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

FINANCIAL STATEMENT AUDIT
ISSUED OCTOBER 21, 2009

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

September 18, 2009

Independent Auditor's Report
on the Financial Statements

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, 2008, 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, 2008, 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.

During August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While there was no significant impact on the Drinking Water Revolving Loan Fund, the long-term effects of these events directly on the fund cannot be determined at this time.

In accordance with *Government Auditing Standards,* we have also issued a report dated September 18, 2009, 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 read in conjunction with this report in assessing the results of our audit.

In addition, we have issued a report dated September 18, 2009, 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,

Steve J. Theriot, CPA
Legislative Auditor

EBT:ETM:BQD:THC:sr

DWRLF08

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, 2008

ASSETS	
Current assets:	
Cash in state treasury (note 2)	$17,579,047
Receivables - due from others (note 3)	4,197,572
Total current assets	21,776,619
Noncurrent assets - loans receivable (note 4)	69,075,319
Total assets	90,851,938
LIABILITIES	
Current liabilities - accounts payable and accruals (note 7)	489,729
NET ASSETS - Unrestricted	$90,362,209

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, 2008

OPERATING REVENUES	
Federal funds - set-aside programs	$1,845,519
Interest earned on loans receivable	2,312,222
Interest earned on cash in state treasury	602,734
Administrative fees	334,923
Total operating revenues	5,095,398
OPERATING EXPENSES	
Set-aside expenses (note 5)	1,845,519
Bond issuance costs (note 8)	15,946
Interest expense	9,180
Total operating expenses	1,870,645
OPERATING INCOME	3,224,753
Capital contributions	9,407,626
CHANGE IN NET ASSETS	12,632,379
NET ASSETS - BEGINNING OF YEAR	77,729,830
NET ASSETS - END OF YEAR	$90,362,209

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, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from interest on loans	$2,263,209
Cash received from interest on cash in state treasury	622,550
Cash received from administrative fees	327,819
Cash received from repayment of loan principal	2,959,310
Cash received from allocations for set-aside programs	1,537,705
Cash payments for set-aside programs	(1,537,705)
Cash payments to borrowers	(11,563,539)
Net cash used by operating activities	(5,390,651)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Contributed capital - Environmental Protection Agency	9,407,626
Proceeds from issuance of bonds	2,234,055
Principal paid on bonds	(2,250,000)
Bond interest expense	(9,180)
Net cash provided by noncapital financing activities	9,382,501
Net increase in cash	3,991,850
Cash at beginning of the year	13,587,197
Cash at end of the year	$17,579,047
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating income	$3,224,753
Adjustments to reconcile operating income to net cash used by operating activities:	
Bond issue costs	15,946
Bond interest expense	9,180
Changes in assets and liabilities:	
(Increase) in accounts receivable	(542,543)
(Increase) in loans receivable	(8,405,707)
Increase in accounts payable and accrued expenses	307,720
NET CASH USED BY OPERATING ACTIVITIES	($5,390,651)

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), by state funds when required or available, and by 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.

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, 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 captured 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 48 of the 2007 Regular Session as amended) authorized expenditures of $34,000,000 for the loan program for fiscal year 2007-2008 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 Environmental Protection Agency (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 3.45% 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, 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.

I. CAPITAL ASSETS

Equipment is valued at historical cost and includes all items valued at or above $5,000. Depreciation of all exhaustible capital assets of the fund is charged as an expense against operations. Depreciation for financial reporting purposes is computed by the straight-line method over the estimated useful life of the asset, generally 5 to 10 years.

J. 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.

K. 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

As reflected on Statement A, the DWRLF has cash totaling $17,579,047 at June 30, 2008. 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 $4,197,572. This total is comprised of the following:

Due from the federal government - set-aside programs	$489,729
Due from water systems	3,671,688
Due from state treasury - interest	36,155
Total due from others	$4,197,572

Of the $3,671,688 due from water systems, $3,103,022 is the current portion of the principal due; $496,683 is loan interest; and $71,983 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 two years after the closing date of the loan or one year after the project is completed, whichever occurs first. As of June 30, 2008, 17 projects are complete and the remaining loan commitment balance (loans authorized less loans disbursed) totals $11,358,800.

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:	
2009	$3,103,022
2010	3,862,520
2011	3,906,875
2012	4,014,893
2013	3,965,519
2014-2018	22,110,200
2019-2023	23,350,912
2024-2028	7,112,910
2029-2033	532,000
2034-2036	219,490
Total loans receivable	$72,178,341
Long-term receivable portion	$69,075,319

As of June 30, 2008, the DWRLF had made loans to 30 water systems as follows:

Water System	Authorized Loan Amount	Loans Outstanding
Town of Baldwin	$1,249,627	$949,000
Town of Church Point	2,500,000	1,790,000
Colyell Community Water Association	948,600	772,800
Culbertson Water System	598,226	455,000
Ward Two Water District of Livingston Parish	9,000,000	6,985,000
Waterworks District No. 1 of DeSoto Parish	2,350,000	1,920,000
Town of Many	3,544,033	1,025,033
City of Oakdale	1,492,412	1,202,412
Village of Quitman	480,000	394,500
City of Shreveport	19,540,000	15,975,000
West Winnsboro Water System	648,093	495,000
City of Natchitoches	3,500,000	2,861,000
Westlake	3,739,906	3,240,905
Ascension	6,000,000	5,585,000
Lafayette	2,800,000	2,595,590
New Iberia	6,000,000	5,795,000
Livingston Ward 2	6,000,000	5,556,092
Monroe	3,000,000	3,000,000
Ascension #2	5,000,000	1,808,309
New Iberia #2	3,500,000	1,496,092
Savoy Swords	1,000,000	710,892
French Settlement	1,000,000	664,662
Springhill	7,500,000	5,245,169
Slaughter	1,355,000	1,329,490
Point Wilhite	925,000	77,519
United Water Systems	400,000	19,575
West Winnsboro #2	500,000	99,000
Buckeye	500,000	56,000
Slaughter #2	842,400	74,301
Slaughter #3	157,600	
Total	$96,070,897	$72,178,341

The DWRLF has been awarded ten 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 and the Automated Standard Application for Payments (ASAP) System. As of June 30, 2008, the EPA has awarded grants of $118,479,700 to the state of which $81,896,059 has been drawn, $68,935,623 for loans and $12,960,436 for set-aside activities. The state has provided matching funds through the year ended June 30, 2008, of $16,545,257. 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:

Grant Source	Grant Amount	Cumulative Dollar Draws Set-Asides	Cumulative Dollar Draws Loans	Total Cumulative Dollars Drawn as of June 30, 2008	Remaining Grant Dollars Available as of June 30, 2008
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	248,407	1,718,407	$6,584,693
FS996968-08-0	8,285,500	1,122,508		1,122,508	7,162,992
FS996968-09-0	11,658,600	373,268		373,268	11,285,332
FS996968-10-0	11,659,000	108,376		108,376	11,550,624
	$118,479,700	$12,960,436	$68,935,623	$81,896,059	$36,583,641

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 $16,545,257. Matching contributions are as follows:

	Cumulative State Match as of June 30, 2007	2008 Contribution	Cumulative State Match as of June 30, 2008
State cash contribution	$14,309,626	$2,235,631	$16,545,257

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
- 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:

	2008	Prior Years	Total
Administration	$352,503	$2,514,492	$2,866,995
Small system technical assistance	189,819	1,367,486	1,557,305
State programs	1,303,197	5,571,466	6,874,663
Local assistance and state programs		2,151,202	2,151,202
Total	$1,845,519	$11,604,646	$13,450,165

The amount of 2008 set-aside expenses of $1,845,519 includes accruals of $489,729.

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the fiscal year ended June 30, 2008, follows:

	Balance June 30, 2007	Prior Period Adjustment	Restated Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Equipment	$30,402	$24,105	$54,507		($39,852)	$14,655
Less accumulated depreciation	(30,402)	(24,105)	(54,507)		39,852	(14,655)
	NONE	NONE	NONE	NONE	NONE	NONE

The capitalization policy of the Louisiana Division of Administration, Office of Statewide Reporting and Accounting Policy, is to include only those assets with an original acquisition cost of $5,000 or more for depreciable equipment. GASB Statement No. 34 requires the recognition of depreciation on capital assets, resulting in the recognition of accumulated depreciation for current and prior years.

7. PAYABLES

The following is a summary of payables and accrued expenses at June 30, 2008:

Vendor payables	$446,155
Payroll accrual	43,574
Total payables	$489,729

8. 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, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Portion Due Within One Year
Bonds payable	NONE	$2,250,000	($2,250,000)	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. Of the $7,300,000, $1,000,000 was issued during fiscal year 2006; $1,500,000 was issued during fiscal year 2007; and $2,250,000 was issued during fiscal year 2008.

As of June 30, 2008, a total of $4,663,735 was generated for matching fund purposes by the issuance of these serial bonds. Bond issue costs of $86,264 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 $2,250,000 of bond issued was repaid before the end of the fiscal year; therefore, no liability exists at June 30, 2008.

9. 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, 2008.

10. SUBSEQUENT EVENTS

As part of the $7,300,000 LPFA Revenue Bonds Series 2006 bond issue referred to in note 8, $1,250,000 was issued on September 9, 2008, and $1,000,000 was issued on January 13, 2009. These bonds were subsequently repaid on September 10, 2008, and January 14, 2009, respectively.

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SUPPLEMENTAL INFORMATION SCHEDULES
As of and for the Year Ended June 30, 2008

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, 2008

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
ASSETS			
Current assets:			
Cash in state treasury	$15,930,926	$1,648,121	$17,579,047
Receivables - due from others	4,122,198	75,374	4,197,572
Total current assets	20,053,124	1,723,495	21,776,619
Noncurrent assets - loans receivable	69,075,319	NONE	69,075,319
Total assets	89,128,443	1,723,495	90,851,938
LIABILITIES			
Current liabilities - accounts payable and accruals	489,729	NONE	489,729
NET ASSETS - unrestricted	$88,638,714	$1,723,495	$90,362,209

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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, 2008

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
OPERATING REVENUES			
Federal funds - set-aside programs	$1,845,519		$1,845,519
Interest earned on loans receivable	2,312,222		2,312,222
Interest earned on cash in state treasury	563,343	$39,391	602,734
Administrative fees		334,923	334,923
Total operating revenues	4,721,084	374,314	5,095,398
OPERATING EXPENSES			
Set-aside expenses	1,845,519		1,845,519
Bond issue costs	15,946		15,946
Interest expense	9,180		9,180
Total operating expenses	1,870,645	NONE	1,870,645
OPERATING INCOME	2,850,439	374,314	3,224,753
Capital contributions	9,407,626	NONE	9,407,626
CHANGE IN NET ASSETS	12,258,065	374,314	12,632,379
NET ASSETS - BEGINNING OF YEAR	76,379,071	1,350,759	77,729,830
NET ASSETS - END OF YEAR	$88,637,136	$1,725,073	$90,362,209

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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, 2008

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
Cash flows from operating activities			
Cash received from interest on loans	$2,263,209		$2,263,209
Cash received from interest on cash in state treasury	581,275	$41,275	622,550
Cash received from administrative fees		327,819	327,819
Cash received from repayment of loan principal	2,959,310		2,959,310
Cash received from allocations for set-aside programs	1,537,705		1,537,705
Cash payments for set-aside expenses	(1,537,705)		(1,537,705)
Cash payments to borrowers	(11,563,539)		(11,563,539)
Net cash provided (used) by operating activities	(5,759,745)	369,094	(5,390,651)
Cash flows from noncapital financing activities			
Contributed capital - Environmental Protection Agency	9,407,626		9,407,626
Proceeds from issuance of bonds	2,234,055		2,234,055
Principal paid on bonds	(2,250,000)		(2,250,000)
Bond interest expense	(9,180)		(9,180)
Net cash provided by noncapital financing activities	9,382,501	NONE	9,382,501
Net increase in cash	3,622,756	369,094	3,991,850
Cash at beginning of the year	12,306,594	1,280,603	13,587,197
Cash at end of the year	$15,929,350	$1,649,697	$17,579,047

(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, 2008

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	$2,850,439	$374,314	$3,224,753
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Bond issue costs	15,946		15,946
Bond interest expense	9,180		9,180
Changes in assets and liabilities:			
(Increase) in accounts receivable	(537,323)	(5,220)	(542,543)
(Increase) in loans receivable	(8,405,707)		(8,405,707)
Increase in accounts payable and accrued expenses	307,720		307,720
Net cash provided (used) by operating activities	($5,759,745)	$369,094	($5,390,651)

(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
STEVE J. THERIOT, CPA

September 18, 2009

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, 2008, and have issued our report thereon dated September 18, 2009. Our report was modified to include an emphasis of a matter regarding the impact of hurricanes Katrina and Rita. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the following paragraph, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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

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misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

Inadequate Preparation of the Annual Report

The Drinking Water Revolving Loan Fund (DWRLF) did not have adequate controls to ensure that its annual report and the related note disclosures were prepared accurately. Good internal controls include establishing an adequate review process to ensure the accuracy and completeness of the financial statements and note disclosures included in its annual report prior to its submission to the Environmental Protection Agency (EPA). During our audit, we noted the following errors and omissions:

1. DWRLF used incorrect amortization schedules, overbilled a water system for interest and administrative fees, and failed to correct mathematical errors, which resulted in understatements of assets and unrestricted net assets on the Statement of Net Assets by $11,482 and $11,388, respectively.

2. The Statement of Revenues, Expenses, and Changes in Net Assets included errors caused by overbilling a water system, coding errors, and mathematical errors, which resulted in the following:

   - Federal funds - set-aside programs were understated by $9,844.
   - Administrative fees were understated by $1,442.
   - Interest earned on loans receivable was understated by $9,946.
   - Total operating revenues were understated by $21,232.
   - Set-aside expenses were understated by $9,844.
   - Operating income was understated by $11,388.
   - Change in net assets and net assets, as of June 30, 2008, for DWRLF were understated by $11,388.

3. DWRLF did not consider current year and prior year accrual entries, which resulted in a $307,720 overstatement of cash received from allocations for set-asides and a corresponding overstatement of cash payments for set-aside expenses on the Statement of Cash Flows.

4. DWRLF did not ensure that its note disclosures were complete and consistent with the amounts presented in the financial statements, resulting in the following errors and omissions in the note disclosures:

- Due from others (note 3):

  - Due from water systems was understated by $169,657 because DWRLF used incorrect amortization schedules and failed to correct mathematical errors. As a result, the current portion of principal due was understated by $158,270; the current portion of loan interest was understated by $9,946; and the current portion of administrative fees on loans was understated by $1,441.

- Loans receivable (note 4):

  - DWRLF incorrectly prepared the schedule of principal payments by maturity by using incorrect loan maturity intervals. This caused the balances by maturity date to be misstated and overstated the long-term portion of receivables by $158,270.

  - The schedule of authorized loan amounts and loans outstanding was inaccurate and incomplete. DWRLF incorrectly excluded a water system and did not properly adjust the authorized loan amounts to actual after the final closeout. As a result, the authorized loan amount and remaining loan commitment balance were understated by $91,539.

  - DWRLF incorrectly prepared the table of cumulative grant dollars drawn and remaining by using the expenditures of the program instead of using the amount of draws for each grant award. As a result, cumulative dollar draws - set-asides and total cumulative dollars drawn as of June 30, 2008, were overstated by $446,061 and the remaining grant dollars available as of June 30, 2008, were understated by $446,061.

  - The state match contribution for fiscal year 2008 and cumulative state match as of June 30, 2008, were understated by $1,577 because DWRLF did not include a carryforward of funds applied to state match contributions.

- Changes in capital assets (note 6):

  - The beginning balances for equipment and accumulated depreciation were understated by $24,105 because of an asset that was recorded in fiscal year 2007 but was not transferred out until fiscal year 2008. In addition, deletions to equipment and accumulated depreciation were understated by $39,852 because of an asset that was surplused by DWRLF but was not properly recorded in deletions.

Management has not placed sufficient emphasis on ensuring that its annual report is properly prepared and reviewed for errors and omissions, which increases the risk that misstatements, whether caused by error or fraud, may occur and not be detected. In addition, failure to submit an accurate annual report may delay the issuance of DWRLF's separately issued financial statements.

Management should ensure that its annual report is properly prepared and should review the financial statements and note disclosures included in its annual report to identify and correct errors before submitting the report to the EPA. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 1-2).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider inadequate preparation of the annual report to be a material weakness.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Report on Compliance With Requirements Applicable to the Capitalization Grants for Drinking Water State Revolving Fund's 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* (Exhibit B).

Management's responses to these findings are included in Appendix A. We did not audit these responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management of the Department of Health and Hospitals, Office of Public Health 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,

Steve J. Theriot, CPA
Legislative Auditor

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DWRLF08

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

September 18, 2009

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, 2008, 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, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements as follows:

Noncompliance With Reporting Requirements for the Capitalization Grants for Drinking Water State Revolving Funds Program

The Drinking Water Revolving Loan Fund (DWRLF) has not complied with the reporting requirements of the Capitalization Grants for Drinking Water State Revolving Funds Program (CFDA 66.468). The grant agreement between DWRLF and the Environmental Protection Agency (EPA) requires the DWRLF to submit an annual report by September 30. In addition, the Department of Health and Hospitals (DHH), on behalf of DWRLF, has entered into an operating agreement with the EPA, which requires the state to submit an annual report no later than 90 days after the end of the state fiscal year. The EPA granted two filing extensions (December 31, 2008 and February 13, 2009) to the DWRLF for its 2007 grant award. An incomplete annual report was electronically submitted to the EPA on December 31, 2008; however, DWRLF did not submit the complete annual report to the EPA until March 6, 2009, which was past the agreed-upon deadline extension of February 13, 2009.

The DWRLF did not place sufficient emphasis on the timely submission of the annual report to ensure compliance with reporting requirements. Failure to timely submit the required annual report withholds useful program information from the EPA, DWRLF recipients, and other stakeholders of the DWRLF program and subjects the DWRLF to noncompliance with the grant and operating agreements. Any noncompliance with the EPA requirements could suspend or deobligate future scheduled grant payments to the DWRLF.

Management should ensure that the annual report is prepared and submitted to the EPA timely. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 3-4).

Noncompliance With Matching Requirements for the Capitalization Grants for Drinking Water State Revolving Funds Program

The DWRLF has not complied with the matching requirements of the Capitalization Grants for Drinking Water State Revolving Funds Program (CFDA 66.468). The Code of Federal Regulations [40 CFR 35.3550(g)] and the operating agreement entered into by DHH, on behalf of DWRLF, with the EPA require the DWRLF to provide a match of 20% of each grant payment scheduled and made available by the EPA except when a state chooses to use a letter of credit (LOC) arrangement. The Code of Federal Regulations [40 CFR 35.3550(g)(2)] requires that when a state chooses to use a LOC arrangement that the LOC should be sufficient to fund the state's match required based on a predetermined schedule of draws.

Although DWRLF provided sufficient match for all funds actually drawn, DWRLF did not increase its LOC to meet the funding requirements as required by 40 CFR 35.3550(g)(2) for the scheduled draws for fiscal year 2008. This resulted in a shortage of $2,799,996. Failure to timely deposit the required state match subjects the DWRLF to noncompliance with federal regulations and the operating agreement with the EPA. Noncompliance with the EPA requirements could result in suspended or deobligateed future scheduled grant payments to the DWRLF.

Management of DWRLF should obtain the proper authorization timely to ensure compliance with the matching requirements of the Capitalization Grants for Drinking Water State Revolving Funds Program (CFDA 66.468). Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 5).

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), in order 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. Accordingly, we do not express an opinion on the effectiveness of the Department of Health and Hospitals, Office of Public Health - Drinking Water Revolving Loan Fund's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the department's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance, which is included in our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards* (Exhibit A), to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies described previously in this report and in Exhibit A, we consider inadequate preparation of the annual report to be a material weakness.

Management's responses to these findings are included in Appendix A. We did not audit these responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management of the Department of Health and Hospitals, Office of Public Health 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,

Steve J. Theriot, CPA
Legislative Auditor

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DWRLF08

Management's Corrective Action Plans and Responses to the Findings and Recommendations

Bobby Jindal
GOVERNOR

Alan Levine
SECRETARY

State of Louisiana

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

September 15, 2009

MEMORANDUM

TO: Mr. Steve Theriot
Legislative Auditor

FROM: Jay Ray, Program Manager
DHH Office of Public Health DWRLF Program

SUBJECT: Response to OPH DWRLF 2008 EPA Annual Report Audit Finding: Inadequate Preparation of the Annual Financial Statements

The following response is provided for the above subject audit finding that you sent via letter dated August 28, 2009:

1. Concur. DWRLF staff will take necessary steps to increase review of invoices prior to mailing them in an effort to reduce mathematical errors.

2. Concur. The overbilling and mathematical errors resulted in immaterial errors to the Statement of Revenues, Expenditures, and Changes in Net Assets. The DWRLF Program Manager and the Fiscal Administrator authorized these errors to be corrected via audit adjustments and restatements.

3. Concur. The net effect of this omission was offsetting within the Statement. The DWRLF Program Manager and the Fiscal Administrator authorized this error to be corrected via audit adjustment and restatement. Internal work files have been modified to assure these accruals are included in the future.

4. Due From Others (Note 3):

    - Concur. DWRLF staff will take necessary steps to increase review of the annual report prior to providing to auditors in an effort to reduce mathematical errors.

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Loans Receivable (Note 4):

- Concur. DWRLF staff will take necessary steps to increase review of the annual report prior to providing to auditors in an effort to reduce mathematical errors.

- Concur. DWRLF staff conferred with Bond Attorney who stated that until the loan was drawn on it did not actually exist. There were no draws on this loan. Based upon this information the loan was intentionally omitted from the statement. DWRLF staff will take necessary steps to increase review of the annual report prior to providing to auditors in an effort to reduce such errors.

- Concur. Future reporting will be based on federal grant draws.

- Concur. This was an oversight caused by using the residual balance of interest earned on prior year state match appropriations. This was non-routine and will not reoccur because the interest balance is -0- and the state no longer appropriates state funds for match.

Changes in Capital Assets (Note 6):

- Concur. The DWRLF Program Manager and the Fiscal Administrator authorized this error to be corrected via audit adjustment and restatement.

The EPA Annual Report is prepared jointly by the DHH OPH DWRLF Office and the DHH OMF Division of Fiscal Office with each office contributing information relative to their responsibility. The DWRLF Office consolidates this information and submits to EPA. Each office is committed to improve the review process of their own contributed information and in the future, the completed Annual Report will be reviewed jointly by both offices before submission to EPA.

Bobby Jindal
GOVERNOR

Alan Levine
SECRETARY

State of Louisiana

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

September 15, 2009

MEMORANDUM

TO: Mr. Steve Theriot
Legislative Auditor

FROM: Jay Ray, Program Manager *Jay Ray*
DHH Office of Public Health DWRLF Program

SUBJECT: Response to OPH DWRLF 2008 EPA Annual Report Audit Finding: Noncompliance with Reporting Requirements for the Capitalization Grants for Drinking Water State Revolving Funds Program

The following response is provided for the above subject audit finding that you sent via letter dated August 28, 2009:

Concur with explanation. EPA's requirement for the annual report has historically been an issue. EPA staff and DWRLF staff have disagreed on what constitutes a "final annual report". Conflicting requirements from EPA (due to staff turnover) has perplexed DWRLF staff. 40 CFR 35.3570 details all items that are required to be included in the report, however, EPA has required "20 year cash flow projections" in addition to these statutory items which adds considerable time to the preparation process. In addition, EPA has required DWRLF staff to revise the annual report after audit adjustments to reflect audited figures. It would be logical to assume that the revised version is the "final" version and since we have not received the audit, the report is still not final.

DWRLF staff submitted the annual report to EPA on December 31, 2008 and noted that the following items were omitted:

1. MBE/WBE information. (Paragraphs on pages 24 and 25 of the report).

2. Information regarding maturity times of the Loans Receivable in Note 4 to the financial statements. Staff was not certain how this information was to be accurately prepared and sought the auditor's guidance.

3. Cash flow projections. This is not a requirement of the federal regulations or the Grant Award Conditions.

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In summary, the "useful program information" and material financial statements were provided by DWRLF in the annual report submitted to EPA on December 31, 2008. DWRLF staff and Fiscal staff will continue to strive to submit the annual report in a timely manner.

Also, please note that due to the late audit issued for SFY2008, DWRLF staff will not be able to enter accurate data into the Drinking Water National Information Management System (DWNIMS). Annually, as part of the Grant Conditions, we must enter audited figures for previous year and unaudited figures for the current year into DWNIMS. Consequently, DWRLF will be in non-compliance with EPA.

Bobby Jindal
GOVERNOR

Alan Levine
SECRETARY

State of Louisiana

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

September 15, 2009

MEMORANDUM

TO: Mr. Steve Theriot
Legislative Auditor

FROM: Jay Ray, Program Manager
DHH Office of Public Health DWRLF Program

Jay Ray

SUBJECT: Response to OPH DWRLF 2008 EPA Annual Report Audit Finding: Noncompliance with Matching Requirements for the Capitalization Grants for Drinking Water State Revolving Funds Program

The following response is provided for the above subject audit finding that you sent via letter dated August 28, 2009:

Concur. The line-of-credit authority fell less than required pending the multi-agency approval processes required to obtain an increase. These processes had been slowed partially as a result of a "transition period" that occurred after the 2007 governor's election. The line-of-credit increase was eventually obtained to satisfy the EPA matching regulations.

The DWRLF staff will continually monitor the bond line-of-credit authority to assure it remains sufficient to satisfy the state's proportionate share of EPA capitalization grant funds made available.

DWRLF LLA 00 090915 Audit Finding Response - Match.docx

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