

**Audit of the Clean Water and Drinking Water
Revolving Fund Programs’
Special Purpose Financial Presentations,
Selected Internal Controls, and Compliance
for Fiscal Year Ended June 30, 2017**

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

Report: A-1718DEP-018

Office of Inspector General

Internal Audit Section

Florida Department of Environmental Protection

June 25, 2018

3900 Commonwealth Boulevard, MS 40
Tallahassee, Florida 32399-3000
www.dep.state.fl.us





Report: A-1718DEP-018

Table of Contents

Scope and Objectives	2
Summary of Conclusions.....	3
Independent Auditors' Report on the Financial Statements	4
Management's Responsibility for the Financial Statements.....	4
Auditors' Responsibility	4
Auditors' Opinion	5
Basis of Accounting.....	5
Restriction of Use	5
Independent 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.....	16
Internal Control over Financial Reporting	16
Compliance and Other Matters.....	17
Purpose of this Report	17
Independent Auditors' Report on Compliance with the Requirements Applicable to the Environmental Protection Agency's State Revolving Fund Programs and on Internal Control Over Compliance Required by the Uniform Guidance	18

Report: A-1718DEP-018

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 Revolving Fund Programs' Special Purpose Financial Presentations, selected internal controls, and compliance for the fiscal year ended June 30, 2017. This audit was initiated as a result of the OIG fiscal year 2017-2018 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 Revolving Fund Programs' Special Purpose Financial Presentation for the fiscal year ended June 30, 2017. 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:

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

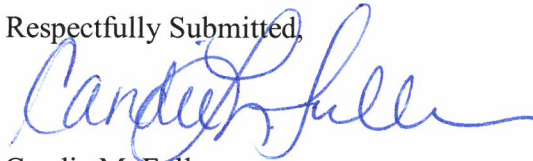
Report: A-1718DEP-018

Summary of Conclusions

Based on our audit of the financial statements of the Clean Water and Drinking Water Revolving Fund Programs, the Department's financial statements accompanying this report present fairly the financial position of the Clean Water and Drinking Water Revolving Fund Programs as of June 30, 2017, and the revenues, expenditures, and changes in fund balances for the fiscal year ended June 30, 2017.

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

Respectfully Submitted,



Candie M. Fuller
Inspector General
Florida Department of Environmental Protection

Audit supervised and reviewed by:



Robert E. Gay, CPA, FCCM
Florida Department of Environmental Protection
Office of Inspector General
June 25, 2018

Report: A-1718DEP-018

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 Revolving Fund Programs of the Department as of June 30, 2017; the statement of revenues, expenditures, and changes in fund balances for the fiscal year ended June 30, 2017; 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 or permitted by the United States Environmental Protection Agency (USEPA). Management is also responsible for the design, implementation, and maintenance of internal control 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 control 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 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

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.

Report: A-1718DEP-018

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 audit opinion.

Auditors' Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clean Water and Drinking Water Revolving Fund Programs of the Department as of June 30, 2017; and its revenues, expenditures, and changes in fund balances for the fiscal year ended June 30, 2017; in accordance with financial reporting practices prescribed or permitted by the USEPA.

Basis of Accounting

We draw attention to the notes to the financial statements, which describe the basis of accounting. The financial statements were prepared in conformity with the financial reporting practices permitted by the USEPA, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 25, 2018

Audit of the Clean Water and Drinking Water Revolving Fund Programs' Special Purpose Financial Presentations, Selected Internal Controls, and Compliance for the Fiscal Year Ended June 30, 2017

Report: A-1718DEP-018

**FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION
CLEAN WATER AND DRINKING WATER REVOLVING FUND PROGRAMS
SPECIAL PURPOSE FINANCIAL PRESENTATIONS
BALANCE SHEET
AS OF JUNE 30, 2017**

	<u>CWSRF Fund</u>	<u>WPCFC Fund</u>	<u>DWSRF Fund</u>	<u>Administrative Fund (FGTF)</u>	<u>Total (Memorandum only)</u>
ASSETS					
<u>Current Assets</u>					
Cash and Cash Equivalents	\$ 106,702.18		\$ 102,178.01		\$ 208,880.19
Pooled Investments with State Treasury (Note 3)	427,490,896.81	\$ 82,354,500.32	376,616,583.94	\$ 43,179,241.61	929,641,222.68
Investments with U.S. Bank (Note 3)		148,438,981.15			148,438,981.15
Loans Receivable (Notes 4)	80,410,732.56	77,470,243.53	36,901,115.42	8,528,761.78	203,310,853.29
Due from State Funds Within Division	600.00				600.00
Due from State Funds Within Department	-		11,143.09	29,105.66	40,248.75
Due from U.S. Grants Receivable			12,188,636.20	153,897.72	12,342,533.92
Investment Interest Receivable	670,569.07	255,894.24	581,166.66	64,154.65	1,571,784.62
Total Current Assets	508,679,500.62	308,519,619.24	426,400,823.32	51,955,161.42	1,295,555,104.60
<u>Noncurrent Assets</u>					
Loans Receivable (Notes 4)	916,897,767.81	762,164,377.61	330,570,023.54		2,009,632,168.96
Long-term Investments		40,439,554.25			40,439,554.25
Total Noncurrent Assets	916,897,767.81	802,603,931.86	330,570,023.54	-	2,050,071,723.21
Total Assets	\$ 1,425,577,268.43	\$ 1,111,123,551.10	\$ 756,970,846.86	\$ 51,955,161.42	\$ 3,345,626,827.81
LIABILITIES					
<u>Current liabilities</u>					
Accounts Payable	\$ 600.00				\$ 600.00
Due to Other Funds	29,105.66				29,105.66
Due to Other Departments	43,514.67	\$ 9,083.35	\$ 37,713.15		90,311.17
Revenue bonds payable (Note 7)		28,770,000.00			28,770,000.00
Accrued interest on revenue bonds		7,500,446.26			7,500,446.26
Total Current Liabilities	73,220.33	36,279,529.61	37,713.15		36,390,463.09
<u>Noncurrent liabilities</u>					
Revenue Bonds Payable (Note 7)		313,489,867.19			313,489,867.19
Total Noncurrent Liabilities	-	313,489,867.19	-		313,489,867.19
Total Liabilities	73,220.33	349,769,396.80	37,713.15		349,880,330.28
FUND BALANCES:					
Restricted by Federal Government –					
SRF Grant Allocation				\$ 23,381,508.95	23,381,508.95
SRF Service Fee				17,531,719.42	17,531,719.42
DWSRF Service Fee				11,041,933.05	11,041,933.05
Other	1,425,504,048.10	761,354,154.30	756,933,133.71		2,943,791,336.11
Total Fund Balances	1,425,504,048.10	761,354,154.30	756,933,133.71	51,955,161.42	2,995,746,497.53
Total Liabilities and Fund Balances	\$ 1,425,577,268.43	\$ 1,111,123,551.10	\$ 756,970,846.86	\$ 51,955,161.42	\$ 3,345,626,827.81

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

Audit of the Clean Water and Drinking Water Revolving Fund Programs' Special Purpose Financial Presentations, Selected Internal Controls, and Compliance for the Fiscal Year Ended June 30, 2017

Report: A-1718DEP-018

**FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION
CLEAN WATER AND DRINKING WATER REVOLVING FUND PROGRAMS
SPECIAL PURPOSE FINANCIAL PRESENTATIONS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

	CWSRF Fund	WPCFC Fund	DWSRF Fund	Administrative Fund (FGTF)	Total (Memorandum only)
REVENUES					
CWSRF Loan Administration Fees (Note 5)	\$ 600.00			\$ 4,162,008.49	\$ 4,162,608.49
DWSRF Loan Administration Fees (Note 5)				2,213,683.50	2,213,683.50
Grant Allocation Assessment (Note 5)				14,961,804.56	14,961,804.56
USEPA Capitalization Grant	45,100,000.00		\$ 34,635,789.20	1,035,554.71	80,771,343.91
DWSRF - Indirect Cost				32,066.28	32,066.28
Prior Year Adjustment - Refunds				(21,624.56)	(21,624.56)
Interest Earned on Investments (Note 3)	6,214,004.48	\$ 1,421,137.57	4,972,043.99	635,806.64	13,242,992.68
Interest Earned on Loan Repayments	14,471,898.80	12,743,631.20	9,585,675.55		36,801,205.55
Fines, Forfeits, Judgements, and Settlements	21,776.76				21,776.76
Total Revenues	<u>65,808,280.04</u>	<u>14,164,768.77</u>	<u>49,193,508.74</u>	<u>23,019,299.62</u>	<u>152,185,857.17</u>
EXPENDITURES					
Administration Costs - SRF & CWWQO (Note 5)				5,640,211.44	5,640,211.44
Administration Costs - DWSRF (Note 5)				711,299.47	711,299.47
Administration Costs - DWLPI				84,554.16	84,554.16
Administration Costs - Set-Asides				1,067,620.99	1,067,620.99
Grants to Small Disadvantaged Communities (Note 5)				7,279,253.80	7,279,253.80
Drinking Water Facility Construction - SRL (Note 5)			8,672,951.51		8,672,951.51
Wastewater Treatment Facility Construction (Note 5)	9,601,779.90				9,601,779.90
Debt Service: (Note 7):					
Interest and Fiscal Charges		16,835,025.11			16,835,025.11
Amortization of Bond Premium		(2,419,643.58)			(2,419,643.58)
Total Expenditures	<u>9,601,779.90</u>	<u>14,415,381.53</u>	<u>8,672,951.51</u>	<u>14,782,939.86</u>	<u>47,473,052.80</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>56,206,500.14</u>	<u>(250,612.76)</u>	<u>40,520,557.23</u>	<u>8,236,359.76</u>	<u>104,712,804.37</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in -					
State Match from General Revenue	9,020,000.00		6,038,200.00		15,058,200.00
Total Other Financing Sources (Uses)	<u>9,020,000.00</u>	<u>-</u>	<u>6,038,200.00</u>	<u>-</u>	<u>15,058,200.00</u>
Net Change in Fund Balances	<u>65,226,500.14</u>	<u>(250,612.76)</u>	<u>46,558,757.23</u>	<u>8,236,359.76</u>	<u>119,771,004.37</u>
Fund Balances – Beginning	<u>1,360,277,547.96</u>	<u>761,604,767.06</u>	<u>710,374,376.48</u>	<u>43,718,801.66</u>	<u>2,875,975,493.16</u>
Fund Balances – Ending	<u>\$ 1,425,504,048.10</u>	<u>\$ 761,354,154.30</u>	<u>\$ 756,933,133.71</u>	<u>\$ 51,955,161.42</u>	<u>\$ 2,995,746,497.53</u>

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

Report: A-1718DEP-018

**FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION
CLEAN WATER AND DRINKING WATER
REVOLVING FUND PROGRAMS
NOTES TO SPECIAL PURPOSE FINANCIAL PRESENTATIONS
July 1, 2016 through June 30, 2017**

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, 2017.

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) program is authorized by Section 403.1835, Florida Statutes. Chapter 62-503 of the Florida Administrative Code sets forth the detailed state revolving fund 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 program is authorized by Section 403.8532, Florida Statutes. Chapter 62-552 of the Florida Administrative Code sets forth the detailed DWSRF program requirements.

Report: A-1718DEP-018

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

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 of Florida 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 relate 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,

Report: A-1718DEP-018

- The Water Pollution Control Financing Corporation (WPCFC), a nonprofit public-benefit corporation which is classified as a blended component unit of the State reporting entity.

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.

Report: A-1718DEP-018

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.

July 1, 2016 through June 30, 2017

Fund	Investments	Net Earnings*	Net Rate of Return
CWSRF	\$435,146,730.15	\$6,214,004.48	High .1680 – Low .0709
DWSRF	\$377,131,583.94	\$4,972,043.99	High .1680 – Low .0709

*Net Earnings represent investment earnings less administrative assessments.

**Trustee Invested Funds Reporting Period
July 1, 2016 through June 30, 2017**

Fund	Net Other Investment Earnings	Net Interest Earnings	Net Rate of Return
WPCFC	\$700,208.28	\$720,929.28	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

Report: A-1718DEP-018

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.

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, 2016, through June 30, 2017, the Department incurred CWSRF program administration costs of \$5,640,211.44 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, 2016, through June 30, 2017, the Department incurred \$1,863,474.62 for DWSRF program administration costs, of which \$795,853.63 was funded from loan service fees and \$1,067,620.99 was 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, 2016, through June 30, 2017, 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 blended component unit of the State reporting entity by the SBA.

Report: A-1718DEP-018

**State Revolving Fund Loan Program Activity for Reporting Period
July 1, 2016 through June 30, 2017**

Fund	Disbursements for Loans	Loan Repayments/ *Grant Allocations	Disbursements for Grants/Principal Forgiveness	Service Fees Assessed
CWSRF	\$143,110,887.10	\$ 96,004,887.10	\$9,601,779.90	\$1,604,711.12
DWSRF	\$ 42,781,259.49	\$ 90,142,459.17	\$8,672,951.51	\$ 811,563.31
Admin	\$ 0.00	\$ 14,961,804.56	\$7,279,253.80	\$ 0.00
WPCFC	\$153,139,194.00	\$119,393,787.77	\$ 0.00	\$ 827,637.37

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

Water Pollution Control Bonds are issued by the Water Pollution Control Financing Corporation (a blended component unit) to fund loans to local governments to finance or refinance the cost of wastewater treatment and storm water management projects. 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.)

Bonds payable at June 30, 2017, are as follows:

	Original Amount	Amount Outstanding	Range of Interest Rates Outstanding	Annual Maturity
Water Pollution Control				
Series 2003	\$ 89,775,000.00	\$ 22,630,000.00	3.70% - 5.25%	1/15/2023
Series 2008A	250,000,000.00	151,400,000.00	3.75% - 5.10%	1/15/2029
Series 2010A	225,000,000.00	159,345,000.00	3.5% - 5.00%	7/15/2030
		333,375,000.00		
Unamortized premiums		8,884,867.20		
	<u>\$564,775,000.00</u>	<u>\$342,259,867.20</u>		

Audit of the Clean Water and Drinking Water Revolving Fund Programs' Special Purpose Financial Presentations, Selected Internal Controls, and Compliance for the Fiscal Year Ended June 30, 2017

Report: A-1718DEP-018

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.

Annual debt service requirements to amortize bonds at June 30, 2017 are as follows:

Year Ending June 30	Principal	Interest	Total
2018	\$ 28,770,000.00	\$ 16,077,110.00	\$ 44,847,110.00
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
2023-2027	134,595,000.00	32,746,047.50	167,341,047.50
2028-2031	59,420,000.00	5,014,665.00	64,434,665.00
Bonds payable and interest	333,375,000.00	104,216,847.50	437,591,847.50
Unamortized premiums	8,884,867.20		8,884,867.20
Total bonds payable and interest	<u>\$ 342,259,867.20</u>	<u>\$ 104,216,847.50</u>	<u>\$446,476,714.70</u>

Audit of the Clean Water and Drinking Water Revolving Fund Programs' Special Purpose Financial Presentations, Selected Internal Controls, and Compliance for the Fiscal Year Ended June 30, 2017

Report: A-1718DEP-018

Debt Service and Interest by Bond Series

Year Ending June 30	Bond Series 2003		
	Principal	Interest	Total
2018	\$ 3,905,000.00	\$ 1,132,112.50	\$ 5,037,112.50
2019	3,830,000.00	932,370.00	4,762,370.00
2020	3,950,000.00	731,295.00	4,681,295.00
2021-2023	10,945,000.00	1,004,057.50	11,949,057.50
Bonds payable and interest	22,630,000.00	3,799,835.00	26,429,835.00
Unamortized premiums	280,281.23		280,281.23
Total bonds payable and interest	\$ 22,910,281.23	\$ 3,799,835.00	\$ 26,710,116.23

Year Ending June 30	Bond Series 2008A		
	Principal	Interest	Total
2018	\$ 13,365,000.00	\$ 7,450,872.50	\$ 20,815,872.50
2019	13,090,000.00	6,803,022.50	19,893,022.50
2020	12,400,000.00	6,171,397.50	18,571,397.50
2021-2025	66,045,000.00	21,928,227.50	87,973,227.50
2026-2029	46,500,000.00	5,296,305.00	51,796,305.00
Bonds payable and interest	151,400,000.00	47,649,825.00	199,049,825.00
Unamortized premium	428,675.10		428,675.10
Total bonds payable and interest	\$ 151,828,675.10	\$ 47,649,825.00	\$ 199,478,500.10

Year Ending June 30	Bond Series 2010A		
	Principal	Interest	Total
2018	\$ 11,500,000.00	\$ 7,494,125.00	\$ 18,994,125.00
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
2021-2025	60,310,000.00	23,053,937.50	83,363,937.50
2026-2030	58,020,000.00	8,751,000.00	66,771,000.00
2031	6,965,000.00	174,125.00	7,139,125.00
Bonds payable and interest	159,345,000.00	52,767,187.50	212,112,187.50
Unamortized premium	8,175,910.87		8,175,910.87
Total bonds payable and interest	\$ 167,520,910.87	\$ 52,767,187.50	\$ 220,288,098.37

Report: A-1718DEP-018

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, 2017; 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 (internal control) 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.

Our consideration of internal control was for the limited 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

² See Footnote 1 on page 3

Report: A-1718DEP-018

significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been 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 or other matters that are required to be reported under *Government Auditing Standards*.

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 25, 2018

Report: A-1718DEP-018

Independent³ Auditors' Report on Compliance with the Requirements Applicable to the Environmental Protection Agency's State Revolving Fund Programs and on Internal Control Over Compliance Required by the Uniform Guidance

Report on Compliance

We have audited the financial statements of the Florida Department of Environmental Protection's State Revolving Fund Programs for Clean Water and Drinking Water as of and for the year ended June 30, 2017, and have issued our report thereon dated June 25, 2018.

We have also audited the Programs compliance with requirements governing:

- Activities Allowed or Unallowed
- Allowable Costs/Cost Principles
- Cash Management
- Matching, Level of Effort, Earmarking
- Period of Performance
- Procurement/Suspension and Debarment
- Program Income
- Reporting
- Subrecipient Monitoring
- Special Tests and Provisions

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on the Department's compliance for the State Revolving Fund Clean Water and Drinking Water Programs based on the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller of the United States; Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance); and the United States Environmental Protection Agency Audit Guide for the Clean

³ See Footnote 1 on page 3

Report: A-1718DEP-018

Water and Drinking Water State Revolving Fund Programs. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the federal programs occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Department's Clean Water and Drinking Water Programs. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Compliance

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its federal Clean Water and Drinking Water Programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the State Revolving Fund Clean Water and Drinking Water Programs is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered the program's internal control over compliance with the types of requirements that could have a direct and material effect on the programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the program's internal control over compliance.

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

Report: A-1718DEP-018

deficiency in internal control over compliance is a deficiency, or combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Florida Department of Environmental Protection
Office of Inspector General
Tallahassee, Florida
June 25, 2018

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 Adam Crump and supervised 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*