



State of Idaho

Legislative Services Office

Agreed-Upon Procedures Report

A communication to the Joint Finance-Appropriations Committee

IDAHO DEPARTMENT OF
ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND

FY 2016

Report AU24616
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 DRINKING 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) Drinking Water State Revolving Fund (DWSRF) 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 DWSRF, 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 Drinking Water State Revolving Fund (DWSRF) as of and for the year ended June 30, 2016. The Department is responsible for preparing the DWSRF 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 5 percent 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 DWSRF 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 DWSRF 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 our 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 our 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 as a result of our comparison.

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 8 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 8 loan recipients, and sent balance confirmations as of June 30, 2016. We received confirmations from 7 of the 8 loan recipients, and all 7 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 discrepancies.

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 8 loan recipients and recalculated their loan interest. We found no exceptions as a result of our procedures.

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

Findings: We selected 8 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 DWSRF 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 4 EPA transactions 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 Statewide Accounting and Reporting System (STARS).

Findings: We selected 4 transactions in this populations 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 discrepancies.

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 7 transactions from the 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 7 transactions from this population and verified they met the stated criteria. We found no exceptions as a result of our procedures.

- c. **Interest Earned – Fund Balance:** 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 comparisons.

- d. **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 comparisons.

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

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

Findings: We selected a sample of 13 loan payments from the population. Of the 13 selected, 4 payments had no interest portion and 9 included interest. The 4 payments with no interest were consistent with the underlying loan agreements. All loan interest payments were correctly recorded in the DWSRF 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 13 loan payments used for procedure 2-d-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 DWSRF 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. DWSRF payments were recorded in the DWSRF fund.
Findings: We selected a sample of 13 loan payments from the population. Of the 13 selected, 4 payments had no interest portion and 9 included interest. The 4 payments with no interest were consistent with the underlying loan agreements. All loan interest payments were correctly recorded in the DWSRF 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 13 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 discrepancies.

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

- i. DWSRF disbursements were recorded in the DWSRF fund.
Findings: We selected a sample of 9 loan disbursements from the population. All loan disbursements were correctly recorded in the DWSRF 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 9 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 DWSRF 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". The signature is written in black ink and is positioned below the word "Sincerely,".

April Renfro, CPA, Manager
Legislative Audits Division

APPENDIX: FINANCIAL STATEMENTS

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

	LOAN ACTIVITIES	SET-ASIDE PROGRAMS	TOTAL
ASSETS			
Current Assets			
Cash	\$10,891,344		\$10,891,344
Cash - Loan Fees		\$1,408,725	1,408,725
Investments	36,791,857		36,791,857
Interest Rec - Fund Balance	52,992		52,992
Interest Rec - Loans	258,461		258,461
Interest Rec - Loan Fees		846	846
Loans Receivable	4,783,402		4,783,402
Fees Receivable		89,143	89,143
Due From EPA		238,625	238,625
Total Current Assets	\$52,778,056	\$1,737,339	\$54,515,395
Non-Current Assets			
Loans Receivable	\$106,254,294		\$106,254,294
Interest Receivable - Loans	109,882		109,882
Fees Receivable - Loan LT		\$49,072	49,072
Total Non-Current Assets	\$106,364,176	\$49,072	\$106,413,248
TOTAL ASSETS	\$159,142,232	\$1,786,411	\$160,928,643
LIABILITIES			
Current Liabilities			
Due to State	\$321,997		\$321,997
Set Asides Payable		\$214,440	214,440
Loan Admin Payable		24,184	24,184
Total Current Liabilities	\$321,997	\$238,624	\$560,621
TOTAL LIABILITIES	\$321,997	\$238,624	\$560,621
NET POSITION			
Unrestricted	\$158,820,235	\$1,547,787	\$160,368,022
TOTAL NET POSITION	\$158,820,235	\$1,547,787	\$160,368,022

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

	LOAN ACTIVITIES	SET ASIDE PROGRAMS	TOTAL
OPERATING REVENUES			
EPA Operating Revenue		\$2,780,027	\$2,780,027
Loan Service Fee Revenue		348,367	348,367
Other Income		5,374	5,374
Total Operating Revenues		<u>\$3,133,768</u>	<u>\$3,133,768</u>
OPERATING EXPENSES			
Program Administration			
Personnel		\$262,212	\$262,212
Operating		32,805	32,805
Travel		3,170	3,170
Indirect		92,591	92,591
Total Program Administration		<u>\$390,778</u>	<u>\$390,778</u>
Program Set - Asides			
Personnel		\$1,251,581	\$1,251,581
Operating		398,580	398,580
Travel		15,019	15,019
Grants		321,742	321,742
Indirect		407,701	407,701
Total Program Set - Asides		<u>\$2,394,623</u>	<u>\$2,394,623</u>
Total Operating Expenses		<u>\$2,785,401</u>	<u>\$2,785,401</u>
Operating Income		<u>\$348,367</u>	<u>\$348,367</u>
NON-OPERATING REVENUES(EXPENSES)			
Contributions from EPA	\$5,907,526		\$5,907,526
Contributions from STATE	1,738,931		1,738,931
Contributions To Related Party	(10,000,000)	(\$500,000)	(10,500,000)
Interest Earned - Fund Balance	714,423		714,423
Interest Earned - Loans	1,407,840		1,407,840
Interest Earned - Loan Fees		8,634	8,634
Loan Forgiveness	(1,928,684)		(1,928,684)
Loss On Sale of Investments			
Increase in FMV of Investments	552,318		552,318
Total Non-Operating Revenues	<u>(\$1,607,646)</u>	<u>(\$491,366)</u>	<u>(\$2,099,012)</u>
Change in Net Assets	<u>(\$1,607,646)</u>	<u>(\$142,999)</u>	<u>(\$1,750,645)</u>
Net Assets - Beginning of Year	\$160,427,882	\$1,690,784	\$162,118,666
Net Assets - End of Year	<u>\$158,820,236</u>	<u>\$1,547,785</u>	<u>\$160,368,021</u>

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

	LOAN ACTIVITIES	SET ASIDE PROGRAMS	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received From EPA		\$2,741,997	\$2,741,997
Cash Received - Loan Fees		\$369,689	\$369,689
Cash Received - Other		5,374	5,374
Cash Disbursed - Admin. Expenses		(393,222)	(393,222)
Cash Disbursed - Other Program Expenses		(2,354,149)	(2,354,149)
Net Cash Provided by Operating Activities		\$369,689	\$369,689
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Cash Received From EPA	\$5,907,526		\$5,907,526
Cash Received as State Match	1,523,818		1,523,818
Cash Transferred to Related Party	(10,000,000)	(500,000)	(10,500,000)
Net Cash Used by Non-Capital Financing Activities	(\$2,568,656)	(\$500,000)	(\$3,068,656)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Received - Investment Interest	\$179,333		\$179,333
Cash Received - Loan Fees Interest		8,199	\$8,199
Cash Received - Loan Interest Payments	1,248,724		1,248,724
Cash Received - Loan Principal Repayments	4,204,295		4,204,295
Loan Disbursements	(7,651,654)		(7,651,654)
Purchase of Investments	(120,182)		(120,182)
Net Cash Used by Investing Activities	(\$2,139,484)	\$8,199	(\$2,131,285)
Net Increase (Decrease) in Cash	(\$4,708,140)	(\$122,112)	(\$4,830,252)
Cash Balance - Beginning of Year	15,599,484	1,530,837	\$17,130,321
Cash Balance - End of Year	\$10,891,344	\$1,408,725	\$12,300,069
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income		\$348,367	\$348,367
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities			
Change in Fees Receivable		\$21,323	\$21,323
Change in Due From EPA		(38,030)	(38,030)
Change in Administration Payable		(2,445)	(2,445)
Change in Program Set-Asides Payable		40,474	\$40,474
		\$21,322	\$21,322
Net Cash Provided by Operating Activities		\$369,689	\$369,689

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 - Drinking 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

