



State of Idaho

Legislative Services Office

Agreed-Upon Procedures Report

A communication to the Joint Finance-Appropriations Committee

IDAHO DEPARTMENT OF
ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND

FY 2016

Report AU24716
Date Issued: March 16, 2017

Serving Idaho's Citizen Legislature



April Renfro, Manager

Idaho Legislative Services Office
Legislative Audits Division

IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY CLEAN WATER STATE REVOLVING FUND

SUMMARY

PURPOSE OF AGREED-UPON PROCEDURES

We performed agreed-upon procedures on the financial statements of the Idaho Department of Environmental Quality's (Department) Clean Water State Revolving Fund (CWSRF) as of, and for the year ended, June 30, 2016.

The intent of the agreed-upon procedures report is not to provide an opinion on the financial statements of the CWSRF, and we do not provide such an opinion. These procedures were performed for the purpose of reporting the results as compared to the agreed-upon criteria.

CONCLUSION

As a result of completing the agreed-upon procedures, we did not identify any errors that exceeded the agreed-upon criteria.

OTHER INFORMATION

We discussed other issues which, if addressed, would improve internal control, compliance, and efficiency.

This report is intended solely for the information and use of the State of Idaho and the Department and is not intended to be used by anyone other than these specified parties.

A copy of this report and prior reports are available at <http://www.legislature.idaho.gov/audit/auditsummaries.htm> or by calling 208-334-4832.

We appreciate the cooperation and assistance given to us by the Idaho Department of Environmental Quality, Director John Tippetts, and his staff.

ASSIGNED STAFF

Jim Combo, CPA, CGFM, Managing Auditor
Laura Handley, In-Charge Auditor
Justin Powell, Staff Auditor
James Barrett-Spencer, Staff Auditor

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Legislative Services Office Idaho State Legislature

Eric Milstead
Director

Serving Idaho's Citizen Legislature

March 10, 2017

Independent Accountant's Report on Applying Agreed-Upon Procedures

John Tippetts, Director
Idaho Department of Environmental Quality
1410 North Hilton Street
Boise, ID 83706

Dear Mr. Tippetts:

We have performed the procedures enumerated below, which were agreed to by the Idaho Department of Environmental Quality (Department), solely to assist you with an evaluation of the financial statements of the Clean Water State Revolving Fund (CWSRF) as of and for the year ended June 30, 2016. The Department is responsible for preparing the CWSRF financial statements and retaining the appropriate related supporting documentation. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Reporting Criteria

We included in this report any matters that came to our attention that caused us to believe that any of the specified line items in the agreed-upon procedures should be adjusted by more than 5percent of the line item total on the financial statements prepared by the Department, including projected adjustments from samples.

Agreed-Upon Procedures

Our engagement was designed to perform the following agreed-upon procedures based on the CWSRF financial statements prepared by the Department. These financial statements are included in this report in the Appendix: Financial Statements. The agreed-upon procedures and the results of those procedures are as follows:

1. We compared the following amounts reported on the CWSRF Statement of Net Position as of June 30, 2016, to the Department's records and other documents as identified:
 - a. **Cash:** We compared the amounts reported as cash on the Statement of Net Position to the amounts reported as cash on the DAFR 8160 report from the state accounting system to determine that they match.
Findings: We found no exceptions as a result of the comparisons.

Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

April Renfro, Manager
Legislative Audits

Glenn Harris, Manager
Information Technology

- b. **Investments:** We compared the amounts reported as Investments on the Statement of Net Position to the investments reports received from the Office of the State Treasurer to determine that they match.

Findings: We found no exceptions as a result of the comparisons.

- c. **Loans Receivable – Current and Non-current:** We compared the total current and non-current loans receivable amounts reported on the Statement of Net Position to the loans receivable balance on the DAFR 8180 report from the state accounting system. We compared the current and non-current amounts reported on the Statement of Net Position to the Department’s records from the Loan Service Plus (LSP) or TRIM systems to determine that they match.

Findings: We found no exceptions in the comparison of the current and non-current amounts reported to the amounts in the loan systems.

The Department identified the population of loan balances comprising this line item, we selected a sample from the population, and we performed the following tests:

- i. Reviewed loan documents and calculations to determine that they were properly classified as current and non-current.

Findings: We selected 9 loan recipients, reviewed their loan documents and calculations, and found no exceptions.

- ii. Sent confirmations to loan recipients and compared their responses to Department records to determine that they match.

Findings: We selected 9 loan recipients, and sent balance confirmations as of June 30, 2016. We received confirmations from 8 of the 9 loan recipients, and all 8 matched the loan balances.

- d. **Interest Receivable – Loans – Current and Non-current:** We compared the total current and non-current interest receivable – loan amounts reported on the Statement of Net Position to the corresponding amounts in the Loan Service Plus system (LSP) and manual calculations to determine that they match.

Findings: We found no exceptions as a result of the comparisons.

The Department identified the population of loan balances comprising this line item, we selected a sample from the population, and we performed the following tests:

- i. Recalculated loan interest to determine the total interest receivable is correct.

Findings: We selected 9 loan recipients and recalculated their loan interest. We found no exceptions as a result of our recalculations.

- ii. Reviewed loan documentation to verify the current and non-current portions of the interest receivable were reported correctly.

Findings: We selected 9 loan recipients and reviewed their loan documents to verify the current and non-current portions of interest receivable were reported correctly. We found no exceptions as a result of our procedures.

- 2. We compared the following amounts reported on the CWSRF Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2016, to the Department’s records:

- a. **Contributions – EPA:** The Department identified the population of transactions comprising this line item. We compared the total dollar amount of the population to the amount reported on the financial statements to determine that they match.

Findings: We found no exceptions as a result of our comparison.

We selected a sample from the population, and we reviewed appropriate supporting documentation on the transactions to determine the following:

- i. The costs for which reimbursement was requested were incurred before the request for reimbursement.

Findings: We selected all 8 transactions in this population and verified that the costs for which the reimbursement was requested were incurred prior to the reimbursement request. We found no exceptions as a result of our procedures.

- ii. The transactions were recorded in the proper amount, on the correct date, and in the correct fund in the Statewide Accounting and Reporting System (STARS).

Findings: We selected all 8 transactions in this population and verified they met the stated criteria. We found no exceptions as a result of our procedures.

- b. **Contributions – State:** The Department identified the population of transactions comprising this line item. We compared the total dollar amount of the population to the amount reported on the financial statements to determine that they match.

Findings: We found no exceptions as a result of our comparisons.

We selected a sample from the population, and we reviewed appropriate supporting documentation on the transactions to determine the following:

- i. The costs for which reimbursement was requested were incurred before the request for reimbursement.

Findings: We selected all 29 transactions in this population and verified that the costs for which the reimbursement was requested were incurred prior to the reimbursement request. We found no exceptions as a result of our procedures.

- ii. The transactions were recorded in the proper amount, on the correct date, and in the correct fund in STARS.

Findings: We selected all 29 transactions in this population and verified they met the stated criteria. We found no exceptions as a result of our procedures.

- c. **Interest Earned – Idle Pool:** We compared the amount reported as interest earned on the Idle Pool to the statements provided by the Office of the State Treasurer and other Department documents as applicable to determine that they match.

Findings: We found no exceptions as a result of our comparison.

- d. **Interest Earned – DBF:** We compared the amount reported as interest earned on the Idle Pool to the statements provided by the Office of the State Treasurer and other Department documents as applicable to determine that they match.

Findings: We found no exceptions as a result of our comparison.

- e. **Interest Earned – Loans:** The Department identified the population of transactions comprising this line item. We compared the total dollar amount of the population to the amount reported on the financial statements to determine that they match.

Findings: We found no exceptions as a result of our comparison.

We selected a sample from the population, and we reviewed appropriate supporting documentation on the transactions to determine the following:

- i. CWSRF payments were recorded in the CWSRF fund.

Findings: We selected a sample of 14 loan payments from the population. Of the 14 selected, 5 payments had no interest portion and 9 included interest. The 5 payments with no interest were consistent with the underlying loan agreements. All loan interest payments were correctly recorded in the CWSRF fund. We found no exceptions as a result of our procedures.

ii. The transactions were recorded in the proper amount and on the correct date.

Findings: We used the same sample of 14 loan payments used for procedure 2-e-i and verified they met the criteria. We found no exceptions as a result of our procedures.

3. We compared the following amounts reported on the CWSRF Statement of Cash Flows for the year ended June 30, 2016, to the Department's records:

a. **Cash Received – Loan Interest Payments and Cash Received – Loan Principal Repayments:** The Department identified the population of transactions comprising this line item. We compared the total dollar amount of the population to the amount reported on the financial statements to determine that they match.

Findings: We found no exceptions as a result of our comparison.

We selected a sample from the population, and we reviewed appropriate supporting documentation on the transactions to determine the following:

i. CWSRF payments were recorded in the CWSRF fund.

Findings: We selected a sample of 14 loan payments from the population. Of the 14 selected, 5 payments had no interest portion and 9 included interest. The 5 payments with no interest were consistent with the underlying loan agreements. All 9 loan interest payments were correctly recorded in the CWSRF fund. We found no exceptions as a result of our procedures.

ii. The transactions were recorded in the proper amount and on the correct date.

Findings: We used the same sample of 14 loan payments used for procedure 3-a-i and verified they met the criteria. We found no exceptions as a result of our procedures.

b. **Loan Disbursements:** The Department identified the population of transactions comprising this line item. We compared the total dollar amount of the population to the amount reported on the financial statements to determine that they match.

Findings: We found no exceptions as a result of our comparison.

We selected a sample from the population, and we reviewed appropriate supporting documentation on the transactions to determine the following:

i. CWSRF disbursements were recorded in the CWSRF fund.

Findings: We selected a sample of 13 loan disbursements from the population. All loan disbursements were correctly recorded in the CWSRF fund. We found no exceptions as a result of our procedures.

ii. The disbursement amount and date recorded in STARS matches the supporting documentation.

Findings: We used the same sample of 13 loan disbursements used in 3-b-i and verified they met the criteria. We found no exceptions as a result of our procedures.

- iii. Loan forgiveness transactions match the loan agreement/amendment documents, and the amount and date were accurately recorded in STARS.

Findings: We selected 7 loan forgiveness transactions from the population. We verified that the loan forgiveness transactions matched the loan documents and amendments as applicable. We also verified the transactions were accurately recorded in STARS. We found no exceptions as a result of our procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the CWSRF financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Sincerely,

A handwritten signature in cursive script that reads "April Renfro".

April Renfro, CPA, Manager
Legislative Audits Division

APPENDIX: FINANCIAL STATEMENTS

STATE OF IDAHO
 IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY
 CLEAN WATER STATE REVOLVING FUND
 STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

| | LOAN ACTIVITIES | PROGRAM ACTIVITIES | TOTAL |
|------------------------------------|----------------------|-----------------------|----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash | \$17,083,606 | | \$17,083,606 |
| Cash - Loan Service Fees | | 1,086,016 | 1,086,016 |
| Investments | 81,990,090 | | 81,990,090 |
| Interest Receivable - Fund Balance | 115,554 | | 115,554 |
| Interest Receivable - Loans | 2,351,785 | | 2,351,785 |
| Fees Receivable - Loans | | 953,270 | 953,270 |
| Interest Receivable - Fees | | 590 | 590 |
| Loans Receivable | 8,477,756 | | 8,477,756 |
| Total Current Assets | \$110,018,791 | \$2,039,876 | \$112,058,667 |
| Non-Current Assets | | | |
| Loans Receivable | \$221,178,919 | | 221,178,919 |
| Interest Receivable | 439,925 | | 439,925 |
| Fees Receivable | | 317,181 | 317,181 |
| Total Non-Current Assets | \$221,618,844 | \$317,181 | \$221,936,025 |
| TOTAL ASSETS | \$331,637,635 | \$2,357,057 | \$333,994,692 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Payroll Payable | | \$30,195 | \$30,195 |
| Operating Payable | | 24,975 | \$24,975 |
| Indirect Payable | | 10,792 | 10,792 |
| Total Current Liabilities | | \$65,962 | \$65,962 |
| TOTAL LIABILITIES | | \$65,962 | \$65,962 |
| NET ASSETS | | | |
| Unrestricted | \$331,637,635 | \$2,291,095 | \$333,928,730 |
| TOTAL NET ASSETS | \$331,637,635 | \$2,291,095 | \$333,928,730 |

STATE OF IDAHO
IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

| | LOAN ACTIVITIES | PROGRAM ACTIVITIES | TOTAL |
|---|----------------------|-----------------------|----------------------|
| OPERATING REVENUES | | | |
| EPA Operating Revenue | | \$398,276 | \$398,276 |
| Loan Servicing Fee Revenues | | 522,922 | 522,922 |
| Other Income | | 5,556 | 5,556 |
| Total Operating Revenues | | <u>\$926,754</u> | <u>\$926,754</u> |
| OPERATING EXPENSES | | | |
| Program Administration | | | |
| Personnel | | \$309,523 | \$309,523 |
| Operating | | 37,765 | 37,765 |
| Indirect | | 100,587 | 100,587 |
| Total Program Administration Expenses | | <u>\$447,875</u> | <u>\$447,875</u> |
| Other Program Expenses | | | |
| Personnel | | \$157,360 | \$157,360 |
| Operating | | 71,588 | 71,588 |
| Grants | | 288,559 | 288,559 |
| Indirect | | 51,124 | 51,124 |
| Total Other Program Expenses | | <u>\$568,631</u> | <u>\$568,631</u> |
| Total Operating Expenses | | <u>\$1,016,506</u> | <u>\$1,016,506</u> |
| Operating Income(Loss) | | (\$89,752) | (\$89,752) |
| NON OPERATING REVENUES(EXPENSES) | | | |
| Contributions | | | |
| Contributions - EPA | \$6,544,320 | | 6,544,320 |
| Contributions - State | 1,363,400 | | 1,363,400 |
| Contributions - Related Party | 10,000,000 | | 10,000,000 |
| Investment Income: | | | |
| Interest Earned - Idle Pool | 105,472 | | 105,472 |
| Interest Earned DBF | 1,457,300 | | 1,457,300 |
| Interest Earned - Loans | 2,674,724 | | 2,674,724 |
| Interest Earned - Loan Service Fees | | 5,505 | 5,505 |
| Net Gain (Loss) on Sale of Assets | | | |
| Net Decrease in Fair Value of Investments | 1,230,825 | | 1,230,825 |
| Loan Forgiveness | (1,055,278) | | (1,055,278) |
| Net Investment Income | \$4,413,043 | \$5,505 | \$4,418,548 |
| Total Non-Operating Revenues(Expenses) | <u>\$22,320,763</u> | <u>\$5,505</u> | <u>\$22,326,268</u> |
| Change in Net Assets | \$22,320,763 | (\$84,247) | \$22,236,516 |
| Net Assets - Beginning of Year | 309,316,870 | 2,375,342 | 311,692,212 |
| Net Assets - End of Year | <u>\$331,637,633</u> | <u>\$2,291,095</u> | <u>\$333,928,728</u> |

STATE OF IDAHO
IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY
CLEAN WATER STATE REVOLVING FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

| | LOAN ACTIVITIES | PROGRAM ACTIVITIES | TOTAL |
|--|--------------------|-----------------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash Received From EPA | | \$398,276 | \$398,276 |
| Cash Received - Loan Service Fees | | 720,411 | 720,411 |
| Cash Received - Other | | 5,556 | 5,556 |
| Cash Payments - Administrative Expenses | | (1,012,259) | (1,012,259) |
| Net Cash Provided by Operating Activities | | \$111,984 | \$111,984 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | | |
| Cash Received From EPA | \$6,544,320 | | \$6,544,320 |
| Cash Received as State Match | 1,363,400 | | 1,363,400 |
| Cash Received From Related Party | 10,000,000 | | 10,000,000 |
| Net Cash Provided by Non-Capital Financing Activities | \$17,907,720 | | \$17,907,720 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Loans and Interest Cash Flows | | | |
| Cash Received - Loan Interest Payments | \$2,164,108 | | \$2,164,108 |
| Cash Received - Loan Principal Repayments | 10,237,262 | | 10,237,262 |
| Cash Received - Loan Service Fees Interest | | \$5,191 | 5,191 |
| Loan Disbursements | (31,861,596) | | (31,861,596) |
| Cash Received - Investment Interest | 1,559,379 | | 1,559,379 |
| Purchase/Sale of Investments | (1,458,363) | | (1,458,363) |
| Net Cash Used by Investing Activities | (\$19,359,210) | \$5,191 | (\$19,354,019) |
| Net Increase (Decrease) in Cash | (\$1,451,490) | \$117,175 | (\$1,334,315) |
| Cash Balance - Beginning of Year | 18,535,098 | 968,842 | 19,503,940 |
| Cash Balance - End of Year | \$17,083,608 | \$1,086,017 | \$18,169,625 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES | | | |
| Operating Income | | (\$89,754) | (\$89,754) |
| Adjustments by Operating Activities | | | |
| Change in Payables | | 4,249 | 4,249 |
| Change in Receivables | | 197,489 | 197,489 |
| Total Adjustments | | \$201,738 | \$201,738 |
| Net Cash Provided by Operating Activities | | \$111,984 | \$111,984 |

AGENCY RESPONSE



STATE OF IDAHO
DEPARTMENT OF
ENVIRONMENTAL QUALITY

1410 North Hilton • Boise, Idaho 83706 • (208) 373-0502
www.deq.idaho.gov

C.L. "Butch" Otter, Governor
John H. Tippetts, Director

March 3, 2017

Ms. April Renfro, CPA, Manager
Legislative Audits
Legislative Services Office
PO Box 83720
Boise, Idaho 83720-0054

Re: Agreed-Upon Procedures Report - Clean Water State Revolving Fund FY2016

Dear Ms. Renfro:

The Department of Environmental Quality accepts the Agreed-Upon Procedures Report.

If you or your staff has any further questions, please contact Jack Carpenter, Financial Officer.

Sincerely,

A handwritten signature in blue ink that reads "John H. Tippetts".

John H. Tippetts
Director

c: Jack Carpenter, DEQ-Fiscal Office

ORGANIZATIONAL CHART



Idaho Department of Environmental Quality

