

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



FINANCIAL STATEMENT AUDIT
FOR THE YEAR ENDED JUNE 30, 2010
APRIL 13, 2011

**LEGISLATIVE AUDITOR
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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

March 3, 2011

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of management of the Drinking Water Revolving Loan Fund program. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 audit provides a reasonable basis for our opinion.

As discussed in note 1, the accompanying financial statements present only the Drinking Water Revolving Loan Fund, and do not purport to, and do not, present fairly the financial position of the State of Louisiana, the Louisiana Department of Health and Hospitals, or the Office of Public Health and its changes in financial position, including cash flows, in conformity with accounting principles generally accepted in the United States of America.

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 - Drinking Water Revolving Loan Fund as of June 30, 2010, and its changes in financial position, including cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 3, 2011, on our consideration of the Drinking Water Revolving Loan Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

In addition, we have issued a report dated March 3, 2011, on our consideration of the Drinking Water Revolving Loan Fund's internal control over compliance with certain laws and regulations, and our tests of its compliance with those laws and regulations, in accordance with the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*.

Our audit was conducted for the purpose of forming an opinion on the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund's financial statements. The accompanying supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Drinking Water Revolving Loan Fund. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

KSH:WDG:EFS:THC:kg

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

Statement of Net Assets, June 30, 2010

ASSETS

Current assets:

Cash in state treasury (note 2)	\$26,628,164
Receivables - due from others (note 3)	5,072,303
Total current assets	<u>31,700,467</u>

Noncurrent assets - loans receivable (note 4)	90,983,688
Total assets	<u><u>122,684,155</u></u>

LIABILITIES

Current liabilities - accounts payable and accruals (note 6)	<u>362,932</u>
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NET ASSETS - unrestricted	<u><u>\$122,321,223</u></u>
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The accompanying notes are an integral part of this statement.

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

**Statement of Revenues, Expenses, and
Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2010**

OPERATING REVENUES

Federal funds - set-aside programs	\$1,634,927
Federal funds - American Recovery and Reinvestment Act	3,152,321
Interest earned on loans receivable	2,860,846
Interest earned on cash in state treasury	114,205
Administrative fees	417,279
Total operating revenues	<u>8,179,578</u>

OPERATING EXPENSES

Set-aside expenses (note 5)	1,634,927
Bond issuance costs (note 7)	44,145
Interest expense	225
Principal forgiveness - American Recovery and Reinvestment Act	3,152,321
Total operating expenses	<u>4,831,618</u>

OPERATING INCOME

	3,347,960
Capital contributions	<u>17,229,774</u>

CHANGE IN NET ASSETS

	20,577,734
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NET ASSETS - BEGINNING OF YEAR

	<u>101,743,489</u>
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NET ASSETS - END OF YEAR

	<u><u>\$122,321,223</u></u>
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The accompanying notes are an integral part of this statement.

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

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from interest on loans	\$2,762,155
Cash received from interest on cash in state treasury	119,248
Cash received from administrative fees	402,151
Cash received from repayment of loan principal	4,602,141
Cash received from allocations for set-aside programs	1,722,845
Cash received from American Recovery and Reinvestment Act	3,152,321
Cash payments for set-aside programs	(1,722,845)
Cash payments to borrowers	(24,155,889)
Net cash used by operating activities	<u>(13,117,873)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Contributed capital - Environmental Protection Agency	17,229,774
Proceeds from issuance of bonds	5,255,855
Principal paid on bonds	(5,300,000)
Bond interest expense	(225)
Net cash provided by noncapital financing activities	<u>17,185,404</u>

NET INCREASE IN CASH 4,067,531

CASH AT BEGINNING OF YEAR 22,560,633

CASH AT END OF YEAR \$26,628,164

**RECONCILIATION OF OPERATING INCOME TO NET CASH
USED BY OPERATING ACTIVITIES:**

Operating income	\$3,347,960
Adjustments to reconcile operating income to net cash used by operating activities:	
Bond issue costs	44,145
Bond interest expense	225
Changes in assets and liabilities:	
(Increase) in accounts receivable	(25,902)
Decrease in due from others	5,043
(Increase) in loans receivable	(16,401,426)
(Decrease) in accounts payable and accrued expenses	(87,918)
Net cash used by operating activities	<u><u>(\$13,117,873)</u></u>

The accompanying notes are an integral part of this statement.

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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 (R.S.) 36:251(c) and 258(b) 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 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 publicly and privately owned community water systems and nonprofit noncommunity water systems for projects eligible under the SDWA. The DWRLF program presently operates under R.S. 40:2821-2826. These statutes establish a DWRLF program capitalized by federal grants (Capitalization Grants for Drinking Water State Revolving Fund, CFDA 66.468), state funds when required or available, and any other funds generated by the operation of the program. 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, local assistance, and other state programs. 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 and administration of the DWRLF program. DHH-OPH is authorized to apply for and accept capitalization grants from the United States Environmental Protection Agency (EPA), to establish assistance priorities, to perform oversight and other related activities, and to provide financial administration of the set-aside and 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 is recorded and the DWRLF subsequently reimburses DHH-OPH for salaries and benefits as well as other operating expenses of the fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. Management of the fund applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Management has elected to follow GASB statements issued after November 30, 1989, rather than the FASB statements.

B. REPORTING ENTITY

GASB Codification Section 2100 establishes criteria for determining the governmental reporting entity and 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, a department within state government. The DWRLF is part of the primary government of the State of Louisiana.

Annually, the State of Louisiana issues a comprehensive annual financial report, which includes the activity contained in the accompanying financial statements. Those basic financial statements are audited by the Louisiana Legislative Auditor.

C. FUND ACCOUNTING

For the purposes of this report, the DWRLF uses a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The transactions of the DWRLF are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the Statement of Net Assets.

The DWRLF uses the accrual basis of accounting. Revenues are recognized in the accounting period when they are earned and expenses are recognized when the related liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the DWRLF are federal funds and interest earnings. Operating expenses include the set-aside expenses.

E. BUDGETS AND BUDGETARY ACCOUNTING

The DWRLF is budgeted annually by the Louisiana Legislature. The set-aside activities are budgeted as part of the operations of DHH-OPH in the General Appropriations Act. The Ancillary Appropriations Act (Act 40 of the 2009 Regular Session as amended) authorized expenditures of \$34,000,000 for the base loan program and \$27,311,000 from the American Recovery and Reinvestment Act of 2009 (ARRA) for fiscal year 2009-2010 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 neither required nor presented in the financial statements.

F. 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. For every \$5 provided by the federal government, the state is required to provide a matching share of \$1. The effective match share reflects a federal rate of 83.33% and a state rate of 16.67%. 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. In addition, with EPA approval, interest earnings on investments and loans are used to pay off revenue bonds sold to capitalize the program by providing state matching funds.

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 2.95% for new water construction/water system rehabilitation projects. In addition, water systems are charged an administrative fee of 0.5% on outstanding loan balances payable semiannually. Interest and administrative fees are calculated from the date that funds are advanced and after the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed.

As evidence of its obligations to pay principal and interest on the loans, each borrower must establish a dedicated source of revenue (or in the case of a privately owned system, demonstrate that there is adequate security) for repayment of the loan [42 USC 300j-12(f)(1)(C)]. For substantially all of these loans, the loan recipient issues bonds that are purchased by DHH-OPH, as administrator of the DWRLF, to secure the repayment of the principal loaned. Principal and interest on the bonds are paid to the DWRLF and upon repayment of the loan, the bonds are returned to the loan recipient. Minimum required

coverage ratios are established depending on the nature of the bonded indebtedness issued by the loan recipient as follows:

For limited tax bonds, the principal and interest due in any year on the amount borrowed shall not exceed 75% of the revenues estimated to be received from the levy of the pledged millage in the year in which the indebtedness is issued (R.S. 39:742.2).

For sales tax bonds, the total amount of principal and interest falling due in any year, together with principal and interest falling due in such year on any previously issued sales tax bonds, shall never exceed 75% of the amount of sales tax revenues estimated by the governing authority of the issue to be received by it in the calendar year in which the bonds are issued (R.S. 39:698.4).

For revenue bonds, the requirements for coverage are established contractually in the loan documents (R.S. 39:1019). Expected coverage ratios might range from 110% to 130% or more. The DWRLF goal for collections of the dedicated revenues for repayment of the loan secured by revenue bonds is 125%; however, many factors can create deviation from this goal. It is customary to use the same minimum required coverage ratio as was previously established for outstanding debt of the loan recipient.

For general obligation bonds, the requirements for coverage are statutorily set. The governing authority of the issuer is required to impose and collect annually, in excess of all other taxes, a tax on all property subject to taxation by the issuer sufficient in amount to pay the interest and the principal falling due each year, or such amount as may be required for any sinking fund necessary to retire said bonds at maturity (R.S. 39:569). Typically, the bond millage is adjusted each year so as to generate enough revenues to pay debt service in the ensuing calendar year. No coverage requirements or debt service reserves exist because the tax can be adjusted each year *without any limitation whatsoever* to collect the appropriate amount each year.

In the case of sales tax bonds and revenue bonds, 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. The requirement to maintain a debt service reserve fund is not statutorily required, but is usual and customary for these kinds of indebtedness.

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

G. NET ASSETS

Net assets comprise the various net earnings from operations, nonoperating revenues, and contributions of capital. Net assets generally are classified in the following components:

Invested in capital assets, net of related debt consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets subject to external constraints placed on net asset use by creditors, grantors, contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of all other net assets that are not included in the other categories previously mentioned.

H. CAPITAL CONTRIBUTIONS

The funds drawn for loans from the EPA capitalization grants authorized by the Safe Drinking Water Act Amendments of 1996 are recorded as capital contributions. Funds drawn for loans authorized by ARRA are recorded as capital contributions if not provided to the water systems as principal forgiveness.

I. COMPENSATED ABSENCES

DHH-OPH provides employees to work on the DWRLF program. Compensated absences, pension benefits, and postretirement benefits are provided and recorded by the department and allocated to the fund based on time worked. These allocated expenses are included in the fund financial statements; however, no liability for compensated absences or postemployment benefits is recorded in the fund financial statements and no disclosures for compensated absences, pension benefits, or postretirement benefits are included in the fund financial statements, as the ultimate liability is with the department, rather than the fund.

J. ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH IN STATE TREASURY

As reflected on Statement A, the DWRLF has cash totaling \$26,628,164 at June 30, 2010. 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. RECEIVABLES - DUE FROM OTHERS

As shown on Statement A, the DWRLF has a total due from others of \$5,072,303. This total is comprised of the following:

Due from the federal government - set-aside programs	\$362,932
Due from water systems	4,700,531
Due from state treasury - interest	<u>8,840</u>
 Total	 <u><u>\$5,072,303</u></u>

Of the \$4,700,531 due from water systems, \$4,081,033 is the current portion of the principal due, \$540,361 is loan interest, and \$79,137 is administrative fees on loans.

4. NONCURRENT ASSETS - 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 two years after the closing date of the loan or one year after the project is completed, whichever occurs first. As of June 30, 2009, 31 projects are complete and the remaining loan commitment balance (loans authorized less loans disbursed) totals \$71,491,410. Loans mature at various intervals through June 1, 2036. The scheduled principal payments on loans maturing in subsequent years are as follows:

Year ending June 30:	
2011	\$4,081,033
2012	4,930,592
2013	4,928,000
2014	5,115,700
2015	5,468,116
2016-2019	23,422,796
2020-2024	29,502,619
2025-2029	15,540,673
2030-2034	1,929,702
2035-2036	<u>145,490</u>
 Total loans receivable	 <u><u>\$95,064,721</u></u>
 Long-term receivable portion	 <u><u>\$90,983,688</u></u>

As of June 30, 2010, the DWRLF had made 96 loans to 47 water systems as follows:

Water System	Authorized Loan Amount		Loans Outstanding	
	Base	ARRA	Base	ARRA
ACUD	\$700,000	\$300,000	\$35,000	
Ascension Water Co., Inc.	6,000,000		5,140,000	
Ascension Water Co., Inc. #2	5,000,000		3,257,952	
Bayou Des Cannes Water System, Inc.	1,555,820	666,700	169,340	
Buckeye Water District #50, Inc.	400,000		386,000	
Buckeye Water District #50, Inc., Loan #2	458,000	684,000	344,177	\$258,133
Calcasieu WWD #8 Series A		384,000		113,421
Calcasieu WWD #8 Series B	257,000		181,626	
Calcasieu WWD #8 Series C	209,000		201,000	
City of Alexandria	3,390,000	1,000,000	738,701	
City of Baker	2,200,000	2,000,000	81,688	16,500
City of Bogalusa	3,000,000	2,000,000	414,066	78,811
City of Mansfield	3,120,000	1,000,000	1,232,187	
City of Monroe	3,000,000		2,785,000	
City of Natchitoches	3,500,000		2,569,000	
City of Natchitoches 2	3,000,000	2,000,000	380,578	43,808
City of Oakdale	1,492,412		1,057,412	
City of Ruston	1,334,000	2,000,000	999,450	193,023
City of Shreveport #1	7,000,000		5,140,000	
City of Shreveport #2	7,000,000		5,140,000	
City of Shreveport #3	5,540,000		4,065,000	
City of Springhill	7,500,000		7,203,558	
City of Thibodaux	5,400,000	1,000,000	405,827	
City of Ville Platte Loan	2,050,000	2,000,000	449,396	74,616
City of Westlake	3,739,906		2,959,906	
City of Westlake Loan 2	2,030,000	870,000	862,635	
Colyell Community Water System	948,600		693,800	
Colyell Community Water System #2	900,000		743,332	
Culbertson Water System, Inc.	598,226		210,000	

DRINKING WATER REVOLVING LOAN FUND

Water System	Authorized Loan Amount		Loans Outstanding	
	Base	ARRA	Base	ARRA
DeSoto Parish WWD #1	\$2,350,000		\$1,724,000	
DeSoto Parish WWD #1 Loan 2	1,652,000	\$708,000	308,203	
East Allen Parish WWD	900,000	385,000	116,437	
French Settlement	770,067		744,000	
Gardner Community Water Association, Inc.	987,000	423,000	244,451	
Iberville Parish WWD #2	1,300,000	1,950,000	587,936	\$222,944
Kolin Ruby Wise Water District No. 11	385,000	165,000	123,406	
Lafayette Waterworks Dist. North	2,800,000		2,435,587	
Morgan City Series A		1,000,000		
Morgan City Series B	1,750,000		1,131,487	
Morgan City Series W	1,234,000		420,907	
Natchitoches WWD#2-BAN	649,276			
Natchitoches WWD#2-Bond	3,500,000		2,950,665	
New Iberia - Louisiana Water Co.	6,000,000		5,370,000	
New Iberia - Louisiana Water Co. #2	3,500,000		3,380,000	
New Orleans Sewerage & Water Board	1,600,000	1,800,000	46,500	34,875
Point Wilhite Water System, Inc.	925,000		908,972	
Savoy Swords Water System, Inc.	907,238		846,203	
Savoy Swords Water System, Inc. #2	620,200	265,800	194,118	
Shreveport #4	9,000,000	2,000,000	1,332,410	870,848
Southwest Allen Parish WWD2	696,500	298,500	41,653	
Town of Baldwin	1,249,627		832,000	
Town of Blanchard Loan	2,657,000	1,000,000	1,907,996	
Town of Church Point	2,500,000		1,545,000	
Town of Delhi	7,500,000		1,620,069	
Town of Franklin	1,894,000	811,000	666,087	
Town of Many #1	998,522			
Town of Many #2	1,075,320			
Town of Many #3	1,470,192		333,192	
Town of Pollock	371,000	159,000	61,802	
Town of Slaughter-1	1,355,000		1,278,490	
Town of Slaughter-2	842,400		601,523	
Town of Slaughter-3	157,600			
Town of Walker	364,000	156,000	275,938	
United Water System, Inc.	360,333		348,333	
United Water System, Inc. #2	667,000	285,000	226,786	
Village of Quitman	480,000		354,500	
Ward 2, Water Dist., Livingston Parish	9,000,000		6,200,000	
Ward 2, Water Dist., Livingston Parish	5,984,678		5,305,000	
West Winnsboro	648,093		411,000	
West Winnsboro #2	467,460		436,460	
Subtotal	162,891,470	27,311,000	93,157,742	1,906,979
Total		\$190,202,470		\$95,064,721

The DWRLF has been awarded 13 federal grants from the EPA. These grants are available through the EPA's Automated Clearing House Payment System and the Automated Standard Application for Payments System. Twelve grants are authorized by the Safe Drinking Water Act Amendments of 1996 and require matching funds from the state. The thirteenth grant is funded under ARRA and requires no matching funds from the state. As of June 30, 2010, the EPA has awarded grants of \$169,185,700 to the state of which \$114,490,641 has been drawn, \$97,452,274 for loans and \$17,038,367 for set-aside activities. The state has provided matching funds

through the year ended June 30, 2010, of \$24,035,425. The following summarizes the grants awarded, amounts drawn of each grant as of the balance sheet date, and balances available for future loans and set-aside expenses:

<u>Grant Source</u>	<u>Grant Amount</u>	<u>Cumulative Dollar Draws Set-Asides</u>	<u>Cumulative Dollar Draws Loans</u>	<u>Total Cumulative Dollars Drawn as of June 30, 2010</u>	<u>Remaining Grant Dollars Available as of June 30, 2010</u>
FS996968-01-2	\$20,420,300	\$4,307,056	\$16,113,244	\$20,420,300	
FS996968-02-2	9,949,200	1,553,988	8,395,212	9,949,200	
FS996968-03-0	10,427,700	1,642,927	8,784,773	10,427,700	
FS996968-04-0	10,837,400	1,070,826	9,766,574	10,837,400	
FS996968-05-0	18,934,800		18,934,800	18,934,800	
FS996968-06-0	8,004,100	1,311,487	6,692,613	8,004,100	
FS996968-07-0	8,303,100	1,470,000	6,833,100	8,303,100	
FS996968-08-0	8,285,500	1,165,000	7,120,500	8,285,500	
FS996968-09-0	11,658,600	1,511,662	9,752,158	11,263,820	\$394,780
FS996968-10-0	11,659,000	236,662		236,662	11,422,338
FS996968-11-0	11,540,000	1,909,414		1,909,414	9,630,586
FS996968-12-0	11,540,000	831,251		831,251	10,708,749
2F-96692001-0	27,626,000	28,094	5,059,300	5,087,394	22,538,606
	<u>\$169,185,700</u>	<u>\$17,038,367</u>	<u>\$97,452,274</u>	<u>\$114,490,641</u>	<u>\$54,695,059</u>

The state has provided its required matching share of federal grant awards through General Fund appropriations and the sale of revenue bonds. Cash contributions from General Fund appropriations and sales of revenue bonds have totaled \$24,035,425. Matching contributions are as follows:

	<u>Cumulative State Match as of June 30, 2009</u>	<u>2010 Contribution</u>	<u>Cumulative State Match as of June 30, 2010</u>
State cash contribution	<u>\$18,779,570</u>	<u>\$5,255,855</u>	<u>\$24,035,425</u>

5. SET-ASIDE EXPENSES

A portion of the federal grant amounts awarded by the EPA can be specified to fund set-aside activities as follows:

- Up to 4% to provide administrative and technical assistance
- Up to 2% to provide technical assistance to small water systems

DRINKING WATER REVOLVING LOAN FUND

- Up to 10% to provide state program management
- Up to 15% to provide assistance in the development and implementation of local drinking water protection initiatives and other local assistance and state programs

Set-aside expenses are summarized as follows:

	2010	Prior Years	Total
Administration	\$436,486	\$3,289,060	\$3,725,546
Small system technical assistance	105,674	1,657,808	1,763,482
State programs	1,064,673	8,355,922	9,420,595
Local assistance and state programs		2,151,202	2,151,202
ARRA overtime pay	28,094		28,094
Total	\$1,634,927	\$15,453,992	\$17,088,919

The amount of 2010 set-aside expenses of \$1,634,927 includes accruals of \$362,932.

6. PAYABLES

The following is a summary of payables and accrued expenses at June 30, 2010:

Vendor payables	\$312,380
Payroll accrual	50,552
Total	\$362,932

7. LONG-TERM LIABILITIES

The following is a summary of bonds and other long-term debt transactions of the fund for the year ended June 30, 2010:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Portion Due Within One Year
Bonds payable	NONE	\$5,300,000	(\$5,300,000)	NONE	NONE

The fund is allowed by CFR 35.3550(g)(3) to issue general obligation or revenue bonds to derive the state match. Furthermore, the secretary of DHH, through a Resolution by Executive Order pursuant to R.S. 30:2011 *et seq.*, was authorized, for state matching purposes, to borrow through the issuance of the department’s note to the Louisiana Public Facilities Authority (LPFA), a conduit issuer of serial bonds for the department and the state.

The serial bond issue, Louisiana Public Facilities Authority Revenue Bonds (Drinking Water Revolving Loan Fund Match Project) Series 2006, was issued during the fiscal year ending June 30, 2006, in an amount up to \$7,300,000. This Indenture of Trust was issued between the LPFA and Hancock Bank of Louisiana. This indebtedness was secured solely from the pledge of a portion of the revenues received by the department from loans made by the program (interest earned on loans receivable and interest earned on cash in state treasury).

The LPFA is a public trust and public corporation organized and existing for the benefit of the State of Louisiana. At the same time as the issuance of the serial bonds described above, a loan agreement was executed between LPFA and DHH for a total of \$7,300,000 to facilitate the payment of bond principal and interest. On August 28, 2008, an additional agreement was executed for \$5,000,000, on March 10, 2009, an additional agreement was executed for \$1,000,000, and on May 20, 2010, an additional agreement was executed for \$5,000,000 for a total of \$18,300,000. Of the \$18,300,000, \$1,000,000 was issued during fiscal year 2006; \$1,500,000 was issued during fiscal year 2007; \$2,250,000 was issued during fiscal year 2008; \$2,250,000 was issued during fiscal year 2009; and \$5,300,000 was issued during fiscal year 2010.

As of June 30, 2010, a total of \$12,153,468 was generated for matching fund purposes by the issuance of these serial bonds. Bond issue costs of \$146,532 were absorbed by bond proceeds and are, therefore, not required to be charged against the 4% administrative costs allowance in accordance with Drinking Water State Revolving Fund program guidelines. The \$5,300,000 of bond issued was repaid before the end of the fiscal year; therefore, no liability exists at June 30, 2010.

8. 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, 2010.

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SUPPLEMENTAL INFORMATION SCHEDULES
As of and for the Year Ended June 30, 2010

The Drinking Water Revolving Loan Fund is considered one fund, which is comprised of a loan element and an administrative and state match element. The U.S. Environmental Protection Agency requested information on each of these elements. The supplementary information schedules 1 through 3 provide the details requested by the U.S. Environmental Protection Agency.

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

Schedule of Net Assets, by Account, June 30, 2010

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Current assets:			
Cash in state treasury	\$24,152,084	\$2,476,080	\$26,628,164
Receivables - due from others	4,992,250	80,053	5,072,303
Total current assets	<u>29,144,334</u>	<u>2,556,133</u>	<u>31,700,467</u>
Noncurrent assets - loans receivable	90,983,688	NONE	90,983,688
Total assets	<u>120,128,022</u>	<u>2,556,133</u>	<u>122,684,155</u>
LIABILITIES			
Current liabilities - accounts payable and accruals	<u>362,932</u>	NONE	<u>362,932</u>
NET ASSETS - unrestricted	<u>\$119,765,090</u>	<u>\$2,556,133</u>	<u>\$122,321,223</u>

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

**Schedule of Revenues, Expenses, and
Changes in Fund Net Assets, by Account
For the Fiscal Year Ended June 30, 2010**

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
OPERATING REVENUES			
Federal funds - set-aside programs	\$1,634,927		\$1,634,927
Federal funds - ARRA	\$3,152,321		3,152,321
Interest earned on loans receivable	2,860,846		2,860,846
Interest earned on cash in state treasury	103,357	\$10,848	114,205
Administrative fees		417,279	417,279
Total operating revenues	7,751,451	428,127	8,179,578
OPERATING EXPENSES			
Set-aside expenses	1,634,927		1,634,927
Bond issue costs	44,145		44,145
Interest expense	225		225
Principal forgiveness	3,152,321		3,152,321
Total operating expenses	4,831,618	NONE	4,831,618
OPERATING INCOME	2,919,833	428,127	3,347,960
Capital contributions	17,229,774		17,229,774
CHANGE IN NET ASSETS	20,149,607	428,127	20,577,734
NET ASSETS - BEGINNING OF YEAR	99,615,483	2,128,006	101,743,489
NET ASSETS - END OF YEAR	\$119,765,090	\$2,556,133	\$122,321,223

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

**Schedule of Cash Flows, by Account
For the Fiscal Year Ended June 30, 2010**

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
Cash flows from operating activities			
Cash received from interest on loans	\$2,762,155		\$2,762,155
Cash received from interest on cash in state treasury	108,046	\$11,202	119,248
Cash received from administrative fees		402,151	402,151
Cash received from repayment of loan principal	4,602,141		4,602,141
Cash received from allocations for set-aside programs	1,722,845		1,722,845
Cash payments for set-aside expenses	(1,722,845)		(1,722,845)
Cash payments to borrowers	(24,155,889)		(24,155,889)
Cash payments to borrowers - forgiven	3,152,321		3,152,321
Net cash provided (used) by operating activities	<u>(13,531,226)</u>	<u>413,353</u>	<u>(13,117,873)</u>
Cash flows from noncapital financing activities			
Contributed capital - EPA	17,229,774		17,229,774
Proceeds from issuance of bonds	5,255,855		5,255,855
Principal paid on bonds	(5,300,000)		(5,300,000)
Bond interest expense	(225)		(225)
Net cash provided by noncapital financing activities	<u>17,185,404</u>	<u>NONE</u>	<u>17,185,404</u>
Net increase in cash	3,654,178	413,353	4,067,531
Cash at beginning of the year	<u>20,497,906</u>	<u>2,062,727</u>	<u>22,560,633</u>
Cash at end of the year	<u>\$24,152,084</u>	<u>\$2,476,080</u>	<u>\$26,628,164</u>

(Continued)

**DRINKING WATER REVOLVING LOAN FUND
DEPARTMENT OF HEALTH AND HOSPITALS,
OFFICE OF PUBLIC HEALTH
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND
Schedule of Cash Flows, by Account, 2010**

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$2,919,833	\$428,127	\$3,347,960
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Bond issue costs	44,145		44,145
Bond interest expense	225		225
Changes in assets and liabilities:			
(Increase) in accounts receivable	(10,774)	(15,128)	(25,902)
Decrease in due from others	4,689	354	5,043
(Increase) in loans receivable	(16,401,426)		(16,401,426)
(Decrease) in accounts payable and accrued expenses	(87,918)		(87,918)
Net cash provided (used) by operating activities	<u><u>(\$13,531,226)</u></u>	<u><u>\$413,353</u></u>	<u><u>(\$13,117,873)</u></u>

(Concluded)

**OTHER REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND THE
ENVIRONMENTAL PROTECTION AGENCY AUDIT GUIDE
FOR CLEAN WATER AND DRINKING WATER
STATE REVOLVING FUND PROGRAMS**

The following pages contain reports on compliance and internal control over financial reporting as required by *Government Auditing Standards*, issued by the Comptroller General of the United States, and on internal control and compliance with requirements applicable to the Capitalization Grants for Drinking Water Revolving Funds Program in accordance with the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*.



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

March 3, 2011

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With Government Auditing Standards

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

We have audited the financial statements of the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water State Revolving Loan Fund, as of and for the year ended June 30, 2010, and have issued our report thereon dated March 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Drinking Water Revolving Loan Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the fund's financial statements, will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water State Revolving Loan Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the Department of Health and Hospitals, Office of Public Health, the federal awarding agency, and the Louisiana Legislature 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,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

March 3, 2011

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 the
*Environmental Protection Agency Audit Guide for
Clean Water and Drinking Water State Revolving Fund Programs*

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

Compliance

We have audited the compliance of the Louisiana Department of Health and Hospitals, Office of Public Health - Drinking Water State Revolving Loan Fund with the types of compliance requirements that are applicable to the Capitalization Grants for the Drinking Water State Revolving Funds Program (CFDA 66.468) for the year ended June 30, 2010, as specified by the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. 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. 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 in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*. Those standards 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 - 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 year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements as follows:

**Noncompliance With Subrecipient Monitoring Requirements
for the Capitalization Grants for Drinking Water
State Revolving Funds Program**

The Drinking Water Revolving Loan Fund (DWRLF) failed to obtain, review, and take action on loan recipients' audit reports resulting in noncompliance with the subrecipient monitoring requirements of the Capitalization Grants for Drinking Water State Revolving Funds Program (CFDA 66.468) and DWRLF policy.

Office of Management and Budget Circular A-133 requires states to establish internal control over federally funded programs to provide reasonable assurance that the state is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements. DWRLF's policies require that loan recipients obtain annual audits and submit the audit reports to the DWRLF within six months of the fiscal year-end. Policies further require DWRLF personnel to review the audit reports, identify significant deficiencies and weaknesses, and follow up on corrective action within six months of receiving the report.

Testing of audit reports required from 39 loan recipients disclosed the following conditions:

- For two (5%) loan recipients, audit reports were not received as of the date of our testing. Follow-up letters to notify the loan recipients of their noncompliance were not sent timely, with one letter sent 44 days after the audit report due date and the other letter sent 189 days after the audit report due date.
- For 24 (62%) loan recipients, audit reports were not received timely. The audit reports ranged from 5 to 377 days late.
- For 14 (36%) loan recipients, audit reports received were not reviewed and assessed for follow-up within the required six months, ranging from 19 to 191 days late.

DWRLF's management did not place sufficient emphasis on receiving and reviewing audit reports to ensure compliance with program requirements and fund policies. Failure to adequately monitor audit reports impairs DWRLF's ability to evaluate the operations of loan recipients and their impact on overall compliance with program requirements.

Failure to identify and rectify noncompliance could result in disallowed costs owed to the federal grantor.

Management should implement procedures to ensure that all loan recipients obtain required audits and submit them to DWRLF as required. Management should also implement procedures to review all required audits, identify significant deficiencies and weaknesses, and ensure appropriate corrective action is taken as required by fund policies. Management concurred with the finding and outlined a plan of corrective action (see Appendix A).

Internal Control Over Compliance

Management of the Department of Health and Hospitals, Office of Public Health - 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 the Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund's internal control 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) to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

A deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Management's response to the finding is included in Appendix A. We did not audit the response, and, accordingly, we express no opinion on it.

DRINKING WATER REVOLVING LOAN FUND _____

This report is intended solely for the information and use of management of the Department of Health and Hospitals, Office of Public Health, the federal awarding agency, and the Louisiana Legislature 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,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is written in a cursive style with a large, prominent initial "D".

Daryl G. Purpera, CPA, CFE
Legislative Auditor

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DWRLF10

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



State of Louisiana
Department of Health and Hospitals
Center for Environmental Health Services - DWRLF

February 14, 2011

Mr. Daryl G. Pupera, CPA, Legislative Auditor
1600 NorthThird St.
P.O. Box 94397
Baton Rouge, LA 70804-9397

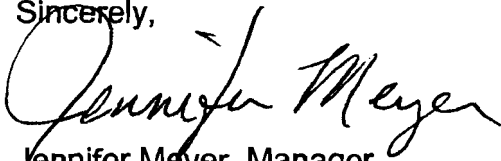
Dear Mr. Pupera:

The Louisiana Department of Health and Hospitals (DHH), Office of Public Health's (OPH) Drinking Water Revolving Loan Fund Program (DWRLF) has prepared this official response to the reported finding of "Non-compliance with Sub-recipient Monitoring Requirements" that was discovered in the process of our fiscal year 2010 legislative audit. The Louisiana DWRLF concurs with the finding by the legislative auditor's office that occurred due to an increased workload and program staffing limitations. The DWRLF Program Manager Jennifer Meyer along with acting Loan Coordinator Joel McKenzie has created a corrective action plan to comply with Office of Management and Budget Circular A-133. Listed below are details of the plan:

- DWRLF management will place an increased emphasis on receiving and reviewing audit reports in a timely manner to ensure compliance with program requirements and fund policies.
- DWRLF personnel will follow up any significant deficiencies and weaknesses identified in the audit reports of current sub-recipient within six months of receiving the report.
- Also, future sub-recipient loan agreements will be written to reflect the allowable follow up period of nine months by Circular A-133 instead of the current program timeframe of six months. This extra time should assist DWRLF personnel in ensuring compliance with program requirements.
- When sub-recipient audit reports are not received by their due dates the DWRLF will begin sending follow up letters in a timely manner (monthly). DWRLF personnel will also obtain sufficient documentation of correspondence with our sub-recipient pertaining to their timely submittal of their audit reports.

Management and staff of the DWRLF will work vigorously to see this finding corrected and will have procedures in place by an anticipated date of April 1, 2011. Thank you for your attention and continuing cooperation with this matter. If you have any questions or comments, please feel free to contact me or my staff at (225) 3420-8355.

Sincerely,



Jennifer Meyer, Manager
Drinking Water Revolving Loan Fund

cc: Joel McKenzie, (acting) Loan Coordinator, DWRLF