

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Drinking Water Revolving Loan Fund
Department of Health and Hospitals,
Office of Public Health and
Department of Environmental Quality
State of Louisiana
Baton Rouge, Louisiana

May 2, 2001



Financial and Compliance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Financial Statements and Independent Auditor's Reports
As of and for the Two Years Ended
June 30, 2000 and 1999**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor.

May 2, 2001

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Financial Statements and Independent Auditor's Reports
As of and for the Two Years Ended
June 30, 2000 and 1999

CONTENTS

	Statement	Page No.
Independent Auditor's Report on the Financial Statements		2
Financial Statements - Proprietary Fund - Enterprise Fund:		
Balance Sheets	A	4
Statements of Revenues, Expenses, and Changes in Retained Earnings	B	5
Statements of Cash Flows	C	6
Notes to the Financial Statements		7
	Exhibit	
Report on Compliance With Requirements Applicable to the Capitalization Grants for Drinking Water State Revolving Funds Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	A	



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April 6, 2001

Independent Auditor's Report
on the Financial Statements

DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the Louisiana Department of Health and Hospitals, Office of Public Health and Department of Environmental Quality - Drinking Water Revolving Loan Fund, as of and for the years ended June 30, 2000 and 1999, as listed in the foregoing table of contents. These financial statements are the responsibility of the Drinking Water Revolving Loan Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note 1, the financial statements present only the financial position and results of operations and cash flows of the Drinking Water Revolving Loan Fund. These statements are not intended to present fairly the financial position of the State of Louisiana, the Louisiana Department of Health and Hospitals, Office of Public Health, or the Louisiana Department of Environmental Quality, and the results of its operations and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States.

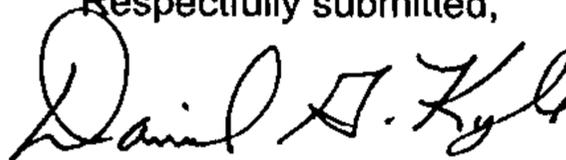
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Department of Health and Hospitals, Office of Public Health and the Louisiana Department of Environmental Quality - Drinking Water Revolving Loan Fund as of and for the years ended June 30, 2000 and 1999, and the results of its operations and the cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

LEGISLATIVE AUDITOR

DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Audit Report, June 30, 2000

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2001, on our consideration of the Drinking Water Revolving Loan Fund's internal control over compliance with certain laws and regulations and our tests of compliance with these laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audits.

Respectfully submitted,

A handwritten signature in cursive script that reads "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

CRV:BMcC:PEP:dl

[DWRLF00]

DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND

Balance Sheets, as of June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
ASSETS		
Current assets:		
Cash in state treasury (note 2)	\$6,176,071	\$4,783,746
Receivables - due from others (note 3)	288,241	237,909
Total current assets	<u>6,464,312</u>	<u>5,021,655</u>
Long-term loans receivable (note 4)	<u>3,131,164</u>	<u>NONE</u>
 TOTAL ASSETS	 <u><u>\$9,595,476</u></u>	 <u><u>\$5,021,655</u></u>
LIABILITIES AND FUND EQUITY		
Current liabilities - accounts payable and accrued expenses	<u>\$106,699</u>	<u>\$237,909</u>
Fund Equity:		
Contributed capital:		
Environmental Protection Agency (note 5)	2,427,591	
State of Louisiana (note 5)	6,347,105	4,347,105
Retained earnings - unreserved (note 5)	<u>714,081</u>	<u>436,641</u>
Total Fund Equity	<u>9,488,777</u>	<u>4,783,746</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u><u>\$9,595,476</u></u>	 <u><u>\$5,021,655</u></u>

The accompanying notes are an integral part of this statement.

Statement B**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND****Statements of Revenues, Expenses, and
Changes in Retained Earnings
For the Years Ended June 30, 2000 and 1999**

	<u>2000</u>	<u>1999</u>
OPERATING REVENUES		
Federal funds - set aside programs	\$909,812	\$699,762
Interest earned on loans receivable	17,931	
Administrative fees	2,599	
Total operating revenues	<u>930,342</u>	<u>699,762</u>
OPERATING EXPENSES		
Set aside expenses (note 6)	<u>909,812</u>	<u>699,762</u>
OPERATING INCOME	20,530	NONE
NONOPERATING REVENUES		
Interest earned on cash in state treasury	<u>256,910</u>	<u>436,641</u>
NET INCOME	277,440	436,641
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>436,641</u>	<u>NONE</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$714,081</u>	<u>\$436,641</u>

The accompanying notes are an integral part of this statement.

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statements of Cash Flows
For the Years Ended June 30, 2000 and 1999**

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities		
Cash received from interest on loans	\$3,450	
Cash received from allocations for set aside programs	803,113	\$461,853
Reimbursements for payments for goods and services	(803,113)	(461,853)
Cash payments to borrowers	(3,131,164)	
Net cash used by operating activities	<u>(3,127,714)</u>	<u>NONE</u>
Cash flows from capital and related financing activities		
Contributed capital - Environmental Protection Agency	2,263,129	
Contributed capital - State of Louisiana	2,000,000	4,347,105
Net cash provided by capital and related financing activities	<u>4,263,129</u>	<u>4,347,105</u>
Cash flows from investing activities		
Interest received on cash in state treasury	<u>256,910</u>	<u>436,641</u>
Net increase in cash	1,392,325	4,783,746
Cash at beginning of the year	<u>4,783,746</u>	<u>NONE</u>
Cash at end of the year	<u>\$6,176,071</u>	<u>\$4,783,746</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$20,530	
Decrease (increase) in accounts receivable	114,130	(\$237,909)
Increase in loans receivable	(3,131,164)	
Increase (decrease) in accounts payable and accrued expenses	<u>(131,210)</u>	<u>237,909</u>
Net cash used by operating activities	<u>(\$3,127,714)</u>	<u>NONE</u>

The accompanying notes are an integral part of this statement.

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Notes to the Financial Statements
Years Ended June 30, 2000 and 1999

INTRODUCTION

The Louisiana Department of Health and Hospitals, Office of Public Health (DHH-OPH) is a department of the State of Louisiana. DHH-OPH was created in accordance with Louisiana Revised Statutes 36:251(c) and 258(d) as a part of the executive branch of government. DHH-OPH is charged with protection of the public health of residents of the State of Louisiana.

The Louisiana Department of Environmental Quality (DEQ) is a department of the State of Louisiana. DEQ was created in accordance with Title 30, Chapter 11 of the Louisiana Revised Statutes of 1950 as a part of the executive branch of government. DEQ is charged with environmental protection within the State of Louisiana.

The Drinking Water Revolving Loan Fund (DWRLF) program was established pursuant to the federal Safe Drinking Water Act Amendments of 1996 (SDWA). The DWRLF program provides financial assistance to both public and privately owned community water systems and nonprofit non-community water systems for projects eligible under the SDWA. The DWRLF program presently operates under Louisiana Revised Statutes 40:2821-2826. These statutes establish a drinking water revolving loan fund program capitalized by federal grants (Capitalization Grants for Drinking Water State Revolving Fund, CFDA 66.468), by state funds when required or available, and by any other funds generated by the operation of the drinking water revolving loan fund. The DWRLF program provides assistance through loans for infrastructure projects and other assistance in the form of set-aside activities for program administration, technical assistance, state program management, and source water protection. All efforts are directed toward improving drinking water quality by assisting systems in providing drinking water that meets established standards and that achieves the goals of the SDWA.

The DHH-OPH is responsible for the operations of the DWRLF program. The department coordinates the implementation and administration of the DWRLF program with DEQ. DHH-OPH is authorized to apply for and accept capitalization grants from the United States Environmental Protection Agency, to establish assistance priorities, to perform oversight and other related activities, and to provide financial administration of the set-aside accounts for the DWRLF program. DEQ administers the loan program and is authorized to provide financial administration of the loan accounts for the DWRLF program.

The DWRLF does not have any full-time employees. However, time spent on the DWRLF program by employees of DHH-OPH and DEQ is captured and the departments are subsequently reimbursed for their salaries and benefits as well as other operating expenses of the fund.

LEGISLATIVE AUDITOR

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
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STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Governmental Accounting Standards Board (GASB) Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The accompanying financial statements represent activity of a fund of the State of Louisiana *that is administered by DHH-OPH and DEQ, both departments within state government.* The DWRLF is part of the primary government of the State of Louisiana.

B. FUND ACCOUNTING

For the purposes of this report, the DWRLF uses an enterprise fund (proprietary fund) to report on its financial position and results of operations. The enterprise fund accounts for the set-aside activities and activities relative to making and collecting loans for the planning, design, construction, and rehabilitation of drinking water systems for public water systems within the State of Louisiana.

C. BASIS OF ACCOUNTING

The proprietary fund is accounted for using a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and liabilities associated with the operations of this fund are included on the balance sheet. The DWRLF uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized at the time the liabilities are incurred.

Under the provisions of GASB Statement No. 20, the DWRLF follows the pronouncements of GASB and has elected not to follow Financial Accounting Standards Board guidance issued subsequent to November 30, 1989.

D. BUDGETS AND BUDGETARY ACCOUNTING

The DWRLF is budgeted annually by the Louisiana Legislature. The set-aside activities were budgeted as part of the operations of DHH-OPH in the General Appropriations Act (Act 19 of 1998 for fiscal year 1998-1999 and Act 10 of 1999 for fiscal year 1999-2000). The Ancillary Appropriations Act (Act 60 of 1999) authorized expenditures of \$15,000,000 for the loan program for fiscal year 1999-2000 and allows the fund to retain resources to fund future loans and eligible program activities. Because the fund is an enterprise fund, a budgetary comparison is not required nor presented in the financial statements.

LEGISLATIVE AUDITOR

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
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STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

E. LOANS RECEIVABLE

The DWRLF is operated as a direct loan program. The program provides loans and other financial assistance to public water systems for the purpose of planning, constructing, and rehabilitating public water systems.

The program lends federal and state monies directly to public water systems. The federal share is 80% and requires a state matching share of 20%. Recycling of principal and interest repayments from borrowing water systems allows the program to operate in perpetuity thereby benefiting other water systems wishing to borrow in the future. Borrowers pay principal and interest directly to the loan program, and all monies are deposited directly to the program. Principal repayments can only be used to make additional loans to water systems. Interest earnings on investments and loans can also be used to make additional loans.

The loans made by the DWRLF must be made at or below market interest rate with a repayment period not exceeding 20 years plus an interim construction-financing period. The current loan rate is 3.45% for new water construction/water system rehabilitation projects.

As evidence of its obligations to pay principal and interest on the loans, each borrower must establish a dedicated revenue source or demonstrate that there is adequate security for repayment of the loan. Collections of the revenue source dedicated to repayment of the loan must be equal to 133% of the loan amount for sales tax revenues or 125% for sewer user fees or ad valorem taxes. Each loan recipient is also required to set up a debt service reserve fund equal to 10% of the loan amount or one year's principal and interest for the purpose of paying principal and interest should the dedicated revenues be insufficient for that purpose.

Because of the reserve requirements and the absence of any delinquent loans, there is no provision for uncollectible amounts.

F. CONTRIBUTED CAPITAL

The funds drawn for loans from the EPA capitalization grants authorized by the Safe Drinking Water Act Amendments of 1996 and the state matching funds are recorded as contributed capital.

LEGISLATIVE AUDITOR

DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

2. CASH

As reflected on Statement A, the DWRLF has cash totaling \$6,176,071 at June 30, 2000, and cash totaling \$4,783,746 at June 30, 1999. All monies of the fund are deposited with the State Treasurer's Office. Cash balances are held and controlled by the state treasurer and are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by accounting principles generally accepted in the United States are included within the State of Louisiana's financial statements.

3. DUE FROM OTHERS

As shown on Statement A, the DWRLF has a total due from others of \$288,241. This is comprised of the following:

	<u>2000</u>	<u>1999</u>
Due from the federal government:		
Set-aside programs	\$106,699	\$237,909
Loans	164,462	
Total due from federal government	<u>271,161</u>	<u>237,909</u>
Due from water systems	<u>17,080</u>	<u>NONE</u>
 Total due from others	 <u><u>\$288,241</u></u>	 <u><u>\$237,909</u></u>

Of the \$17,080 due from water systems, \$14,918 is loan interest and \$2,162 is administrative fees on loans.

4. LOANS RECEIVABLE

The DWRLF makes loans to community water systems both privately and publicly owned and nonprofit noncommunity water systems for projects that meet the eligibility requirements of the program. Loans are financed by capitalization grants, state match, and revolving funds. The effective interest rate on loans is 3.45% and must be repaid over 20 years starting within one year after the project is completed. As of June 30, 2000, no projects were completed.

LEGISLATIVE AUDITOR

**DRINKING WATER REVOLVING LOAN FUND
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OFFICE OF PUBLIC HEALTH AND
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STATE OF LOUISIANA
Notes to the Financial Statements (Continued)**

Loans mature at various intervals through April 1, 2022. The scheduled principal payments on loans maturing in subsequent years are as follows:

Year ending June 30:	
2001	\$90,000
2002	105,000
2003	555,000
2004	565,000
2005	495,589
Thereafter	<u>1,320,575</u>
Total	<u><u>\$3,131,164</u></u>

Loans to Public Water Systems

As of June 30, 2000, the DWRLF had made loans to three public water systems as follows:

<u>Water System</u>	<u>Authorized Loan Amount</u>	<u>Balance on Loans Outstanding</u>
Town of Church Point	\$2,500,000	\$1,111,761
City of Oakdale	1,500,000	788,814
Water District of Denham Springs Ward 2	<u>9,000,000</u>	<u>1,230,589</u>
Total	<u><u>\$13,000,000</u></u>	<u><u>\$3,131,164</u></u>

**5. CONTRIBUTED CAPITAL AND
RETAINED EARNINGS**

The DWRLF has been awarded three federal grants from the EPA. These grants are available through the EPA's Automated Clearing House Payment System (ACH). These grants are authorized by the Safe Drinking Water Act Amendments of 1996 and require matching funds from the state. The grants are used to fund infrastructure projects and other program (set-aside) activities. As of June 30, 2000, the EPA has awarded grants of \$40,797,200 to the state, of which \$4,037,165 has been drawn, \$2,427,591 for loans and \$1,609,574 (see note 6) for set-aside activities. The state has provided total matching funds through the year ended June 30, 2000, of \$6,347,105. The following summarizes the grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans and set-aside expenses:

LEGISLATIVE AUDITOR

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
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STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

<u>Year</u>	<u>Grant Amount</u>	<u>Cumulative Dollars Drawn as of June 30, 1999</u>	<u>Current Fiscal Year Draws</u>	<u>Cumulative Dollars Drawn as of June 30, 2000</u>	<u>Remaining Grant Dollars Available as of June 30, 2000</u>
1997	\$20,420,300	\$699,762	\$3,337,403	\$4,037,165	\$16,383,135
1998	9,949,200				9,949,200
1999	10,427,700				10,427,700
Total	<u>\$40,797,200</u>	<u>\$699,762</u>	<u>\$3,337,403</u>	<u>\$4,037,165</u>	<u>\$36,760,035</u>

The state has provided its required matching share of federal grant awards through appropriations of General Fund and state capital outlay funds. Cash contributions from General Fund and capital outlay appropriations have totaled \$6,347,105. Matching contributions are as follows:

	<u>Cumulative State Match as of June 30, 1999</u>	<u>2000 Contribution</u>	<u>Cumulative State Match as of June 30, 2000</u>
State cash contribution	<u>\$4,347,105</u>	<u>\$2,000,000</u>	<u>\$6,347,105</u>

<u>Components of Contributed Capital and Retained Earnings</u>	<u>Amount</u>
Contributed capital:	
Environmental Protection Agency	\$2,427,591
State of Louisiana match	6,347,105
Total contributed capital	<u>8,774,696</u>
Retained earnings - unreserved:	
Cumulative loan interest earnings	17,931
Cumulative treasury interest earnings	693,551
Administrative fee deposit	2,599
Total retained earnings - unreserved	<u>714,081</u>
Contributed Capital and Retained Earnings	<u><u>\$9,488,777</u></u>

LEGISLATIVE AUDITOR

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
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STATE OF LOUISIANA
Notes to the Financial Statements (Continued)**

6. SET-ASIDE EXPENSES

A portion of the federal grant amounts awarded by the EPA are allocated to fund set-aside activities as follows:

- Four percent for administrative costs of operating the revolving loan program
- Two percent to provide technical assistance to small water systems
- Ten percent for state program management
- Fifteen percent of the 1997 grant award to fund source water protection implementation

The following schedule presents each grant, the amount allocated for set-aside activities from each grant, the cumulative expenses incurred and drawn for set-aside activities, and the amount available to be drawn from the EPA for future set-aside activities.

<u>Grant Source</u>	<u>4% Amount From Grant for Administrative Cost</u>	<u>2% Amount From Grant for Small System Technical Assistance</u>	<u>10% Amount From Grant for State Program Management</u>	<u>15% Amount From Grant for Source Water Protection Implementation</u>	<u>Total Amount From Grants for Set-aside Costs</u>	<u>Costs Incurred</u>	<u>Amount Available for Draw From EPA for Set-aside Costs</u>
FS996968-01-0	\$816,812	\$408,406	\$2,042,030	\$3,063,045	\$6,330,293	\$1,609,574	\$4,720,719
FS996968-02-0	397,968	198,984	994,920		1,591,872		1,591,872
FS996968-03-0	417,108	208,554	1,042,770		1,668,432		1,668,432
Total	<u>\$1,631,888</u>	<u>\$815,944</u>	<u>\$4,079,720</u>	<u>\$3,063,045</u>	<u>\$9,590,597</u>	<u>\$1,609,574</u>	<u>\$7,981,023</u>

Set-aside expenses are summarized as follows:

	<u>2000</u>	<u>1999</u>
Administration	\$81,359	\$520,763
Small system technical assistance	148,664	19,429
State programs	585,294	57,965
Source water implementation	94,495	101,605
Total	<u>\$909,812</u>	<u>\$699,762</u>

LEGISLATIVE AUDITOR

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
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STATE OF LOUISIANA**
Notes to the Financial Statements (Concluded)

7. LITIGATION AND CLAIMS

Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by legislative appropriation. The DWRLF has no lawsuits outstanding at June 30, 2000.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133**

The following pages contain a report on compliance with requirements applicable to the Capitalization Grants for Drinking Water Revolving Funds Program and on internal control over compliance with the requirements applicable to the program, as required by *Government Auditing Standards*, issued by the Comptroller General of the United States, and by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

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April 6, 2001

Report on Compliance With Requirements Applicable to the Capitalization
Grants for Drinking Water State Revolving Funds Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH AND
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STATE OF LOUISIANA
Baton Rouge, Louisiana**

Compliance

We have audited the compliance of the Louisiana Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality - Drinking Water State Revolving Loan Fund with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to the Capitalization Grants for the Drinking Water State Revolving Funds Program (CFDA 66.468) for the years ended June 30, 2000 and 1999. Compliance with the requirements of laws, regulations, contracts, and grants applicable to this federal program is the responsibility of management of the Louisiana Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality. Our responsibility is to express an opinion on the Drinking Water Revolving Loan Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted of the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the Environmental Protection Agency's *Clean Water State Revolving Fund* audit guide. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance, with the types of compliance requirements referred to above that could have a direct and material effect on the program, occurred. An audit includes examining, on a test basis, evidence about the Drinking Water Revolving Loan Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Drinking Water Revolving Loan Fund's compliance with those requirements.

In our opinion, the Louisiana Department of Health and Hospitals, Office of Public Health and the Department of Environmental Quality - Drinking Water Revolving Loan Fund complied, in all material respects, with the requirements referred to previously that are applicable to its Capitalization Grants for Drinking Water State Revolving Funds Program for the years ended

EXHIBIT A

LEGISLATIVE AUDITOR

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH
AND DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Compliance and Internal Control Report

April 6, 2001

Page 2

June 30, 2000 and 1999. However, the results of our auditing procedures disclosed the following instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133.

Failure to Submit Financial Reports Timely

The Department of Health and Hospitals, Office of Public Health (DHH-OPH) did not submit annual financial status reports to the Environmental Protection Agency (EPA) in the time frame prescribed by federal regulations. The grant agreements with the EPA to administer the Drinking Water Revolving Loan Fund (CFDA 66.468, Capitalization Grants for Drinking Water State Revolving Fund) require that annual financial status reports be submitted to the EPA. The Code of Federal Regulations [40 CFR 31.41(b)(4)] states that, when required on an annual basis, the financial status reports are due within 90 days of the grant period. The annual financial status reports for one grant awarded September 4, 1998, which were due December 4, 1999, and December 4, 2000, were not submitted until January 25, 2001. Also, the annual financial status report for another grant awarded September 13, 1999, which was due December 13, 2000, was not submitted until January 25, 2001. Management was not aware of the annual reporting deadlines. Failure to submit timely reports subjects the fund to noncompliance with federal regulations.

Management should submit annual financial status reports by the due dates required by federal regulations. Management stated that these conditions occurred because it was unaware of the requirement for annual interim reporting, and it outlined a plan of corrective action. Management stated that it had planned to submit financial status reports at the end of the grant period based on its understanding of federal regulations (see Appendix A).

Additional Comment: Federal regulations allow the awarding federal agency to specify how often financial status reports are to be submitted. The assistance agreements with EPA require that DHH-OPH submit annual as well as final financial status reports for each grant.

Internal Control Over Compliance

Management of DHH-OPH and the Department of Environmental Quality - Drinking Water Revolving Loan Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to this federal program. In planning and performing our audit, we considered DHH-OPH and the Department of Environmental Quality - Drinking Water Revolving Loan Fund's internal control

LEGISLATIVE AUDITOR

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH
AND DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Compliance and Internal Control Report

April 6, 2001

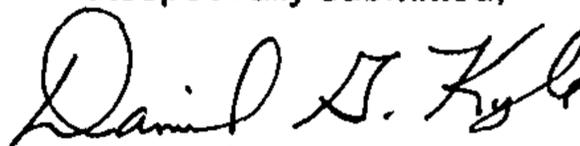
Page 3

over compliance with requirements that could have a direct and material effect on its Capitalization Grants for Drinking Water State Revolving Funds Program (CFDA 66.468), in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to this federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of management of DHH-OPH and the Department of Environmental Quality and the federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

CRV:BMc:PEP:dl

[DWRLF00]

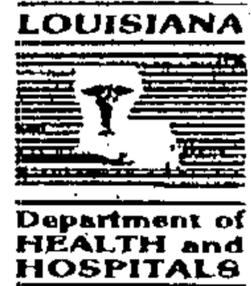
EXHIBIT A

Appendix A

Management's Corrective Action Plan and Response to the Finding and Recommendation



STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



M.J. "Mike" Foster, Jr.
GOVERNOR

David W. Hood
SECRETARY

March 21, 2001

Daniel G. Kyle, Ph.D., CPA, CPE
Legislative Auditor
State of Louisiana
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

This is in response to your letter dated March 9, 2001 in reference to the reportable audit finding related to our non-compliance with the Environmental Protection Agency (EPA) reporting requirements for the Drinking Water Revolving Loan Fund Grants.

Until your office notified us, we were unaware of the requirement for annual interim reporting for these grants. In fact, EPA did not notify us during this two- (2) year period that we were not in compliance. Since the grant periods for these grants are still open, we were planning to submit the financial status reports within 90 days after the end of the grant period as stipulated in the federal regulations. However, as a result of your inquiry to EPA, a clarification was given to your office that they wanted interim annual reports during the grant period. We have scheduled this reporting requirement and will comply in the future.

Sincerely,

Pershing Delaup
Administrator

Cc: Stan Mead, Director
DHH/OMF Fiscal Management
T. Jay Ray, Manager
OPH Drinking Water Revolving Loan Fund
Darryl Serio, Director
DEQ Finance Division