



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

June 3, 2003

Memorandum

Subject: Auditor's Report for the Utah State Revolving Fund as of June 30, 2002
EPA Audit Report No. 2003-1-00110.

From: William M. Dayton
National SRF Manager 

To: Robbie Roberts
Regional Administrator
EPA, Region 8
Denver, CO

Attached is a copy of the subject audit we sent to the State of Utah. The audit contains reports on the financial statements, internal controls, and compliance requirements applicable to the Drinking Water State Revolving Fund (SRF) program in Utah for the year ended June 30, 2002.

We have issued an unqualified opinion on the financial statements and noted no matters involving the internal control system and operations that we consider to be material weaknesses. We qualified our opinion on the compliance requirements applicable to the SRF program because the Utah Drinking Water State Revolving Fund did not comply with binding commitments requirements of the Safe Drinking Water Act and regulations. In response to the draft audit report, management agreed with our comments, and is taking appropriate steps to correct the deficiencies.

In accordance with EPA directive 2750, the Action Official is required to take action on the findings and recommendations in this report within 150 days.

The OIG has no objection to the release of this report to any member of the public upon request. The report contains no confidential business or proprietary information.

If you have any questions or concerns regarding this matter, please feel free to contact Mr. William Dayton at (916) 498-6590 or Mr. Darren Schorer at (206) 553-6288.

Attachment



ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C

OFFICE OF
INSPECTOR GENERAL

June 3, 2003

Mr. Kevin Brown, Director
Division of Drinking Water
Department of Environmental Quality
State of Utah

Re: Audit Report of the Financial Statements of the Utah Drinking Water State Revolving Fund
Program for the year ended June 30, 2002
Audit Report No. 2003-1-00110

Dear Mr. Brown:

Enclosed please an electronic copy of the audited financial statement for the Utah Drinking Water State Revolving Fund Programs for the year ended June 30, 2002.

We made certain adjustments and reclassifications, to which you have agreed, in order to have the financial statements follow EPA's current reporting guidelines, which are presented in accordance with generally accepted accounting principles.

We would like to thank you and your staff for the cooperation and courtesies we received during our audit. Please feel free to call Mr Darren Schorer (206) 553-6288 or myself at (916) 498-6590 should you have any comments or questions.

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 Utah Drinking Water State Revolving Fund

**Financial Statements with
Independent Auditor's Report, June 30, 2002**

Audit Report Number 2003-1-00110

Issued June 3, 2003

State of Utah
Drinking Water State Revolving Fund

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UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

Independent Auditor's Report

To: Kevin Brown, Director
Division of Drinking Water
Department of Environmental Quality
State of Utah

We have audited the accompanying statement of net assets of the Utah Department of Environmental Quality Drinking Water State Revolving Fund Program (the Program) as of June 30, 2002, 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 Utah Department of Environmental Quality Drinking Water State Revolving Fund as of June 30, 2002 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 Utah Department of Environmental Quality Drinking Water State Revolving Fund, a component fund of the State of Utah. These statements are not intended to present the financial position or results of operations for the State of Utah or the Utah Department of Environmental Quality, in conformity with accounting principles generally accepted in the United States, of which the Drinking Water Revolving Fund is a part.

In accordance with *Government Auditing Standards*, we have also issued a report, dated December 13, 2002, on our consideration of the Utah Department of Environmental Quality Drinking Water State Revolving Fund's internal control structure and a report dated December 13, 2002 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

December 13, 2002

UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY
Drinking Water State Revolving Fund
Statement of Net Assets
June 30, 2002

Assets	Loan Fund	Hardship Fee Fund	Total
Current assets:			
Cash and cash equivalents	\$ 3,493,120	\$ 244,391	\$ 3,737,511
Current receivables:			
Federal receivables	162,177		162,177
Late payment interest receivable	3,173		3,173
Accrued hardship fees		168,331	168,331
Current maturities of loan receivables	831,000		743,000
Total current assets	4,489,470	412,722	4,902,192
Long-term loan receivable	16,727,377	-	16,727,377
Capital assets:			
Fixed assets	591,875		591,875
Accumulated depreciation	(117,967)	-	(117,967)
Total capital assets	473,908		473,908
Total assets	\$ 21,690,755	\$ 412,722	\$ 22,103,477
Liabilities			
Current liabilities:			
Accounts payable	\$ 4,350		\$ 4,350
Due to state	52,435		52,435
Accrued liabilities	105,392		105,392
Total liabilities	162,177	-	162,177
Net Assets			
Unrestricted	\$ 21,528,578	\$ 412,722	\$ 21,941,300

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

UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY
Drinking Water State Revolving Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the year ended June 30, 2002

	<u>Loan Fund</u>	<u>Hardship Fee Fund</u>	<u>Total</u>
Operating Revenues:			
Loan hardship fees	\$ -	\$ 295,929	\$ 295,930
Late payment fees	2,298	-	2,298
Set-asides:			
EPA set-aside operating grants	1,337,679		1,337,679
Transfer from other State Funds	799,339		799,339
Total operating revenues	<u>2,139,316</u>	<u>295,929</u>	<u>2,435,245</u>
Operating Expenses:			
Principal forgiveness	417,479		417,479
Loan administration charge	1,126		1,126
Administration	195,957		195,957
State program management	1,624,272		1,624,272
Technical assistance	186,788		186,788
Local assistance	<u>247,967</u>		<u>247,967</u>
Total operating expenses	<u>2,673,588</u>	<u>-</u>	<u>2,673,588</u>
Operating income (loss)	(534,272)	295,929	(238,343)
Nonoperating Revenue (Expenses)			
Interest on investments	108,879	1,949	110,828
Fair market value adjustment	(7,208)	(524)	(7,732)
EPA grant:			
Loan program	8,190,382		8,190,382
Transfer from other State funds:			
Loan program	1,557,820		1,557,820
EPA set-aside grant - fixed asset purchase	<u>162,406</u>		<u>162,406</u>
Total nonoperating revenue	<u>10,012,279</u>	<u>1,425</u>	<u>10,013,704</u>
Change in net assets	9,478,007	297,354	9,775,361
Net assets, beginning of year	<u>12,050,571</u>	<u>115,368</u>	<u>12,165,939</u>
Net assets, end of year	<u>\$ 21,528,578</u>	<u>\$ 412,722</u>	<u>\$ 21,941,300</u>

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

UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY
Drinking Water State Revolving Fund
Combined Statement of Cash Flows
For the year ended June 30, 2002

	<u>Loan Fund</u>	<u>Hardship Fees</u>	<u>Total</u>
Cash flows from operating activities:			
Receipt from hardship fee payment		\$ 185,300	\$ 185,300
Receipt from EPA for the set-aside program	\$ 1,544,450		1,544,450
Transfer from other State funds to set-aside programs	720,654		720,654
Principal forgiveness payments to borrowers	(417,479)		(417,479)
Loan administration charge paid to State	(1,125)		(1,125)
Receipt from loan payments	494,024		494,024
Payments for loan draws	(10,149,570)		(10,149,570)
Payment for employee services and benefits	(1,490,412)		(1,490,412)
Payment for supplies and contracts	(774,692)		(774,692)
Net cash provided (used) by operating activities	<u>(10,074,150)</u>	<u>185,300</u>	<u>(9,888,850)</u>
Cash flows from noncapital financing activities:			
Funds received from EPA	8,790,382		8,790,382
Transfer from other State funds	1,557,820		1,557,820
Net cash provided by noncapital financing activities	<u>10,348,202</u>	<u>0</u>	<u>10,348,202</u>
Cash flows from capital and related financing activities:			
Receipt from EPA	162,406		162,406
Acquisition of fixed asset	(162,406)		(162,496)
Net cash provided by capital and related financing activities	<u>0</u>	<u>0</u>	<u>0</u>
Cash flows from investing activities:			
Receipt from interest on investments	108,879	1,949	110,828
Investment fair market value adjustment	(7,208)	(524)	(7,732)
Net cash provided by investing activities	<u>101,671</u>	<u>1,425</u>	<u>103,096</u>
Net cash provided by operations	375,723	186,725	562,448
Cash and cash equivalents, beginning of year	<u>3,117,397</u>	<u>57,666</u>	<u>3,175,063</u>
Cash and cash equivalents, end of year	<u>\$ 3,493,120</u>	<u>\$ 244,391</u>	<u>\$ 3,737,511</u>

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

UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY
Drinking Water State Revolving Fund
Combined Statement of Cash Flows
For the Year Ended June 30, 2002

	<u>Fund</u>	<u>Loan Fees</u>	<u>Hardship Total</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Excess of revenue over expenses	(534,272)	295,929	(238,343)
(Increase) decrease in loan hardship fees receivable		(110,629)	(110,629)
(Increase) decrease in loan receivable	(9,655,547)	-	(9,655,547)
(Increase) decrease in late payment receivable	(2,298)	-	(2,298)
Increase (decrease) in fixed asset depreciation	117,967	-	117,967
Increase (decrease) in accounts payable and other liabilities	34,320	-	34,320
(Increase) decrease in Federal receivables	71,326	-	71,326
Increase (decrease) in liability due to State	<u>(105,646)</u>	<u>-</u>	<u>(105,646)</u>
Net cash used by operating activities	<u>\$ (10,074,150)</u>	<u>\$ 185,300</u>	<u>\$ (9,888,850)</u>

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

UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY
Drinking Water State Revolving Fund

Notes to Financial Statements
June 30, 2002

1. Organization of the Fund

The Utah Drinking Water State Revolving Fund Program (the Program) was established in 1997 pursuant to Utah Code, Title 73, Chapter 10 and the Safe drinking Water Act (SDWA) Amendments of 1996. The Program was established to provide assistance to public water systems for projects that meet the eligibility requirements of the SDWA. The SDWA also allows the state to "set aside" up to 31% of the annual capitalization grants for administration of the Program (up to 4%), supplemental funding for the State's Public Water System Supervision program (up to 10%), for technical assistance to public water systems (up to 2%), and for other technical or financial assistance to public water systems (up to 15%).

The Utah Legislature enacted Utah Code Annotated (UCA) 19-4-101 et seq. establishing the Utah Safe Drinking Water Board (the Board). UCA 19-4-104 empowers the Board with rule making authority to meet the requirements of Federal law governing drinking water. UCA 19-1-105 establishes the Division of Drinking Water which is tasked with the responsibility to administer UCA 19-4-101 et seq. The Board has promulgated rules for making loans incorporating the requirements of the Federal Safe Drinking Water Act at Utah Administrative Code R309.705. Additionally, the Board is authorized by UCA 19-4-104(1)(a)(v) and 19-4-104(2) to promulgate rules for certification of operations and governing capacity development in compliance with Section 1419 and 1420 of the Federal Safe Drinking Water Act.

The Department of Environmental Quality's Division of Drinking Water (Division) and the Board jointly manage the Program. The Division determines the level of set-aside funding needed to meet its obligations, reviews loan applications for eligibility, prioritizes eligible projects, monitors loan repayments and conducts project inspections. The Board, an eleven-member board appointed by the Governor, develops policies and procedures for program implementation and authorizes loans under the Program. The Board reviews each loan applicant to determine its ability to repay the loan, its readiness to proceed with the project and its ability to complete the project.

The Division receives assistance and support from the Department of Environmental Quality's Office of Support Services, the State Division of Finance, the State Attorney General's Office and the State Treasurer's Office. The salaries and benefits of the employees, as well as indirect costs based on direct salary costs, are charged to the Program. Employees charging time to the Program are covered by the State of Utah personnel benefits plan. The Division of Finance charges the Program a loan administration fee.

The Fund was capitalized by a series of grants from the U.S. Environmental Protection Agency (EPA) starting in 1997. 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, 2002, EPA awarded \$42,690,000 in capitalization grants to the State, and the State is required to provide \$8,538,000 to the Fund as its matching share.

The Program balances and activities are included in Utah's Comprehensive Annual Financial Report (CAFR), which uses the modified accrual basis of accounting. Because certain funds are combined, the Program assets, liabilities, and net assets are not identifiable in Utah's CAFR.

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

**UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY
Drinking Water State Revolving Fund**

**Notes to Financial Statements
June 30, 2002**

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements for the Program are presented as an enterprise fund. As such, the Program is accounted for using the flow of economic resources measurement focus and using the accrual method of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recorded at the time the liability is incurred. All assets and liabilities associated with the operations of the Fund are included in the balance sheet. 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 (FASB)* on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements.

Revenue and Principal Forgiveness Recognition

The Board receives administrative revenue and set-aside program revenue. These are recognized when earned.

The board may authorize principal forgiveness to disadvantaged communities. Principal forgiveness is recognized as an expense as loan draws are made.

Cash and Cash Equivalents

All monies of the Program are deposited with the State of Utah Treasurer's Investment Fund (PTIF accounts) an external investment pool managed by the State Treasurer, and are considered cash. Investment interest earnings on these deposits are received by the Program on a monthly basis. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Program, as discussed in Note 3. Consequently, management of the Program 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. Shares in the PTIF are valued at fair value in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires all investments in debt and equity securities to be reported at fair value in the balance sheet and all investment income, including changes in the fair value of investments, to be reported in the statement of revenue and expense. Fair market value adjustments are considered as cash equivalents.

Loans Receivable

Loans are funded by Federal capitalization grants from EPA, State matching funds, loan repayments and fund earnings. The SRF monies are disbursed to borrowers on a cost reimbursement basis. When the borrowers have incurred qualifying expenses, they request a loan disbursement from the Program, and at that time, a disbursement is made and recorded in the Program accounting records. Interest begins accruing when funds are disbursed to the borrower. Repayment must begin no later than one year after completion of the project. Full repayment must be received by the Program within 20 years of project completion.

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

**UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY
Drinking Water State Revolving Fund**

**Notes to Financial Statements
June 30, 2002**

2. Summary of Significant Accounting Policies (continued)

Hardship Fee Assessments

The Board has the option to charge a hardship fee assessment in lieu of interest. The loans that have been closed to date have the hardship fee assessment. Hardship fees are calculated and paid in the same manner as interest. The Program restriction for the use of hardship fees differs from the restriction for the use of interest. Hardship fee assessments are accounted for in a separate fund and can be used for purposes other than loans, including grants to disadvantage communities. The hardship fee assessments vary from 0.535 percent to 4.92 percent. There is no provision for uncollectible accounts, as all repayments are current, and management believes all loans will be repaid according to the loan terms.

Contributed Capital

In accordance with generally accepted accounting principles (GAAP), funds received from the EPA and the State of Utah for the capitalization of the Fund are recorded under equity as non-operating revenues.

3. Cash and Cash Equivalents

All monies in the Fund are deposited with the State Treasurer's Office and are considered to be cash. The Treasurer is responsible for maintaining and investing the pooled cash balances in accordance with the Utah Money Management Act. Utah's Money Management Act requires the Treasurer to invest these funds in a manner that (1) ensures maximum safety of principle, (2) provides adequate liquidity to meet all operating requirements, and (3) achieves the highest possible return on investment consistent with the primary objectives of security and safety. The Treasurer is required to maintain a mix of investments in order to allow funds to be withdrawn at any time to meet normal operating needs. The Fund's share of the investment income is based on the average daily balance for the period and is credited to the Fund monthly. Details of the investments can be obtained from the State Treasurer's Office.

All cash and investments are stated at cost with an investment fair market value adjustment. Investments held by the State Treasurer's Office are not categorized because they are not evidenced by securities that exist in physical or book entry form.

	Loan Fund	Hardship Fee	Total
Cash	\$ 872,336	\$ 53,998	\$ 926,334
Investments	2,627,991	190,917	2,818,908
Less fair value adjustment	(7,207)	(524)	(7,731)
	<u>\$ 3,493,120</u>	<u>\$ 244,391</u>	<u>\$3,737,511</u>

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

**UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY
Drinking Water State Revolving Fund**

**Notes to Financial Statements
June 30, 2002**

4. Loans Receivable

The Fund makes loans to qualified entities for projects that meet the eligibility requirements of the Act. Capitalization grants, state match, interest earnings and revolving funds finance loans. Effective hardship fees on loans vary between 0.535 and 4.92 percent and are generally repaid over 20 years. Maturities are from eight to 20 years. Recipients make annual payments, starting one year after the loan closes. Details of loans receivable as of June 30, 2002 are as follows:

	<u>Authorized Loan Amounts</u>	<u>Amount Disbursed</u>	<u>Principal Repaid</u>	<u>Outstanding Balance</u>
Fully disbursed loans	\$ 5,330,000	\$ 5,330,000	\$ 190,024	\$ 5,139,976
Active loans	<u>26,727,000</u>	<u>14,394,562</u>	<u>387,982</u>	<u>14,006,580</u>
Totals	<u>\$ 32,057,000</u>	<u>\$ 19,724,562</u>	<u>\$ 578,006</u>	\$ 19,146,556
Less principal forgiveness				<u>(1,588,179)</u>
Loans receivable				<u>\$ 17,558,377</u>
Amounts due within one year				831,000
Loans receivable, net June 30, 2002				<u>16,727,377</u>
Non-current loans receivable, June 30, 2001				<u>\$ 17,558,377</u>

Loans mature at various intervals through June 30, 2021. The scheduled minimum principle repayments on loans for completed projects in subsequent years are as follows:

Year ending June 30:	<u>Amount</u>
2003	\$ 831,000
2004	1,318,000
2005	1,384,000
2006	1,413,000
2007	1,449,000
Thereafter	<u>11,251,377</u>
	<u>\$ 17,558,377</u>

5. Fixed Assets

Fixed assets consist of the Division of Drinking Water's information system and associated database. Utah uses the straight line depreciation method over a useful life of five years.

6. Liabilities

Liabilities for personal services and related benefits, contracts and supplies incurred prior to July 1, 2002 and paid after June 30, 2002 were accrued and entered as an expense.

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

**UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY
Drinking Water State Revolving Fund**

**Notes to Financial Statements
June 30, 2002**

7. Net Assets

The Fund is capitalized by Grants from EPA and matching funds from the state. All funds drawn are recorded as non-operating revenues from the EPA and the State of Utah.

Utah's matching contribution has been provided from tax revenues deposited to the State drinking water loan fund. As of June 30, 2002, EPA has awarded capitalization grants of \$42,690,000 to the State, of which \$13,663,725 has been drawn for reimbursement of loan disbursements and recorded as contributed capital. An additional \$5,633,869 has been drawn for set-asides expenditures since inception of the Program and recorded as revenue. The State has provided matching funds of \$8,538,000.

The following summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans:

	<u>Grant Amount</u>	<u>Total Draws June 30, 2001</u>	<u>2002 Draws</u>	<u>Total Draws June 30, 2002</u>	<u>Grant Funds Available, June 30, 2002</u>
1997	12,558,800	8,021,663	4,140,115	12,161,778	397,022
1998	7,121,300	1,016,793	4,379,094	5,395,887	1,725,413
1999	7,463,800	595,631	357,052	952,683	6,511,117
2000	7,757,000	0	713,447	713,447	7,043,553
2001	<u>7,789,100</u>	<u>0</u>	<u>73,799</u>	<u>73,799</u>	<u>7,715,301</u>
Totals	<u>\$ 42,690,000</u>	<u>\$ 9,634,087</u>	<u>\$ 9,663,507</u>	<u>\$ 19,297,594</u>	<u>\$ 23,392,406</u>

8. Contingencies and Subsequent Events

Contingencies

The Program is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Program business, or acts of God. A Fidelity Bond is purchased for each contract. The sponsor and the State of Utah acting through the Drinking Water Board are the named insured. There have not been any claims against the Fidelity Bond insurance. The Program is also included in the Utah's Risk Management Fund that provides insurance in case of loss or claims against the fund.

Subsequent Events

Subsequent to June 30, 2002, the EPA awarded the fiscal year 2002 capitalization grant to the State. The grant provides \$8,052,500 in additional funds, \$6,384,100 to the loan fund and \$1,668,400 to the set-aside funds. The state 20 percent match of \$1,610,500 will be added to the loan fund.

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

UTAH DEPARTMENT OF ENVIRONMENTAL QUALITY
Drinking Water State Revolving Fund

Notes to Financial Statements
June 30, 2002

8. Contingencies and Subsequent Events (continued)

Loans to Copperton Improvement District and Duchesne City totaling \$1,700,000 were closed in July 2002. A loan to Emigration Improvement District of \$1,846,000 was closed in November 2002. With the closing of the Emigration Improvement District loan the Division of Drinking Water is in compliance with the DWSRF commitment rules.

No other subsequent events following the fiscal year-end required disclosure in these financial statements.

The accompanying notes are an integral part of 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: Kevin Brown, Director
Division of Drinking Water
Department of Environmental Quality
State of Utah

We have audited the financial statements of Utah Department of Environmental Quality Drinking Water State Revolving Fund Program (the Program) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 13, 2002.

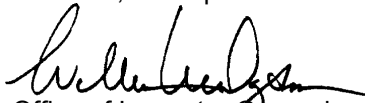
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The management of the Utah Department of Environmental Quality Drinking 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 Utah Department of Environmental Quality Drinking Water State Revolving Fund for the year ended June 30, 2002, 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 Utah Department of Environmental Quality Drinking Water 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

December 13, 2002

**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: Kevin Brown, Director
Division of Drinking Water
Department of Environmental Quality
State of Utah

We have audited the financial statements of the Utah Department of Environmental Quality Drinking Water State Revolving Fund Program (the Program) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 13, 2002.

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

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

The above compliance requirements are applicable to the Utah Department of Environmental Quality Drinking Water State Revolving Fund Program for the year ended June 30, 2002. 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 Utah Department of Environmental Quality Drinking Water 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, with the exception of the condition discussed below, in all material respects, with the specific program requirements listed above for the year ended June 30, 2002.

The Program did not make sufficient binding commitments as of June 30, 2002. The Program executed binding commitments in the amount of \$32,057,000 as of June 30, 2002. The minimum requirement is \$35,277,121. The Program executed additional commitments of approximately \$3,546,000 by November 2002, which meets the binding commitment requirement.

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

December 13, 2002

Supplemental Information

State of Utah
Drinking Water State Revolving Fund
Schedule of Set-aside Expenses
Year Ended June 30, 2002

	Administrative	State Program Management	Technical Assistance	Local Assistance	Total
Salaries and Benefits	\$ 157,307	\$ 1,158,692	\$ -	\$ 35,487	\$ 1,351,486
Travel	2,755	11,031	-	-	13,786
Current Expense	14,360	92,697	-	1,128	294,972
Data Processing	991	17,560	-	186	18,737
Contracts	-	75,000	186,787	206,532	281,532
Indirect Expense	20,544	151,325	-	4,635	176,504
Depreciation Expense	-	117,967	-	-	117,967
Total	<u>\$ 195,957</u>	<u>\$ 1,624,272</u>	<u>\$ 186,787</u>	<u>\$ 247,968</u>	<u>\$ 2,254,984</u>

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