

**Audit of the Clean Water and Drinking Water
State Revolving Funds -
Special Purpose Financial Presentations,
Selected Internal Controls, and Compliance
For Fiscal Year Ended June 30, 2018 -**

**Division of Water Restoration Assistance
State Revolving Fund Programs**

Report: A-1819DEP-020

**Office of Inspector General
Internal Audit Section**

Florida Department of Environmental Protection

June 27, 2019

3900 Commonwealth Boulevard, MS 40
Tallahassee, Florida 32399-3000
<https://floridadep.gov/>





Audit of the Clean Water and Drinking Water State Revolving Fund Programs' Special
Purpose Financial Presentations, Selected Internal Controls, and Compliance
for the Fiscal Year Ended June 30, 2018
Division of Water Restoration Assistance



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The Office of Inspector General (OIG) conducted an audit of the Florida Department of Environmental Protection (Department), Division of Water Restoration Assistance (Division), Clean Water and Drinking Water State Revolving Fund Programs' Special Purpose Financial Presentations, selected internal controls, and compliance for the fiscal year ended June 30, 2018. This audit was initiated as a result of the OIG fiscal year 2018-2019 Annual Audit Plan and assists the Division in complying with requirements of its federal funding agreements.

Scope and Objectives

The scope of the audit included the Department's Clean Water and Drinking Water State Revolving Fund Programs' Special Purpose Financial Presentation for the fiscal year ended June 30, 2018. This audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The objectives were to:

- P Obtain reasonable assurance about whether the financial statements are free of material misstatement.
- P 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*.

Summary of Conclusions

In prior year audits of the Department's Special Purpose Presentations, our audit focus included verification of financial information reported in the presentations as supported by accounting records obtained from the Florida Accounting Information Resource (FLAIR) reports. As such, the information reported was consistent with FLAIR reports and Division Revolving Fund Program (Program) accounting records. For fiscal year ended June 30, 2018, the scope of our testing expanded to include the Department's use of the Special Purpose Financial Presentation as a means of financial reporting. Based on this testing, the Department's use of Special Purpose Financial Presentation accompanying this report does not present the financial position of the

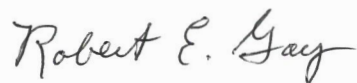
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Clean Water and Drinking Water State Revolving Fund Programs using a basis of accounting consistent with reporting standards established by the Governmental Accounting Standards Board (GASB).

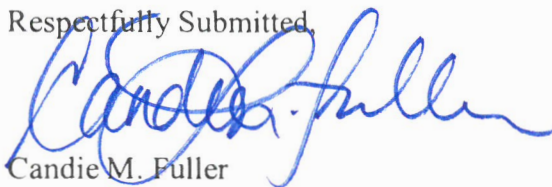
We noted certain matters involving the Department's internal controls over financial reporting and its operation that we considered to be significant deficiencies or material weaknesses. These deficiencies are presented as Findings and Recommendations in the report. The results of our testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or Federal regulations.

Audit conducted by:



Robert E. Gay, CPA, FCCM
Florida Department of Environmental Protection
Office of Inspector General
June 27, 2019

Respectfully Submitted,



Candie M. Fuller
Inspector General
Florida Department of Environmental Protection

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Independent¹ Auditors' Report on the Financial Statements

We have audited the accompanying financial statements, which comprise the balance sheet for the Clean Water and Drinking Water State Revolving Fund Programs of the Florida Department of Environmental Protection as of June 30, 2018; the statement of revenues, expenditures, and changes in fund balances for the fiscal year ended June 30, 2018; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with financial reporting practices prescribed by the United States Environmental Protection Agency (USEPA). Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal

¹ *The Office of Inspector General, while independent for internal reporting, could be perceived by outside parties as not meeting all the Government Auditing Standards independence criteria for external reporting.*

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control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the evidence obtained during this audit is sufficient and appropriate to provide a basis for our modified audit opinion.

Opinion

Our audit included the current year evaluation of the Department's use of a Special Purpose Financial Presentations framework for financial reporting. Based on this evaluation, and as more fully discussed in our Findings and Recommendations, we noted reporting deficiencies which we considered material and pervasive. The Clean Water and Drinking Water State Revolving Fund financial activities are not accounted for as an enterprise fund. The use of a special purpose financial framework is not consistent with Generally Accepted Accounting Principles. In addition, the Special Purpose Financial Presentations do not include a Statement of Cash Flows. The effects of these deficiencies could not be reasonably determined.

In our opinion, because of the matters discussed in the preceding paragraph, the Special Purpose Financial Presentations do not present the Clean Water and Drinking Water State Revolving Fund Program's financial position fairly in accordance with Generally Accepted Accounting Principles.

Restriction of Use

Our report is intended solely for the information and use of the Department and the USEPA and is not intended to be, and should not be, used by anyone other than these specified parties.

Florida Department of Environmental Protection
Office of Inspector General
Tallahassee, Florida
June 27, 2019

Audit of the Clean Water and Drinking Water State Revolving Fund Programs' Special Purpose Financial Presentations.
Selected Internal Controls, and Compliance for the Fiscal Year Ended June 30, 2018
Division of Water Restoration Assistance

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**FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION
CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAMS
SPECIAL PURPOSE FINANCIAL PRESENTATIONS
BALANCE SHEET
AS OF JUNE 30, 2018**

	CWSRF	WPCFC	DWSRF	Administrative (Federal Grants Trust Fund)	Total (Memorandum Only)
ASSETS					
<u>Current assets</u>					
Cash and cash equivalents	\$ 142,563		\$ 105,076		\$ 247,639
Pooled investments with state treasury (Note 3)	379,474,320	\$ 20,697,547	399,607,255	\$ 55,720,190	855,499,312
Investments with U.S. Bank (Note 3)		175,814,542			175,814,542
Loans receivable (Note 4)	91,415,079	91,415,078	41,863,773	7,419,528	232,113,458
Due from state funds within department	323,932				323,932
Due from U.S. grants			12,880,738		12,880,738
Investment interest receivable	603,889	328,670	632,955	91,128	1,656,642
Total current assets	<u>471,959,783</u>	<u>288,255,837</u>	<u>455,089,797</u>	<u>63,230,846</u>	<u>1,278,536,263</u>
<u>Noncurrent assets</u>					
Loans receivable (Note 4)	1,004,200,639	754,475,493	343,289,799		2,101,965,931
Long-term investments		39,070,701			39,070,701
Total noncurrent assets	<u>1,004,200,639</u>	<u>793,546,194</u>	<u>343,289,799</u>		<u>2,141,036,632</u>
Total assets	<u>\$ 1,476,160,422</u>	<u>\$ 1,081,802,031</u>	<u>\$ 798,379,596</u>	<u>\$ 63,230,846</u>	<u>\$ 3,419,572,895</u>
LIABILITIES					
<u>Current liabilities</u>					
Due to other funds	\$ 72,662				\$ 72,662
Due to other departments	37,991	\$ 2,120	\$ 39,820		79,931
Debt service (Note 7 - WPC Bonds)		28,030,000			28,030,000
Interest on bonds payable		6,848,424			6,848,424
Total current liabilities	<u>110,653</u>	<u>34,880,544</u>	<u>39,820</u>		<u>35,031,017</u>
<u>Noncurrent liabilities</u>					
Revenue bonds payable (Note 7 - WPC Bonds)		283,454,990			283,454,990
Total noncurrent liabilities		<u>283,454,990</u>			<u>283,454,990</u>
Total liabilities	<u>110,653</u>	<u>318,335,534</u>	<u>39,820</u>		<u>318,486,007</u>
FUND BALANCES					
Restricted by federal government - SRF grant allocation				37,044,352	37,044,352
Restricted by federal government - SRF grant allocation				15,065,007	15,065,007
Restricted by federal government - SRF grant allocation				11,121,487	11,121,487
Fund balance - Restricted by federal government	1,476,049,769	763,466,497	798,339,776		3,037,856,042
Total fund balances	<u>1,476,049,769</u>	<u>763,466,497</u>	<u>798,339,776</u>	<u>63,230,846</u>	<u>3,101,086,888</u>
Total liabilities and fund balances	<u>\$ 1,476,160,422</u>	<u>\$ 1,081,802,031</u>	<u>\$ 798,379,596</u>	<u>\$ 63,230,846</u>	<u>\$ 3,419,572,895</u>

The accompanying notes to the special purpose financial presentations are an integral part of this presentation.

Audit of the Clean Water and Drinking Water State Revolving Fund Programs' Special Purpose Financial Presentations.
Selected Internal Controls, and Compliance for the Fiscal Year Ended June 30, 2018
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**FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION
CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAMS
SPECIAL PURPOSE FINANCIAL PRESENTATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	CWSRF	WPCF	DWSRF	Administrative (Federal Grants Trust Fund)	Total (Memorandum Only)
REVENUES					
Fees and charges (Note 5)	\$ 150		\$ 150	\$ 16,965,603	\$ 16,965,903
USEPA Capitalization grants	32,704,000		27,427,412	1,336,467	61,467,879
Interest earned on investments (Note 3)	14,061,524	\$ 3,281,805	8,055,288	948,347	26,346,964
Interest earned on loan repayments	7,273,587	12,250,749	6,918,136		26,442,472
Fines, forfeits judgements, and settlements	79,990				79,990
Total revenues	<u>\$4,119,251</u>	<u>15,532,554</u>	<u>42,400,986</u>	<u>19,250,417</u>	<u>131,303,208</u>
EXPENDITURES					
Administrative costs - SRF and CWWQO (Note 5)				4,869,194	4,869,194
Administrative costs - DWSRF (Note 5)				814,429	814,429
Administrative costs - DWLPI				62,327	62,327
Administrative costs - Set-asides				1,336,467	1,336,467
Grants to small disadvantaged communities (Note 5)				892,315	892,315
Principal forgiveness (Note 5)	10,573,530		7,022,944		17,596,474
Bond interest and fiscal charges		15,425,088			15,425,088
Less: Aortization of bond premium		(2,004,877)			(2,004,877)
	<u>10,573,530</u>	<u>13,420,211</u>	<u>7,022,944</u>	<u>7,974,732</u>	<u>38,991,417</u>
Excess of revenues over expenditures	43,545,721	2,112,343	35,378,042	11,275,685	92,311,791
OTHER FINANCING SOURCES (USES)					
Operating transfers in - State match from general revenue	7,000,000		6,028,600		13,028,600
Net change in fund balances	50,545,721	2,112,343	41,406,642	11,275,685	105,340,391
Fund balances - beginning	<u>1,425,504,048</u>	<u>761,354,154</u>	<u>756,933,134</u>	<u>51,955,161</u>	<u>2,995,746,497</u>
Fund balances - ending	<u>\$ 1,476,049,769</u>	<u>\$ 763,466,497</u>	<u>\$ 798,339,776</u>	<u>\$ 63,230,846</u>	<u>\$ 3,101,086,888</u>

The accompanying notes to the special purpose financial presentations are an integral part of this presentation.

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**FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION
CLEAN WATER AND DRINKING WATER
STATE REVOLVING FUND PROGRAMS
NOTES TO SPECIAL PURPOSE FINANCIAL PRESENTATIONS
July 1, 2017 Through June 30, 2018**

INTRODUCTION

The Special Purpose Financial Presentations for the Florida Department of Environmental Protection (Department) have been prepared for use by the United States Environmental Protection Agency (USEPA). These financial presentations are presented to comply with the provisions of a grant agreement between the Department and the USEPA and do not constitute complete financial statements of the Department in accordance with accounting principles generally accepted in the United States of America. The Department is part of the reporting entity of the State of Florida (State) and its financial position and operations are included in the State of Florida Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018.

1. AUTHORIZING LEGISLATION AND PROGRAM PURPOSE

The State Wastewater Treatment and Stormwater Management Revolving Loan Fund (CWSRF) was created to be used in the operation of the State Revolving Fund Loan Program administered by the Department to accelerate construction of sewage treatment facilities by local government agencies. Title VI of the Water Quality Act, as amended by the Water Quality Act of 1987, provided for federal capitalization grants to establish permanent state revolving loan programs to replace the USEPA's Construction Grants program. The State's Revolving Fund Loan (SRF) Programs is authorized by Section 403.1835, Florida Statutes. Chapter 62-503 of the Florida Administrative Code sets forth the detailed State Revolving Fund Loan Program requirements.

The Drinking Water Revolving Loan Fund (DWSRF) was created for use in the operation of the SRF Program administered by the Department to provide financial assistance to eligible public water systems for construction of drinking water systems. Section 130, Public Law 104-182, of the Safe Drinking Water Act (SDWA) Amendments of 1996 provided for federal capitalization grants to establish permanent state drinking water revolving loan programs which will provide a long-term source of financing for the costs of infrastructure needed to achieve or maintain compliance with SDWA requirements, and to protect public health. The DWSRF Programs is authorized by Section 403.8532, Florida Statutes. Chapter 62-552 of the Florida Administrative Code sets forth the detailed DWSRF Programs requirements.

The State and Federal legislation enables the Department to assist local governments in financing facilities for wastewater treatment and public water systems.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Department are described below to enhance the usefulness of these Special Purpose Financial Presentations:

Reporting Entity

The Department is an agency within the State reporting entity, which consists of the State's legislative agencies, the Governor and Cabinet; the State departments, commissions, and boards of the executive branch, and the various offices relating to the judicial branch of State government. Component units, legally separate organizations for which the State is financially accountable, are also included in the State's reporting entity.

The financial presentations herein are of the CWSRF and DWSRF Funds. The financial presentations do not include the funds and accounts of the reporting entity of the State, and therefore, are not intended to present fairly the financial position and the results of operations of the State special revenue funds in conformity with generally accepted accounting principles.

Basis of Presentation

The Department's accounting policies conform to accounting principles generally accepted in the United States of America for State and local governmental units and are structured in accordance with the requirements of the Governmental Accounting Standards Board. These principles require the use of fund accounting. A fund is a separate fiscal and accounting entity having a self-balancing set of accounts. Fund accounting is designed to segregate transactions related to certain functions or activities to ensure management that resources are applied to finance the activities and objectives for which the resources are received and to demonstrate compliance with legal and contractual obligations.

The information in these Special Purpose Financial Presentations relates to all components of the SRF Program and includes the following:

- CWSRF and DWSRF Funds, which are used to record activity related to SRF Program loans and projects. Each of these funds is categorized as a special revenue fund and classified as a governmental funds type. Special revenue funds are used to account for specific revenue sources, which are legally restricted to expenditures for specified purposes.
- Administrative and set-aside elements of the SRF Programs, which are accounted for in the Federal Grants Trust Fund (FGTF), a special revenue trust fund classified as a governmental fund type; and,
- The Water Pollution Control Financing Corporation (WPCFC), a nonprofit public-benefit corporation which is classified as a component unit of the State reporting entity.

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Basis of Accounting

The Special Purpose Financial Presentations have been prepared using the modified accrual basis of accounting.

The measurement focus of CWSRF and DWSRF Funds is the current financial resources method that emphasizes the determination of financial position and changes in financial position, rather than net income determination.

Investments

Unless specifically excluded by Statute, all cash of the State must be deposited in the State Treasury. The State Treasury, in turn, keeps the funds fully invested to maximize interest earnings. Authorized investment types are set forth in Section 215.47, Florida Statutes, and include certificates of deposit, direct obligations of the United States Treasury, obligations of Federal agencies, asset-backed or mortgage-backed securities, commercial paper, bankers' acceptances, intermediate-term corporate obligations, repurchase agreements, no-load commingled and mutual funds, and derivatives. All investments of the CWSRF and DWSRF are pooled investments with the State Treasury and are carried at cost. The investments held by the WPCFC include both pooled investments with the State Treasury and investments managed by the Trustee bank. The investments are carried at cost. The Treasury Investment Pool disclosures are made in Note 2 of the CAFR.

Restrictions of Fund Balance

Restrictions are established to indicate that a portion of fund balance is not appropriable or is legally segregated for specific future use. The types of restrictions of the CWSRF and DWSRF fund balances are described as follows:

Restricted by Federal Government - represents fund assets that have restrictions applied by the provisional Federal Government Agency.

3. INVESTMENTS

As the CWSRF and DWSRF investments are pooled in the State Treasury, records are not maintained that identify the specific investment securities comprising the CWSRF and DWSRF portion of the pool. Accordingly, CWSRF and DWSRF investments do not have to be disclosed by credit risk category as the investments are not evidenced by specific investment securities.

With regard to investments in the WPCFC, the State Board of Administration (SBA) accounts for funds held both inside and outside of the State Treasury. Funds held inside of the State Treasury are reported and identified at market value in the CAFR. Investments outside of the State Treasury are held with the Trustee Bank which serves as the Trustee Bank for the WPCFC. The SBA provides the Department with information regarding the investment performance.

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**Investments with State Treasury Reporting Period
 July 1, 2017 through June 30, 2018**

Fund	Investments	Net Earnings*	Net Rate of Return
CWSRF	\$379,911,486.60	\$6,782,267.16	High .1497 – Low .1233
DWSRF	\$398,196,487.97	\$6,451,352.11	High .1497 – Low .1233

*Net Earnings represent investment earnings less administrative assessments.

**Trustee Invested Funds Reporting Period
 July 1, 2017 through June 30, 2018**

Fund	Net Other Investment Earnings	Net Interest Earnings	Net Rate of Return
WPCFC	\$2,287,490.21	\$994,314.36	Not applicable

4. LOANS RECEIVABLE

Receivables presented on the balance sheet represent below-market-rate interest loans to local governments for construction of wastewater treatment facilities and/or drinking water systems. Loan agreements provide for repayment generally in 20 annual and 40 semiannual installments. Loans receivable reflected on the balance sheet represent amounts disbursed to local governments for wastewater treatment facilities and/or drinking water systems construction, plus capitalized interest (i.e., interest earned on disbursed funds until project construction is completed), interest receivable, and related service fees, less loan repayments.

The Department has not established any allowances for uncollectible accounts, as it does not expect to write-off any loan accounts. The loan agreements include various legal remedies for collection in case of default including notifying the State Chief Financial Officer to intercept unobligated funds due to a local government under any revenue or tax-sharing fund established by the State.

5. STATE REVOLVING FUND LOAN PROGRAM ACTIVITY

Due to the nature of the loan program, the disbursing of funds for loans does not result in the expenditure of funds. Rather, such disbursements result in the establishment of receivables. Similarly, the repayment of loans does not result in revenues. Funds received as payment on outstanding receivables are used to reduce the outstanding receivable balances and subsequently make additional loans; therefore, the funds are never expended. The Department is authorized to make grants from the DWSRF to certain eligible public water systems for construction of drinking water systems and these disbursements for grants are reported as expenditures.

Audit of the Clean Water and Drinking Water State Revolving Fund Programs' Special Purpose Financial Presentations.
Selected Internal Controls, and Compliance for the Fiscal Year Ended June 30, 2018
Division of Water Restoration Assistance

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Local government loan recipients are assessed loan administration service fees, which are incorporated within their loan receivable balances, to cover the costs of administering the CWSRF and DWSRF Programs. These fees are deposited, recorded, and reported in the FGTF. During the reporting period of July 1, 2017 through June 30, 2018, the Department incurred CWSRF Program administration costs of \$4,869,194.42 which were funded 100% from loan service fees.

DWSRF capitalization grants allows up to 4% of the grant amount for program administration costs. During the reporting period of July 1, 2017 through June 30, 2018, the Department incurred \$2,213,221.99 for DWSRF Program administration costs, of which \$876,755.45 were funded from loan service fees and \$1,336,466.52 funded from the DWSRF capitalization grant.

A portion of each CWSRF loan repayment made after June 30, 1997, is designated as a grant allocation assessment to be used solely for the purpose of making wastewater grants to financially disadvantaged small communities. The grant allocation assessments are accounted for in a grant allocation assessment sub-account in the FGTF. Disbursements for grants to financially disadvantaged small communities are reported as expenditures.

Pursuant to Section 403.1837, Florida Statutes, the WPCFC was created during fiscal year 2000-2001 as a nonprofit public-benefit corporation for the purpose of financing or refinancing loans for the costs of water pollution control projects and activities described in Section 403.1835, Florida Statutes. The Department has the option to assign additional loans to the WPCFC at a future date, at which point the loans would become pledged loans. During the reporting period July 1, 2017 through June 30, 2018, no additional loans were assigned to the WPCFC.

The WPCFC is administered by the U.S. Bank Trust National Association, (the Trustee), pursuant to a Master Trust Indenture dated June 1, 2001. Under accounting principles generally accepted in the United States of America, the WPCFC will be presented as a component unit of the State reporting entity by the SBA.

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**State Revolving Fund Loan Program Activity for Reporting Period
 July 1, 2017 thru June 30, 2018**

Fund	Disbursements for Loans	Loan Repayments /*Grant Allocations	Disbursements for Grants/Principal Forgiveness	Service Fees Assessed
CWSRF	\$152,311,148.90	\$68,590,634.76	\$10,573,530.10	\$2,334,318.87
DWSRF	\$45,526,408.50	\$36,366,046.99	\$7,022,943.50	\$662,743.42
Admin	\$0.00	\$14,085,430.01	\$892,315.43	\$0.00
WPCFC	\$162,884,679.00	\$68,758,571.46	\$0.00	\$782,265.73

6. OTHER FINANCING SOURCES (USES)

Transfers in consist of State general revenue and trust fund moneys provided for federal matching purposes and transfers in and out from the WPCFC.

7. BONDS PAYABLE

All bond series are being paid over a period of 20 years. The bonds mature serially and are secured by a pledge of loans from local governments. (This schedule was provided by the SBA.)

Bond Type	Original Amount	Amount Outstanding	Range of Interest Rates Outstanding	Annual Maturity
Water Pollution Control Bonds -				
Series 2003	89,775,000.00	18,725,000.00	3.90% - 5.25%	1/15/2023
Series 2008A	250,000,000.00	138,035,000.00	3.75% - 5.10%	1/15/2029
Series 2010A	225,000,000.00	147,845,000.00	3.5% - 5.00%	7/15/2030
	564,775,000.00	304,605,000.00		
Unamortized premiums (discounts) on bonds payable	6,879,989.69		
Total Bonds Payable	\$ 564,775,000.00	\$ 311,484,989.69		

The following schedule illustrates the total principal and interest due for debt service on the Series 2003 Bonds, Series 2008A and Series 2010A Bonds. The detail of the below Debt Service Requirements schedule is provided on the next page. The following two tables are created by the Department as summary information extracted from the WPCFC working papers submitted by SBA.

Audit of the Clean Water and Drinking Water State Revolving Fund Programs' Special Purpose Financial Presentations.
Selected Internal Controls, and Compliance for the Fiscal Year Ended June 30, 2018
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Debt Service Requirements			
Annual debt service requirements to amortize bonds at June 30, 2018 are as follows:			
Year Ending June 30	Component Units		
	Principal	Interest	Total
2019	\$ 28,030,000.00	\$ 14,664,267.50	\$ 42,694,267.50
2020	\$ 27,790,000.00	\$ 13,267,817.50	\$ 41,057,817.50
2021	\$ 27,720,000.00	\$ 11,910,592.50	\$ 39,630,592.50
2022	\$ 27,050,000.00	\$ 10,536,347.50	\$ 37,586,347.50
2023	\$ 27,755,000.00	\$ 9,171,235.00	\$ 36,926,235.00
2024-2028	\$ 129,625,000.00	\$ 26,273,532.50	\$ 155,898,532.50
2029-2031	\$ 36,635,000.00	\$ 2,315,945.00	\$ 38,950,945.00
Bonds payable and interest	304,605,000.00	88,139,737.50	392,744,737.50
Unamortized Premiums (discounts)	6,879,989.70		\$ 6,879,989.70
Unamortized premiums (for 2001 issue - not in State CAFR)			-
Total bonds payable and interest	\$ 311,484,989.70	\$ 88,139,737.50	\$ 399,624,727.20

Debt Service and Interest by Bond Series

Year Ending June 30	Bond Series 2003			Year Ending June 30	Bond Series 2008A		
	Principal	Interest	Total		Principal	Interest	Total
2019	3,830,000.00	932,370.00	4,762,370.00	2019	13,090,000.00	6,803,022.50	19,893,022.50
2020	3,950,000.00	731,295.00	4,681,295.00	2020	12,400,000.00	6,171,397.50	18,571,397.50
2021	3,675,000.00	523,920.00	4,198,920.00	2021	12,355,000.00	5,599,797.50	17,954,797.50
2022	3,585,000.00	332,737.50	3,917,737.50	2022	11,815,000.00	5,000,235.00	16,815,235.00
2023	3,685,000.00	147,400.00	3,832,400.00	2023	11,840,000.00	4,417,460.00	16,257,460.00
	18,725,000.00	2,667,722.50	21,392,722.50	2024-2028	68,960,000.00	11,823,845.00	80,783,845.00
Unamortized Premiums (discounts)	167,252.31		167,252.31	2029	7,575,000.00	383,195.00	7,958,195.00
Less amount deferred or refunded	-	-	-		138,035,000.00	40,198,952.50	178,233,952.50
Total bonds payable and interest	18,892,252.31	2,667,722.50	21,559,974.81	Unamortized Premiums (discounts)	202,991.66	-	202,991.66
				Total bonds payable and interest	138,237,991.66	40,198,952.50	178,436,944.16
				Year Ending June 30	Bond Series 2010A		
					Principal	Interest	Total
				2019	11,110,000.00	6,928,875.00	18,038,875.00
				2020	11,440,000.00	6,365,125.00	17,805,125.00
				2021	11,690,000.00	5,786,875.00	17,476,875.00
				2022	11,650,000.00	5,203,375.00	16,853,375.00
				2023	12,230,000.00	4,606,375.00	16,836,375.00
				2024-2028	60,665,000.00	14,449,687.50	75,114,687.50
				2029-2031	29,060,000.00	1,932,750.00	30,992,750.00
					147,845,000.00	45,273,062.50	193,118,062.50
				Unamortized Premiums (discounts)	6,509,745.73	-	6,509,745.73
				Less amount deferred or refunded	-	-	-
				Total Bonds payable and interest	154,354,745.73	45,273,062.50	199,627,808.23

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Findings and Recommendations

Finding 1: Proprietary Fund Reporting

GASB establishes financial reporting standards for state and local governments. GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* provides that the proprietary fund category includes enterprise and internal service funds. Enterprise funds may be used for any activity that charges a fee for goods or services to external users. Activities are required to be reported as enterprise funds if any of the following criteria is met.

- The activity is financed with debt that is secured solely by a pledge of the net revenues and charges of the activity.
- Laws and regulations require that the activity's costs of providing services be recovered with fees and charges rather than with taxes or similar revenues.

Revenue Bonds issued by the Florida Pollution Control Financing Corporation (FPCFC), created pursuant to Section 403.1837, Florida Statutes, are secured solely by the net fees and charges of the Clean Water State Revolving Fund. Clean Water and Drinking Water State Revolving Fund activities are not funded with tax revenues. Regulations governing these activities provide that, if fees are deposited into an account outside the loan funds, they must be used for program administration. Service Fees for these activities are deposited into the Federal Grants Trust Fund.

The Department has not implemented the financial reporting provisions of GASB Statement No. 34. Instead, the Department uses a format prepared on the modified accrual basis of accounting. Enterprise funds are required for reporting when using the accrual basis of accounting.

Recommendation

Going forward, we recommend the Department prepare the State Revolving Fund Program's financial statements using an enterprise fund format and the accrual basis of accounting. In preparing the financial statements using an enterprise fund format, the Notes to Financial

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Statements should include a description of the Program's policy for defining operating and nonoperating revenues in the summary of significant accounting policies.

Finding 2: Special Purpose Financial Presentations (SPFP)

When an entity is required to issue GAAP-based financial statements, the use of a special purpose framework is not appropriate. Special purpose framework presentations include the following five categories:

- Tax basis.
- Cash basis.
- Regulatory basis.
- Contractual basis.
- Other basis – A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in the financial statements.

Title 42 United States Code §300j – 12 State Revolving Loan Funds provides that the EPA Administrator shall publish guidance and promulgate regulations as may be necessary to carry out the provisions of this section. Title 40 of the Code of Federal Regulations (CFR), Subpart K – State Water Pollution Control Revolving Funds §35.3135(h)(2) provides that, *the State must also agree to use accounting, audit, and fiscal procedures conforming to generally accepted government accounting standards as they are promulgated by the Governmental Accounting Standards Board.* Title 40 CFR, Subpart L – Drinking Water State Revolving Funds §35.3570(a)(2) provides, *as part of the Biennial Report, a State must present the financial status of the DWSRF Program, including the total dollar amount of fee accounts. This report must, at a minimum, include the financial statements and footnotes required under GAAP to present fairly the financial condition and results of operations.*

None of the five special purpose presentations are applicable to the State Revolving Fund Program's financial reporting requirements. To comply with federal regulations, State Revolving Fund financial statements should be presented in accordance with GAAP.

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Recommendation

Going forward, we recommend the Department report the State Revolving Fund financial statements in accordance with GAAP.

Finding 3: Basic Financial Statements

The Special Purpose Financial Presentation for the State Revolving Fund Program omits one of the financial statements specified under GAAP. In addition, the Measurement Focus and Basis of Accounting disclosed in the Notes to the Special Purpose Financial Presentation is incorrect. GASB Statement No. 34 – Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments provides that the required financial statements for proprietary funds are:

- Statement of Net Assets (now amended to Statement of Net Position) or balance sheet
- Statement of Revenues, Expenses, and Changes in Fund Net Assets (Net Position) or fund equity
- Statement of cash flows.

Proprietary fund statements of net position and revenues, expenses, and changes in fund net position should be presented using the economic resources measurement focus and the accrual basis of accounting.

The Special Purpose Financial Presentation for the State Revolving Fund Program omits a statement of cash flows. In addition, the Notes to the Special Purpose Financial Presentations states that the measurement focus of the Clean Water and Drinking Water State Revolving Fund is the current financial resources method. The current financial resources measurement focus measures the financial resources available in the near future as a result of transactions and events of the fiscal period reported. As such, long-term assets and liabilities would not be reflected on the balance sheet of the funds reported. The economic resources measurement focus is generally the same as used by commercial entities. In addition to current resources, this method includes long-term assets and liabilities on the balance sheet. The Special Purpose Financial Presentation lists current and long-term assets and liabilities on the balance sheet. Thus, the note disclosure regarding the measurement focus is in error.

Audit of the Clean Water and Drinking Water State Revolving Fund Programs' Special Purpose Financial Presentations.
Selected Internal Controls, and Compliance for the Fiscal Year Ended June 30, 2018
Division of Water Restoration Assistance

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Recommendation

Going forward, we recommend the Department include a statement of cash flows and revise its Notes to state the correct measurement focus of the statements.

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Independent² Auditors' 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

We have audited, 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, the accompanying financial statements which comprise the balance sheet for the Clean Water and Drinking Water Revolving Fund Programs of the Department as of June 30, 2018; the statement of revenues, expenditures, and changes in fund balances for the fiscal year then ended, and the related notes to the financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting to determine appropriate audit procedures in the circumstances 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

² See Footnote 1 on page 4

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Our consideration of internal control was limited for the purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. An audit in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) is performed by the Florida Auditor General. This report is available at <https://flauditor.gov>.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Florida Department of Environmental Protection
Office of Inspector General
Tallahassee, Florida
June 27, 2019

Audit of the Clean Water and Drinking Water State Revolving Fund Programs' Special Purpose Financial Presentations.
Selected Internal Controls, and Compliance for the Fiscal Year Ended June 30, 2018
Division of Water Restoration Assistance

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To promote accountability, integrity, and efficiency in state government, the OIG completes audits and reviews of agency programs, activities, and functions. Our audit was conducted under the authority of Section 20.055, F.S., and in conformance with Government Auditing Standards issued by the Comptroller General of the United States of America to comply with the provisions of a grant agreement between the Florida Department of Environmental Protection and the United States Environmental Protection Agency. The audit was conducted by Robert E. Gay, CPA.

This report is intended solely for the information and use of the Department and the USEPA. However, OIG audits are a matter of public record, and their distribution cannot be limited. Please address inquiries regarding this report to the OIG's Audit Director by telephone at (850) 245-3157. Copies of final reports may be viewed and downloaded via the internet at <https://floridadep.gov/oig/internal-audit/content/final-audit-reports>. Copies may also be obtained by telephone (850) 245-3151, by fax (850)245-2994, in person or by mail at Department of Environmental Protection, Office of Inspector General, 3900 Commonwealth Boulevard, Mail Station #41, Tallahassee, FL 32399.

*Valerie J. Peacock,
Director of Auditing*

*Candie M. Fuller,
Inspector General*



FLORIDA DEPARTMENT OF Environmental Protection

Marjory Stoneman Douglas Building
3900 Commonwealth Boulevard
Tallahassee, FL 32399

Ron DeSantis
Governor

Jeanette Nuñez
Lt. Governor


Noah Valenstein
Secretary

Memorandum

TO: Valerie Peacock, Audit Director
Office of the Inspector General

FROM: Darinda McLaughlin, Director
Division of Administrative Services

Darinda McLaughlin Digitally signed by Darinda
McLaughlin
Date: 2019.06.21 13:04:06 -0400

Trina Vielhauer, Director 
Division of Water Restoration and Assistance

SUBJECT: Report A-1819DEP-020
Audit of the Clean Water and Drinking Water State Revolving Fund Programs'
Special Purpose Financial Presentations, Selected Internal Controls, and
Compliance for the Fiscal Year Ended June 30, 2018

DATE: June 21, 2019

This memorandum will serve as the response to the subject audit findings and recommendations.

Finding 1: Proprietary Fund Reporting

- *Recommendation: Going forward, we recommend the Department prepare the State Revolving Fund Program's financial statements using an enterprise fund format and the accrual basis of accounting. In preparing the financial statements using an enterprise fund format, the Notes to Financial Statements should include a description of the Program's policy for defining operating and nonoperating revenues in the summary of significant accounting policies.*

Response: We acknowledge the recommendation and will be procuring an outside CPA firm to prepare the required program financial statements.

Finding 2: Special Purpose Financial Presentations (SPFP)

- *Recommendation: Going forward, we recommend the Department report the State Revolving Fund financial statements in accordance with GAAP.*

Response: We acknowledge the recommendation and will be procuring an outside CPA firm to prepare the required program financial statements.

Finding 3: Basic Financial Statements

- *Recommendation: Going forward, we recommend the Department include a statement of cash flows and revise its Notes to state the correct measurement focus of the statements.*

Response: We acknowledge the recommendation and will be procuring an outside CPA firm to prepare the required program financial statements.