



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
WATER

October 16, 1997

SRF 98-01

MEMORANDUM

SUBJECT: Clean Water and Drinking Water State Revolving Fund Financial Audit Strategy

FROM: Robert Perciasepe /s/
Assistant Administrator

TO: Water Division Directors
Regions I - X

The growth and increasing complexity of the Clean Water State Revolving Fund (CW-SRF) program and the advent of the new Drinking Water State Revolving Fund (DW-SRF) program require an appropriate set of financial safeguards to ensure the long-term integrity of these multi-billion dollar investments. Separate financial statement audits of the SRF's that include an auditor's opinion, along with reports on compliance and internal controls, make good business sense for both programs.

In recent months, the Agency's strategy was to require separate annual financial audits of both the CW and DW-SRF programs (included in SRF policy memo 97-1, November 13, 1996, and the Final Drinking Water SRF Guidelines, EPA 816-R-97-005, February 1997). However, a few State program officials and the National State Auditors Association pointed out to us that the provisions of the Single Audit Act of 1996 necessitated changes to this strategy.

In order to both address these concerns and maintain or improve the financial integrity of the SRF programs, a revised audit strategy was developed through discussions with representatives from Office of Wastewater Management (OWM), Office of Ground Water and Drinking Water (OGWDW), Office of General Counsel (OGC), Office of Inspector General (OIG), the EPA Regional Offices, and the Office of Management and Budget (OMB). While the Single Audit Act limits the Agency's ability to implement its original strategy, all of the parties above and many State officials recognize that additional audit coverage, beyond the Single Audit Act, is needed to ensure the financial integrity of these unique programs. Therefore, we have developed a revised audit strategy as reflected in this memorandum and its attachment.

Currently, many States conduct separate financial statement audits of their SRFs and recognize that the benefits of such an audit far outweigh the minimal costs. Separate financial statement audits provide assurances that the financial condition of the 51 SRF programs are reported accurately and fairly. In turn, we rely on audits to provide important information to

the public, bond holders and rating agencies, state managers, and EPA about the financial integrity and operations of these multi-billion dollar revolving funds.

An informal survey of several States revealed that the cost of separate audits ranged from \$3,000 to \$30,000 and averaged approximately \$12,000 - a small expense to help ensure the integrity of a multi-million or multi-billion dollar SRF. Because separate audits make extremely good business sense for both the CW and DW-SRF programs, we ask that the Regions work directly with each of their States to gain a voluntary agreement to have these audits conducted on an annual basis and to document this agreement in their operating agreements. States may, at their discretion, use a portion of their SRF 4% administrative funds or other funds, including those held in separate fee accounts to pay for the costs of these audits.

Because we strongly believe separate financial statement audits of both SRF programs are needed to ensure their long-term integrity, the Office of Inspector General will conduct audits of SRF programs in States which do not carry out separate financial audits on a regular and ongoing basis. In addition, the Office of Inspector General and the Office of Water will be working with the Office of Management and Budget to develop and improve the SRF Single Audit compliance supplement.

The attached set of questions and answers is intended to provide more detailed information. If you have any questions please contact me at (202) 260-5700 or Truman (Ron) Beeler, in the Office of Inspector General, at (415) 744-2445 or Nikos Singelis, in the Office of Wastewater Management, at (202) 260-5695.

Attachment

cc: Woody Jackson - OMB
Carrie Jelsma - OMB