



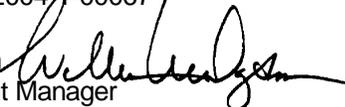
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

May 26, 2004

Memorandum

Subject: Final Auditor's Report for the State of Washington Water Pollution
Control Revolving Fund For The Year Ended June 30, 2003
Audit Report No. 2004-1-00067

From: William m. Dayton 
National SRF Audit Manager

To: John Iani
Regional Administrator
EPA, Region 10
Seattle, Washington

Attached is a copy of the subject audit report we sent to the State of Washington. The audit contains reports on the financial statements, internal controls, and compliance applicable to the State Revolving Fund (SRF) program in Washington.

We have issued an unqualified opinion on the financial statements and compliance requirements, and noted no matters involving the internal control system and operations that we consider to be material weaknesses.

We did not have any compliance matters or costs questioned, and we are closing the audit report on issuance.

Please call me at (916) 498-6590 or Darren Schorer at (206) 553-6288 should you have any comments or questions.

Attachment



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

May 26, 2004

Ms. Nancy Stevenson, Chief Financial Officer
State of Washington, Department of Ecology
P.O. Box 47600
Olympia, WA 98504-7600

Subject: Final Report of Audit of Financial Statements of the State of Washington Water Pollution Control Revolving Fund for the year ended June 30, 2003
EPA Audit Report No. 2004-1-00067

Dear Ms. Stevenson:

Enclosed please find an electronic copy of the final audited financial statements for the State of Washington Water Pollution Control Revolving Fund (the Fund) for the year ended June 30, 2003. The purpose of our audit was to:

- Examine the financial statements of the State of Washington Water Pollution Control Revolving Fund for the year ended June 30, 2003, and issue a report containing our opinion of the financial statements;
- Report on the internal control structure of the Washington Water Pollution Control Revolving Fund program;
- Report on compliance with specific program requirements of the Washington Water Pollution Control Revolving Fund program.

We have issued an unqualified opinion on the financial statements and an unqualified opinion on the compliance requirements. In our report on internal controls, we noted no matters involving the internal control structure and its operations that we considered to be a material weakness. We discussed these reports with your program management who generally agreed with the results of our audit.

We would like to thank you and your staff for the cooperation and courtesies we received during our audit. If you have any questions or concerns, please contact me at (916) 498-6590 or Darren Schorer at (206) 553-6288.

Sincerely,

A handwritten signature in black ink, appearing to read "William M. Dayton".

William M. Dayton
National SRF Audit Manager



OIG
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

**State of Washington
Water Pollution Control State Revolving Fund**

**Financial Statements with
Independent Auditor's Report, June 30, 2003**

Audit Report Number 2004-1-00067

Issued May 26, 2004

Inspector General Division
Conducting the Audit:

Western Audit Division
San Francisco, California

Region Covered:

Region 10

Program Office Involved:

Water Management Division

**State of Washington
Water Pollution Control State Revolving Fund**

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UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

Independent Auditor's Report

To: Nancy Stevenson
Chief Financial Officer
Washington State Department of Ecology
State of Washington

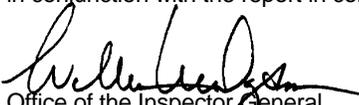
We have audited the accompanying statement of net assets of the Washington Department of Ecology Water Pollution Control State Revolving Fund Program (the Program) as of June 30, 2003, and the related statements of revenues, expenses and changes in fund net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Program's management. 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 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.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Washington Department of Ecology Water Pollution Control State Revolving Fund as of June 30, 2003 and the results of its operation and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1, the financial statements referred to above are intended to present the financial position and results of operations of the Washington Department of Ecology Water Pollution Control State Revolving Fund, a component fund of the State of Washington. These statements are not intended to present the financial position or results of operations for the State of Washington or the Washington Department of Ecology, in conformity with accounting principles generally accepted in the United States, of which the Water Pollution Control Revolving Fund is a part.

In accordance with *Government Auditing Standards*, we have also issued a report, dated February 27, 2004, on our consideration of the Washington Department of Ecology Water Pollution Control State Revolving Fund's internal control structure and a report dated February 27, 2004 on its compliance with laws and regulations. Those reports are integral parts of an audit prepared in accordance with auditing standards generally accepted in the United States of America and should be read in conjunction with the report in considering the results of our audit.


Office of the Inspector General
Environmental Protection Agency

February 27, 2004

WASHINGTON DEPARTMENT OF ECOLOGY
Water Pollution Control State Revolving Fund

Statement of Net Assets
June 30, 2003
With Unaudited Comparative Totals for 2002
(in thousands)

Assets	June 30, 2003	Unaudited June 30, 2002
Current assets:		
Cash and cash equivalents	\$ 130,012	\$ 129,167
Receivables:		
Due from Federal government	158	109
Interest on SRF loans	1,287	1,301
Interest on investments	284	311
Total receivables	1,729	1,721
Current maturities of SRF loans	15,004	13,587
Total current assets	146,745	144,475
Loans receivable, net of current maturities	270,546	231,229
Total assets	417,291	375,704
<u>Liabilities and Net Assets</u>		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	60	62
Due to other Funds	25	34
Construction costs payable	381	1,938
Total current liabilities	466	2,034
Net assets:		
Restricted	416,825	373,670
Total liabilities and net assets	\$ 417,291	\$ 375,704

The accompanying notes are an integral part of these financial statements.

WASHINGTON DEPARTMENT OF ECOLOGY
Water Pollution Control State Revolving Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the year ended June 30, 2003
With Unaudited Comparative Totals for 2002
(in thousands)

	<u>June 30,</u> <u>2003</u>	<u>Unaudited</u> <u>June 30,</u> <u>2002</u>
Operating Revenues:		
Interest income on SRF loans	\$ 6,677	\$ 7,973
Operating Expenses:		
Salaries and benefits	712	724
Supplies	29	26
Travel	13	9
Indirect Costs	248	263
Contracts	496	228
Total operating expenses	<u>1,498</u>	<u>1,250</u>
Operating income (loss)	5,179	6,723
Nonoperating Revenue (Expenses)		
Interest on investments	3,375	4,193
Funds received from EPA	28,855	16,439
Fund received from State of Washington	5,746	3,284
Total nonoperating revenue	<u>37,976</u>	<u>23,916</u>
Change in net assets	43,155	30,639
Net assets, beginning of year	<u>373,670</u>	<u>343,031</u>
Net assets, end of year	<u>\$ 416,825</u>	<u>\$ 373,670</u>

The accompanying notes are an integral part of these financial statements.

WASHINGTON DEPARTMENT OF ECOLOGY
Water Pollution Control State Revolving Fund

Combined Statement of Cash Flows
For the year ended June 30, 2003
With Unaudited Comparative Totals for 2002
(in thousands)

	<u>June 30,</u> <u>2003</u>	<u>Unaudited</u> <u>June 30,</u> <u>2002</u>
Cash flows from operating activities:		
Receipts from customers	\$ 7,242	\$ 11,731
Payments to employees and suppliers	<u>(1,526)</u>	<u>(1,222)</u>
Net cash provided by operating activities	<u>5,716</u>	<u>10,509</u>
Cash flows from noncapital financing activities:		
Funds received from EPA	28,805	16,416
Transfer from other State funds	<u>5,746</u>	<u>3,284</u>
Net cash provided (used) by noncapital financing activities	<u>34,551</u>	<u>19,700</u>
Cash flows from investing activities:		
Receipt from interest on investments	3,402	4,148
Loan Disbursements	(68,674)	(32,619)
Repayment of loans	<u>25,850</u>	<u>58,497</u>
Net cash provided (used) by investing activities	<u>(39,422)</u>	<u>30,026</u>
Net cash provided (used)	845	60,235
Cash and cash equivalents, beginning of year	<u>129,167</u>	<u>68,932</u>
Cash and cash equivalents, end of year	<u>\$ 130,012</u>	<u>\$ 129,167</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Excess of revenue over expenses	\$ 5,179	\$ 6,723
(Increase) decrease in loan interest receivable	14	1,215
Increase (decrease) in A/P and other liabilities	(28)	28
Increase (decrease) in deferred interest	551	2,543
Net cash used by operating activities	<u>\$ 5,716</u>	<u>\$ 10,509</u>

The accompanying notes are an integral part of these financial statements.

WASHINGTON DEPARTMENT OF ECOLOGY
Water Pollution Control State Revolving Fund
Notes to Financial Statements

1. Organization of the Fund

Washington's Water Pollution Control Revolving Fund (the Fund) was established pursuant to Title VI of the Federal Water Quality Act of 1987 (the Act). The Act established the State Revolving Fund (SRF) program to replace the construction grants program. The SRF provides loans at reduced interest rates to finance the entire cost of qualified projects for the construction of publicly owned water pollution control facilities, nonpoint source pollution control projects, and development of estuary conservation and management plans. Loans made by the Fund must be repaid within 20 years, and all repayments, including interest and principal, must be credited to the Fund.

The fund was capitalized by a series of grants from the U.S. Environmental Protection Agency (EPA) starting in 1989. State's are required to provide an additional 20 percent of the Federal capitalization grant amount as matching funds in order to receive the grant from EPA. As of June 30, 2003, EPA awarded approximately \$342,068 in capitalization grants to the State, and the State is required to provide \$68,414 to the Fund as its matching share. The State match is transferred to the Fund from the State's Centennial Clean Water Fund at the time of the cash draw.

The Fund is administered by the Washington State Department of Ecology (WDOE) through the Water Quality Program Office (the Program). The Program's primary responsibilities for the SRF includes obtaining capitalization grants from EPA, soliciting potential interested parties, negotiating loan agreements with local communities, reviewing and approving payment requests from loan recipients, managing the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements.

The Fund does not have any full time employees. WDOE charges the Fund for time spent on SRF activities by its employees, and the Fund reimburses WDOE for such costs in the following month. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Fund based on direct salary costs. Employees charging time to the Fund are covered by the benefits available to Washington State Employees. The Fund is also charged indirect costs through the cost allocation plan for general state expenses.

The Fund is included in the Washington's general purpose financial statements as a special revenue fund, which uses the modified accrual basis of accounting. Due to differences in reporting methods, there may be differences between the amounts reported in these financial statements and the general purpose financial statements.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements for the Fund are presented as a special revenue fund which uses the accrual basis of accounting whereby revenues are recorded as earned and expenses are recorded when the liability is incurred. The State has elected to follow the accounting pronouncements of the Governmental Accounting Standards Board (GASB), as well as statements issued by the Financial Accounting Standards Board on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements.

WASHINGTON DEPARTMENT OF ECOLOGY
Water Pollution Control State Revolving Fund
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

All moneys of the Fund are deposited with the State Treasurer's Office, and are considered cash. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund. Consequently, management of the Fund does not have any control over the investment of the excess cash. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

Loans Receivable

WDOE operates the Fund as a direct loan program which makes loans to communities through funding by the Federal capitalization grant for 83.3 percent of the loan amount, and funding by State matching for 16.7 percent of the loan amount. Loan funds are disbursed to the local agencies after they expend funds for the purposes of the loan and then request reimbursement from the Fund. Interest is calculated from the date the funds are disbursed. After the final disbursement, the loan amount and repayment schedule are adjusted for actual funds disbursed and interest accrued during the project period. No provision for uncollectible accounts has been made as all loans are current, and management believes that all loans will be repaid according to the loan terms.

Contributed Capital

In accordance with generally accepted accounting principles (GAAP), funds received from EPA and Washington State for the capitalization of the Fund are recorded as contributed capital, as discussed in Note 5.

Reclassifications

Certain amounts in the 2002 unaudited financial statements have been reclassified to conform to the presentation in the 2003 financial statements.

3. Cash and Cash Equivalents

All monies of the Fund are deposited with the State Treasurer's Office as part of the State's Treasury/Trust Portfolio, and are considered cash. The Treasurer is responsible for maintaining and investing the pooled cash balances in accordance with State laws. The Treasurer is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs without prior notice or penalty. The Fund's proportionate share of the investment income, based on the average daily balance for the period, is credited to the Fund monthly. The Treasurer charges all the funds of the State categorized as treasury funds up to one percent of the average daily balance for administration costs. As of June 30, 2003, total Treasurer's average daily invested balance of the Treasury/Trust Fund Portfolio was \$2.5 billion. Details of the investments can be obtained from the State Treasurer's Office.

All cash and investments are stated at cost, which approximates fair market value. Investments in local government investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form.

WASHINGTON DEPARTMENT OF ECOLOGY
Water Pollution Control State Revolving Fund
Notes to Financial Statements

3. Cash and Cash Equivalents (continued)

	Carrying Amount	Market Value
Not subject to categorization: Treasury/Trust Portfolio	<u>\$ 130,012</u>	<u>\$ 130,012</u>

4. Loans Receivable

The Fund makes loans to qualified agencies for projects that meet the eligibility requirements of the Clean Water Act. Loans are financed by capitalization grants, state matches and revolving funds. The interest rate is established at 60 percent of the Bond Buyers Index for tax exempt municipal bonds for loans with more than a five year term but no more than 20 years and 30 percent of the index for loans for up to five years. For the year ended June 30, 2003, interest rates varied between 0.5 and 1.5 percent. The Fund also makes zero interest rate loans for communities that can demonstrate financial hardship on residential ratepayers in the form of sewer user fees. As of June 30, 2003, the Fund had made 125 zero interest rate loans for approximately \$127 million to communities with severe financial hardship. These numbers do not include recipients with paid off loans. Loan repayments are required to start one year after project completion. Details of loans receivable as of June 30, 2003, are summarized below:

Loans by Category:

Loans receivable by project status at June 30, 2003 are as follows:

	Loan Authorized	Remaining Commitment	Outstanding Balance
Completed projects	\$ 362,181	\$ 0	\$ 224,607
Projects in progress	<u>120,368</u>	<u>62,572</u>	<u>60,943</u>
Totals	<u>\$ 482,549</u>	<u>\$ 62,572</u>	285,550
Less amount due within one year			<u>15,004</u>
Loans receivable, June 30, 2003			<u>\$ 270,546</u>

Loans mature at various intervals. The scheduled minimum principle repayments on completely disbursed loans in subsequent years are as follows:

	Amount
Year ending June 30:	
2004	\$ 15,004
2005	13,391
2006	13,094
2007	13,118
2008	13,111
Thereafter	<u>156,889</u>
	<u>\$ 224,607</u>

WASHINGTON DEPARTMENT OF ECOLOGY
Water Pollution Control State Revolving Fund
Notes to Financial Statements

4. Loans Receivable (continued)

Loans to Major Local Agencies:

As of June 30, 2003, the Fund made loans to the following 15 major local agencies. The aggregate outstanding balance for each of these agencies exceeds \$5 million. The outstanding balances of these loans represent approximately 72 percent of the total loans receivable.

<u>Agency</u>	<u>Authorized Loan Amount</u>	<u>Project Period Interest</u>	<u>Loan Amount At Completion</u>	<u>Outstanding Balance</u>
City of Burlington	\$ 5,393	\$ 478	\$ 5,871	\$ 5,281
City of Camas	9,292	720	10,012	9,065
City of Centralia	32,998	0	20,663	19,948
City of Kennewick	9,693	670	10,064	8,636
King Co. Department of Nat. Resources	13,838	0	13,838	11,932
King Co. Wastewater Treat. Division	14,207	0	14,207	13,878
City of Lynden	6,522	56	5,788	5,788
Mason County	12,732	53	12,785	7,364
City of Monroe	11,843	123	11,877	7,616
City of Olympia (LOTT)	36,580	0	36,580	25,401
City of Pasco	22,726	2,346	25,072	21,434
City of Puyallup	13,625	780	14,405	13,298
City of Snohomish	10,855	0	10,855	7,186
Spokane County	11,100	0	10,640	10,327
City of Walla Walla	<u>13,780</u>	<u>830</u>	<u>14,610</u>	<u>12,734</u>
Total	<u>\$ 225,184</u>	<u>\$ 6,056</u>	<u>\$ 216,812</u>	<u>\$ 179,888</u>

The loan amount at completion may not agree with the authorized loan amount plus capitalized project period interest. Communities may elect to pay capitalized project period interest separately or add the amount to the final loan amount. Further, the authorized loan amount is based on estimates, and final project costs may be different than estimated.

5. Contributed Capital and Fund Balance

The Fund is capitalized by grants from EPA authorized by the Clean Water Act and by matching funds from the State. All funds drawn are recorded as contributed capital from the EPA and Washington State. As of June 30, 2003, EPA awarded capitalization grants of \$342,068 to the State, of which \$282,148 has been drawn for loans and administrative expenses. The State has provided matching funds of \$56,407. The following summarizes the capitalization grant awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans:

WASHINGTON DEPARTMENT OF ECOLOGY
Water Pollution Control State Revolving Fund
Notes to Financial Statements

5. Contributed Capital and Fund Balance (continued)

	<u>Grant Amount</u>	<u>Draws June 30, 2002</u>	<u>Draws 2003 Draws</u>	<u>June 30, 2003</u>	<u>Available June 30, 2003</u>
1989-1991	\$ 70,278	\$ 70,278	\$ 0	\$ 70,278	\$ 0
1992	33,789	33,789	0	33,789	0
1993	33,425	33,425	0	33,425	0
1994	20,740	20,740	0	20,740	0
1995	21,420	21,420	0	21,420	0
1996	22,509	22,509	0	22,509	0
1997	23,415	23,415	0	23,415	0
1998	23,417	23,097	320	23,417	0
1999	46,759	4,778	28,535	33,313	13,446
2001	23,132	0	0	0	23,132
2002	<u>23,184</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>23,184</u>
Totals	<u>\$ 342,068</u>	<u>\$ 253,451</u>	<u>\$ 28,855</u>	<u>\$ 282,306</u>	<u>\$ 59,762</u>

As of June 30, State matching contributions were:

	<u>2002</u>	<u>2003 Contribution</u>	<u>2003</u>
Washington State Matching Contributions	<u>\$ 50,661</u>	<u>\$ 5,746</u>	<u>\$ 56,407</u>

6. Contingencies and Subsequent Events

Contingencies

The Fund is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Fund business, or acts of God.

The Fund maintains insurance for all risks of loss which is included in the indirect costs allocated to the Fund. There have not been any claims against the Fund since its inception in 1989 and no contingencies came to our attention during our audit which require disclosure or accrual under Statement of Financial Accounting Standards No. 5.

**WASHINGTON DEPARTMENT OF ECOLOGY
Water Pollution Control State Revolving Fund
Notes to Financial Statements**

6. Contingencies and Subsequent Events (continued)

Subsequent Events

No events occurred subsequent to the balance sheet date came to our attention which require adjustment to, or disclosure in, the financial statements.

**Independent Auditor's Report on the
Internal Control Structure Based on an
Audit of the Financial Statements
Performed in Accordance with
*Government Auditing Standards***



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

TO: Nancy Stevenson
Chief Financial Officer
Washington State Department of Ecology
State of Washington

We have audited the financial statements of Washington Department of Ecology Water Pollution Control State Revolving Fund Program (the Program) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 27, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 from material misstatement.

The management of the Washington Department of Ecology Water State Revolving Fund is responsible for establishing and maintaining an internal control structure. In fulfilling its responsibilities, estimates and judgements by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Washington Department of Ecology Water Pollution Control State Revolving Fund for the year ended June 30, 2003, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of management of the Washington Department of Ecology Water Pollution Control State Revolving Fund and the United States Environmental Protection Agency. However, this report is a matter of public record and distribution is not limited.


Office of Inspector General
Environmental Protection Agency
February 27, 2004

**Independent Auditor's Report
on Compliance with Requirements Applicable to the
Environmental Protection Agency's
State Revolving Fund Program
in Accordance with
*Government Auditing Standards***



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

TO: Nancy Stevenson
Chief Financial Officer
Washington State Department of Ecology
State of Washington

We have audited the financial statements of the Washington Department of Ecology Water Pollution Control State Revolving Fund Program (the Program) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 27, 2004.

We have also audited the Program's compliance with requirements governing the following:

- Allowability for Specific Activities;
- Allowable Costs/Cost Principles;
- Cash Management;
- State Matching;
- Period of Availability of Funds and Binding Commitments;
- Program Income;
- Reporting;
- Sub-recipient Monitoring, and;
- Special tests and provisions;

The above compliance requirements are applicable to the Washington Department of Ecology Water Pollution Control State Revolving Fund Program for the year ended June 30, 2003. The management of the Program is responsible for its compliance with those requirements. Our responsibility is to express an opinion on those requirements based on our audit.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements of the SRF program occurred. An audit includes examining, on a test basis, evidence about the Program's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

As part of obtaining reasonable assurance about whether the Washington Department of Ecology Water Pollution Control State Revolving Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and grants, noncompliance with which could have a direct and material effect on the determination financial statement amounts. The results of our tests disclosed no instances of noncompliance that we are required to report under *Government Auditing Standards*.

In our opinion, the Program complied, in all material respects, with the specific program requirements listed above for the year ended June 30, 2003.

This report is intended for the information of management of the Program and the United States Environmental Protection Agency. However, this report is a matter of public record and distribution is not limited.


Office of Inspector General
Environmental Protection Agency
February 27, 2004

Report Distribution

EPA, Headquarters:

Director, Grants Administration
Agency Followup Coordinator
Associate Administrator for Congressional
and Intergovernmental Relations
Associate Administrator for Communications,
Education and Public Affairs
Infrastructure Branch Chief
CWSRF Coordinator
CWSRF Audit Manager

EPA, Region 10:

Regional Administrator
Office of Water and Watersheds
CWSRF Coordinator
Audit Follow-up Coordinator

State of Washington:

Department of Ecology