Loan Reviewed	Date	Grant/ Loan Amount
City of Wellsburg	March 2012	$2,435,000

City of Saint Marys	January 2012	$4,203,500
Total		$6,638,500

The project files were fully documented. Each file contained a full financial, technical and managerial review, periodic inspection reports, state environmental reviews, and business case when necessary. A detailed financial capability and credit analysis is performed on all new loans and this documentation was included in the file. EPA commends BPH for its efforts in the environmental review process and project management.

BPH's Utilization of EPA's Enforcement Targeting Tool (ETT)

BPH's Capacity Development staff participates on quarterly conference calls with EPA to discuss the non-compliant systems report generated out of ETT. BPH utilizes the report to identify non-compliant systems that may benefit from SRF financing. Six systems are chosen from the list to work on reducing their ETT score. If the system is a good fit for SRF funding, Robert DeCrease and staff will work with the system to apply for SRF financing.

Cash Transaction Review

EPA Region III staff selected and tested two cash draws (totaling $141,143.93). A stratified sample selection from OMB was also tested (totaling $1,082,256.42). Both sets of selected cash draws were properly made for eligible DWSRF expenditures and were properly recorded in the BPH's accounting records. No costs were questioned and there were no erroneous payments.

Cash Transaction Testing
EPA Region III draw selection

Grant Number	Date	Amount
FS-993900-09	4/9/2012	$ 134,243.93
FS-993900-11	4/9/2012	$ 6,900.00

Cash Transaction Testing
OMB Stratified draw selection

Grant Number	Date	Amount
FS-993900-10	10/28/2011	$1,081,517.00
FS-993900-08	7/2/2012	$ 739.42

Financial Health of the Fund

The financial health of the DWSRF program is good. All municipal loans are secured by system revenues and debt service reserves. Due to the absence of long-term debt, all funds deposited into the DWTRF are available to provide additional financial assistance to improve the State's drinking water. There were no municipal loan defaults or delinquencies with respect to deposits of loan revenues or reserves reported in the FY 2012 audit.

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The DWTRF fund account has a strong cash flow. Financial management is sound; internal controls are in place; annual independent audits are performed; all funds are invested prudently; the Infrastructure Council and Public Service Commission perform detailed initial credit analysis and financial capability assessments on all municipal borrowers; BPH provides loan monitoring of borrowers during construction and loan repayments throughout the loan periods; and, there is no debt.

As of June 30, 2012, net assets were $118,747,920. That is 20% over FY 2011 net assets of $98,909,933. Included in this amount is $21,884,379 in cumulative loan principal and interest repayments and $2,930,300 in cumulative investment earnings.

Return on Equity (ROE) is a measure of the growth of capital within the DWTRF. The ROE for the DWTRF decreased slightly to 0.38% in FY 2012, from 0.41% for FY 2011. The ROE rate is adequate considering BPH's DWTRF program generally offers loans to its borrowers with interest rates averaging less than one percent and interest rates on invested funds are near zero percent for the liquidity accounts.

BPH periodically performs long-term cash flow modeling and long-term planning of the DWTRF. The projections have not been updated for over two years. EPA encourages BPH to update its modeled projections and offers its assistance to accomplish this task.

Based upon a review of the audited financial statements, annual report, and the financial management policies and procedures, EPA concludes that BPH continues to manage the DWTRF program in a manner that ensures a perpetual source of financing of drinking water quality infrastructure projects.

Audits of the Fund

On October 12, 2012, BPH's independent certified public accountants (CPAs) issued the DWSRF's FY2012 audited financial statements. The CPAs expressed an unqualified opinion on these financial statements, indicating that they are fairly presented and conform to generally accepted accounting principles (GAAP) as required. The audit report also included reports on internal controls over financial reporting and compliance as required by generally accepted governmental auditing standards (GAGAS). The GAGAS reports identified no deficiencies in internal controls of the DWSRF. No findings or recommendations pertaining to noncompliance with Federal requirements were reported.

The FY 2012 WV State-wide Single Audit (SAA) was also issued. The DWSRF was audited as a major program in the State-wide audit. The Schedules of Expenditures of Federal Assistance (SEFA) included in the audit reported $21,698,417 in federal funds expended by the DWSRF program. This amount reconciles to the FY 2012 Federal Financial Reports (FFRs). No audit findings and recommendations were reported for the Drinking Water State Revolving Fund Program.

Prior Year Action Items

There were no action items for the DWTRF program as a result of the FY 2011 annual review

The attached annual review checklist is an integral part of this PER. Should you have any questions, please contact Lea Ruiz at 215-814-5496 or me at 215-814-2162.

Sincerely,

Robert F. Chominski, Deputy Associate Director
Office of Infrastructure and Assistance

w/Enclosures
cc: Robert DeCrease, P.E.
Walter M. Ivey, P.E.

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