

CALIFORNIA DEPARTMENT OF PUBLIC HEALTH

Independent Auditor's Report

FINANCIAL AND COMPLIANCE AUDIT OF THE SAFE DRINKING WATER STATE REVOLVING FUND

For the Fiscal Year Ended June 30, 2009



JOHN CHIANG
California State Controller

January 2010



JOHN CHIANG
California State Controller

January 28, 2010

Mark B. Horton, M.D., M.S.P.H., Director
California Department of Public Health
1615 Capitol Avenue, MS 0500
P.O. Box 997377
Sacramento, CA 95899-7377

Dear Dr. Horton:

The following is the report on the financial and compliance audit for the California Department of Public Health's Safe Drinking Water State Revolving Fund for the fiscal year ended June 30, 2009.

Our audit disclosed that the fund's financial statements conform to accounting principles generally accepted in the United States of America, and we found no instances of material noncompliance with applicable laws, regulations, contracts, or grant agreements.

If you have any questions, please call Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/wm

cc: Kevin Reilly, DVM, MPVM, Chief Deputy Director of Policy and Programs
California Department of Public Health (via e-mail)
Jose Ortiz, Acting Chief Deputy Director of Operations
California Department of Public Health (via e-mail)
Alan Lum, Acting Deputy Director–Administration
California Department of Public Health (via e-mail)
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California Department of Public Health (via e-mail)
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California Department of Public Health (via e-mail)
Julianne Talbot, CPA, Division of Accounting
and Reporting, State Controller’s Office (via e-mail)

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FINANCIAL SECTION



JOHN CHIANG
California State Controller

Mark B. Horton, M.D., M.S.P.H., Director
California Department of Public Health
1615 Capitol Avenue, MS 0500
P.O. Box 997377
Sacramento, CA 95899-7377

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying Statement of Net Assets, Statement of Revenue, Expenses, and Changes in Net Assets, and Statement of Cash Flows of the Safe Drinking Water State Revolving Fund (Fund) as of and for the year ended June 30, 2009. These financial statements are the responsibility of the California Department of Public Health's management. 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, Definition of Reporting Entity, the financial statements of the Fund are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the financial reporting entity of the department that is attributable to the transactions of the Fund. They do not purport to, and do not present the financial position of the State of California as of June 30, 2009, or the changes in its financial position of its cash flows.

The department has not presented the Management Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States have determined are necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the Safe Drinking Water State Revolving Fund's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Fund. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2009, and the changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the department's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the department's financial statements that is more than inconsequential will not be prevented or detected by the department's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of department management, those charged with governance, and state control agencies, and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

January 28, 2010

California Department of Public Health
Safe Drinking Water State Revolving Fund
Statement of Net Assets
June 30, 2009

ASSETS

Current assets:

Cash and pooled investments	\$ 146,783,179
Receivables:	
Loan interest	1,991,612
Investment interest	348,002
Due from federal trust fund	39,957,551
Due from local agencies	152,156
Current portion of loans receivable	<u>18,795,246</u>
Total current assets	<u>208,027,746</u>

Noncurrent assets:

Noncurrent loans receivable	<u>498,429,980</u>
Total noncurrent assets	<u>498,429,980</u>

Total assets	<u><u>\$ 706,457,726</u></u>
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LIABILITIES

Current liabilities:

Accounts payable	\$ 894,896
Due to other funds	566,229
Due to other governments	<u>195,263</u>
Total current liabilities	<u>1,656,388</u>

Noncurrent liabilities:

Compensated absences payable	<u>565,433</u>
Total noncurrent liabilities	<u>565,433</u>

Total liabilities	<u><u>\$ 2,221,821</u></u>
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NET ASSETS

Restricted	<u>704,235,905</u>
Total net assets	<u><u>\$ 704,235,905</u></u>

The notes to the financial statements are an integral part of this statement.

**California Department of Public Health
Safe Drinking Water State Revolving Fund
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
Year Ended June 30, 2009**

Operating revenues:	
Charges for loan interest	\$ 9,636,551
EPA administrative reimbursements	<u>11,105,286</u>
Total operating revenues	<u>20,741,837</u>
Operating expenses:	
Salaries and benefits	5,106,067
Other expenses	4,372,667
Grant awards	<u>2,727,181</u>
Total operating expenses	<u>12,205,915</u>
Income (loss) from operations	<u>8,535,922</u>
Nonoperating revenues (expenses):	
Investment earnings	1,902,950
EPA capitalization grant	80,232,486
State match	<u>5,688,852</u>
Total nonoperating revenues (expenses)	<u>87,824,288</u>
Change in net assets	96,360,210
Total net assets—beginning	<u>607,875,695</u>
Total net assets—ending	<u>\$ 704,235,905</u>

The notes to the financial statements are an integral part of this statement.

California Department of Public Health Safe Drinking Water State Revolving Fund Statement of Cash Flows Year Ended June 30, 2009

CASH FLOW FROM OPERATING ACTIVITIES

Cash received from interest on loans	\$ 11,443,994
Cash paid for loans and grants disbursed	(42,956,363)
Principal received on loans receivable	15,662,376
Cash paid to employees and vendors	(11,217,850)
EPA grants for administrative and set-aside costs	<u>11,105,286</u>
Net cash flows from operating activities	<u>(15,962,557)</u>

CASH FLOW FROM INVESTING ACTIVITIES

Interest received from investments	<u>2,157,774</u>
Net cash flows from investing activities	<u>2,157,774</u>

CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES

Transfers from the Environmental Protection Agency	58,655,681
Transfers from the State of California	<u>6,485,615</u>
Net cash flows from noncapital financing activities	<u>65,141,296</u>
Net increase in cash and cash equivalents	51,336,513
Cash and cash equivalents—July 1, 2008	<u>95,446,666</u>
Cash and cash equivalents—June 30, 2009	<u>\$ 146,783,179</u>

Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:

Operating income	<u>\$ 8,535,922</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activity:	
Decrease in interest receivable	345,658
(Increase) in loans receivable	(18,508,639)
(Decrease) in accounts payable	(2,297,962)
(Decrease) in due to other funds	(766,555)
(Decrease) in due to other governments	(3,260,717)
(Decrease) in compensated absences payable	<u>(10,264)</u>
Total adjustments	<u>(24,498,479)</u>
Net cash flows from operating activities	<u>\$ (15,962,557)</u>

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

Year Ended June 30, 2009

NOTE 1— DEFINITION OF REPORTING ENTITY

Effective July 1, 2007, the California Department of Health Services was divided into two separate departments: the California Department of Health Care Services and the California Department of Public Health. Pursuant to Chapter 241, Statutes of 2006 (SB 162), specific programs and public health responsibilities were transferred from the former California Department of Health Services to the newly established California Department of Public Health. The Safe Drinking Water State Revolving Fund (Fund) is now administered by the California Department of Public Health.

The Fund was created pursuant to Health and Safety Code (HSC) section 116760.30, and is continuously appropriated without regard to fiscal year. The Fund is capitalized by the U.S. Environmental Protection Agency (EPA) by a series of federal grants. As a condition for receiving the federal grant, the department is required to provide an additional 20% of matching funds. The department uses the Fund primarily to make loans to public water systems for financing the cost of infrastructure needed to achieve or to maintain compliance with the Safe Drinking Water Act requirements and to protect public health.

The activities of the Fund are included in the State of California's *Comprehensive Annual Financial Report*. The Fund includes the federal loan fund, two state match loan funds, and five set-aside funds. The set-aside funds are the: (1) Administration Account, (2) Water System Reliability Account, (3) Source Protection Account, (4) Small System Technical Assistance Account, and (5) Public Water System, Safe Drinking Water Revolving Fund.

The Public Water System, Safe Drinking Water State Revolving Fund is a set-aside fund that was created during fiscal year (FY) 2006-07 to pay for expenses to provide public water system oversight activities to support the Fund's loan and grant program. The establishment of the separate set-aside funds to account for the costs related to the administration of the Fund is consistent with federal guidelines. The loan and set-aside funds are combined to form the Fund's financial statements.

NOTE 2— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Fund Accounting**

The Fund is classified as an enterprise fund. Enterprise funds account for goods or services provided to the general public on a continuing basis when: (1) the department intends that all or most of the cost involved is to be financed by user charges, or (2) periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes. The Fund applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, pursuant to GASB Statement No. 20, as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements. For purposes of the Statement of Cash Flows, all cash and pooled investments, as discussed in Note 4, are considered to be cash equivalents.

Measurement Focus and Basis of Accounting

The Fund is accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred.

Principal Forgiveness Recognition

The department may authorize principal forgiveness on loans disbursed to disadvantaged communities. Principal forgiveness is recognized as an expense as loan disbursements are made. As of June 30, 2009, the department did not report principal forgiveness on any Fund loans.

Compensated Absences

State employees are eligible to accrue annual leave, vacation, and sick leave. Annual leave accrues at a rate of 11 to 20 hours per month. Vacation accrues at a rate of 7 to 16 hours per month. Accrued annual leave and vacation are paid out upon termination while sick leave is not. As of June 30, 2009, the Fund's compensated absences totaled \$565,433.

Restricted Net Assets

Net assets are restricted due to specific provisions of the program.

Restatement of Beginning Net Assets

According to GASB 33, federal revenue for a nonexchange transactions should be recognized when all applicable eligibility requirements have been met. In the prior year, eligibility requirements were met; however, no revenue was recognized. An increase to beginning net asset balance in the amount of \$16,139,942 was made to recognize revenue in the prior period.

NOTE 3— CAPITALIZATION GRANTS

The Fund is financed by annual grants from the U.S. Environmental Protection Agency (EPA) and a state match equal to 20% of the federal award.

Of the amount awarded by EPA, the Department has designated \$93.6 million for administrative expenses, program management, small system technical assistance, loan assistance, and other state program expenses (collectively known as set-asides), and \$520.1 million for loans. Set-asides are accounted for in other funds.

The grants awarded, amounts drawn on each grant, and the loan balances available for active grants, as of June 30, 2009, are presented below:

Grant Year	Capitalization Grant Amount	Award Available for Set-Aside	Award Available for Loans	Award Drawn for Loans	Available for Loans as of June 30, 2009
1998	\$ 75,682,600	\$ 10,048,176	\$ 65,634,424	\$ 65,634,424	\$ —
1999	77,108,200	4,934,925	72,173,275	72,173,275	—
2000	80,816,700	5,172,269	75,644,431	75,644,431	—
2001	83,993,100	2,000,000	81,993,100	81,993,100	—
2002	84,340,000	7,060,400	77,279,600	77,279,600	—
2003	82,392,347	6,879,101	75,513,246	75,513,246	—
2004	81,966,200	11,016,282	70,949,917	69,612,944	1,336,974
2005	84,957,600	16,601,008	68,356,592	2,263,333	66,093,259
2006	84,847,500	12,248,614	72,598,886	—	72,598,886
2007	67,123,678	8,700,249	58,423,429	—	58,423,429
2008	67,105,000	8,960,700	58,144,300	—	58,144,300

In the past, the State's matching contributions were provided through General Fund appropriations. Under federal guidelines, the state is not required to provide the match until the date it receives federal funds for a particular grant year.

NOTE 4— CASH AND POOLED INVESTMENTS

Cash in excess of current needs is deposited in the State's centralized treasury system, which combines the balances of state agencies into a single bank account to simplify cash management. The Surplus Money Investment Fund (SMIF) is managed by the Pooled Money Investment Board (PMIB). State statutes, bond resolutions, and investment policy resolutions allow the PMIB to invest in government securities, certificates of deposit, banker's acceptances, commercial paper, corporate bonds, mortgage loans and notes, other debt securities, repurchase agreements, equity securities, real estate, investment agreements, mutual funds, and other investments.

The reported amount represents an equity share in the balance of the investment pool. Since there are no individually owned investments, the deposit in SMIF is not reported by type of investment.

NOTE 5— LOANS RECEIVABLE

The Fund makes loans to qualified local and private entities at interest rates ranging between 0% and 50% of the average rate paid by the State on general obligation bonds. Loans must be repaid within 20 years after completion of the project (30 years for financially disadvantaged communities). Recipients make semiannual or, in some cases, annual payments, generally starting 12 months after project completion.

The department disburses the loan proceeds on a cost reimbursement basis. As entities spend money on projects financed by the Fund and request reimbursement, the department releases the loan proceeds. Interest accrues on all loan disbursements as of the date each disbursement is made.

There is no allowance for uncollectible accounts, as all repayments are current, and management believes all loans will be repaid according to the loan terms. There have been no loan defaults in the program since its inception.

The following schedule of loans receivable activity for the year ended June 30, 2009, lists each water system's outstanding loan balance. Included in the "Active Loans" category are water systems that have both fully disbursed and active loans outstanding.

Entity	Authorized Loan Amounts	Loans Issued as of June 30, 2009	Principal Payments as of June 30, 2009	Outstanding Loan Balances June 30, 2009
<u>Fully Disbursed Loans</u>				
Anaheim, City of	\$ 18,062,849	\$ 18,062,849	\$ 5,633,092	\$ 12,429,757
Angels, City of	1,489,361	1,489,361	446,808	1,042,553
Asoleado Mutual Water Company	59,200	59,200	36,589	22,611
Bella Vista Water District	10,171,641	10,171,641	200,869	9,970,772
Benicia, City of	11,716,747	11,716,747	937,361	10,779,386
Biola Community Services District	177,000	177,000	22,125	154,875
Blythe, City of	9,807,160	9,807,160	784,573	9,022,587
Brawley, City of (102)	15,823,475	15,823,475	6,329,390	9,494,085
Brawley, City of (103)	4,127,516	4,127,516	1,444,631	2,682,885
California Water Service Company	494,276	494,276	15,681	478,595
Capell Valley Estates, Inc.	648,000	648,000	51,226	596,774
Carpinteria Valley Water District (125)	8,140,452	8,140,452	643,529	7,496,923
Colusa County	171,720	171,720	4,293	167,427
Contra Costa Water District (106)	15,137,776	15,137,776	4,118,143	11,019,633
Contra Costa Water District (118)	5,942,427	5,942,427	1,102,325	4,840,102
Contra Costa Water District 101 (SWAP)	2,000,000	2,000,000	502,643	1,497,357
Crescent City	7,000,000	7,000,000	1,925,000	5,075,000
Del Rey Community Services District	172,380	172,380	17,238	155,142
Dunsmuir, City of	55,800	55,800	8,370	47,430
Dutch Flat Mutual Water Company	201,530	201,530	32,679	168,851
East Bay Municipal Utility District	2,188,000	2,188,000	497,253	1,690,747
East Valley Water District	169,052	169,052	23,667	145,385
Eastern Municipal Water District	42,098,388	42,098,388	2,104,919	39,993,469
El Dorado Irrigation District (102)	806,954	806,954	186,209	620,745
El Dorado Irrigation District (103)	639,925	639,925	147,666	492,259
El Dorado Irrigation District (104)	754,130	754,130	174,020	580,110
El Dorado Irrigation District (105)	1,022,963	1,022,963	236,054	786,909
El Dorado Irrigation District (130)	959,041	959,041	154,344	804,697
El Dorado Irrigation District (131)	1,928,791	1,928,791	310,411	1,618,380
El Dorado Irrigation District (140)	5,749,808	5,749,808	225,843	5,523,965
El Dorado Irrigation District (141)	3,387,107	3,387,107	269,362	3,117,745
El Dorado Irrigation District (142)	1,732,745	1,732,745	137,798	1,594,947
El Dorado Irrigation District (143)	5,873,746	5,873,746	114,653	5,759,093
Escondido, City of	2,048,125	2,048,125	420,458	1,627,667
Fort Bragg, City of	2,141,532	2,141,532	267,692	1,873,840
Fruitridge Vista Water Co.	3,272,505	3,247,959	323,013	2,924,946
Garberville Sanitary District	100,000	100,000	2,695	97,305
Grenada Water Company	590,000	590,000	88,500	501,500
Grizzly Flats Community District	253,336	253,336	45,419	207,917
Hillview Water Company (302-02)	3,709,392	3,709,392	63,474	3,645,918
Humboldt Bay Municipal Water District	10,946,739	10,946,739	2,736,685	8,210,054
Imperial County–West Lake County Campground	83,374	83,374	17,367	66,007
Imperial County–Red Hill Marina Campground	146,789	146,789	18,349	128,440
Indian Valley Community Services District	113,557	113,557	13,627	99,930
Ivanhoe Public Utility District	1,494,247	1,494,247	224,137	1,270,110
Kerman, City of	3,300,000	3,299,999	82,500	3,217,499
Kings, County of	991,251	991,251	66,083	925,168
Konocti–Ford's Acres Mobile Home Park	183,336	183,336	45,745	137,591

Entity	Authorized Loan Amounts	Loans Issued as of June 30, 2009	Principal Payments as of June 30, 2009	Outstanding Loan Balances June 30, 2009
<u>Fully Disbursed Loans (continued)</u>				
Lake Alpine Water Company	2,537,554	2,413,362	49,852	2,363,510
Lake Combie Mobile Home Village	54,951	54,951	11,281	43,670
Los Angeles, City of (101)	17,751,425	17,751,425	3,702,007	14,049,418
Meadow Vista County Water District (102)	73,305	73,305	42,880	30,425
Metropolitan Water District of Southern California	20,000,000	20,000,000	3,710,018	16,289,982
Redlands, City of	6,100,844	6,100,844	616,659	5,484,185
Richardson Beardsley Park, Inc.	57,093	57,093	11,907	45,186
River Pines Public Utility District	190,000	190,000	19,000	171,000
Rural North Vacaville Water District	8,838,365	8,838,365	2,238,308	6,600,057
San Buenaventura, City of	20,000,000	20,000,000	1,192,872	18,807,128
San Diego, City of	21,525,249	21,525,249	3,490,436	18,034,813
San Jose Water Company (301)	2,006,782	2,006,782	286,062	1,720,720
San Jose Water Company (303)	1,069,265	1,069,265	41,368	1,027,897
San Luis Obispo County Flood Control and Water Conservation District	325,430	325,430	66,807	258,623
Santa Barbara, City of (123)	19,997,928	19,997,928	1,936,463	18,061,465
Santa Barbara, City of (111)	17,900,849	17,900,849	2,902,720	14,998,129
Santa Clara Valley Water District	6,350,000	6,349,999	250,989	6,099,010
Santiago County Water District	1,300,000	1,300,000	186,470	1,113,530
Sequoia Crest Water Company	120,949	120,949	0	120,949
Sereno del Mar Water Company	250,000	250,000	73,714	176,286
Serrano Water District	3,460,882	3,460,882	1,579,560	1,881,322
Shady Glen Enterprises	136,878	136,878	11,004	125,874
Sierra Lakes County Water District	1,307,195	1,307,195	211,969	1,095,226
Sierra Mobile Home Park	59,110	59,110	14,223	44,887
Solano Irrigation District–Gibson Ranch	2,124,896	2,124,896	490,331	1,634,565
Solano Irrigation District–Blue Ridge Oaks	865,675	865,675	123,951	741,724
Solano Irrigation District–Peabody Improvement District	386,000	386,000	55,269	330,731
Sonoma County Water Agency	15,857,115	15,857,295	598,896	15,258,399
Southern Humboldt–Whitehorn Unified School District	28,616	28,616	7,869	20,747
Spanish Flat Water District (419)	176,867	176,867	8,662	168,205
Spanish Flat Water District (112)	95,646	95,646	1,879	93,767
Stinson Beach County Water District	411,500	411,500	67,444	344,056
Strathmore Public Utility District (413)	451,500	451,500	30,100	421,400
Redwood Mobile Home Park	78,441	78,441	78,441	—
Terra Bella Irrigation District (105)	1,218,820	1,218,820	457,058	761,762
Terra Bella Irrigation District (404)	102,000	102,000	30,600	71,400
Tracy, City of	20,000,000	20,000,000	1,198,797	18,801,203
Truckee Donner Public Utility District	12,732,965	12,732,965	1,553,527	11,179,438
Tuolumne Utilities District–Railbed Road	49,015	49,015	9,803	39,212
Union Public Utility District	2,296,452	2,296,451	88,847	2,207,604
Vallejo Water System (101)	6,675,000	6,675,000	2,507,936	4,167,064
Vallejo Water System (414)	68,080	68,080	13,616	54,464
Westmorland, City of	670,632	670,632	150,892	519,740
Willow Creek Community Services District	470,884	470,884	23,544	447,340
Yolo County Airport	249,333	249,333	30,421	218,912
Yuba, City of	732,726	732,726	164,863	567,863
Total fully disbursed loans	<u>425,240,360</u>	<u>425,091,799</u>	<u>63,593,823</u>	<u>361,497,976</u>

Entity	Authorized Loan Amounts	Loans Issued as of June 30, 2009	Principal Payments as of June 30, 2009	Outstanding Loan Balances June 30, 2009
<u>Active Loans</u>				
Carpinteria Valley Water District (121)	9,950,000	9,192,068	—	9,192,068
Montecito (121)	9,950,000	9,192,068	—	9,192,068
Dinuba, City of	7,462,450	6,920,200	—	6,920,200
Fresno, City of	2,210,000	37,585	—	37,585
Grass Valley, City of	3,203,750	36,843	—	36,843
Hillview Water Company (300)	23,672	23,672	—	23,672
Hillview Water Company (302)	75,382	75,382	—	75,382
Kern, County of	2,825,780	1,489,840	—	1,489,840
Los Angeles, City of (139)	25,335,671	20,548,922	—	20,548,922
Los Angeles, City of (144)	36,432,000	34,828,694	—	34,828,694
Los Angeles, City of (147)	38,684,250	—	—	—
Meadow Vista County Water District (115)	21,546,100	4,792,286	—	4,792,286
North Marin Water District	16,528,850	16,528,853	—	16,528,853
Placer County Water Agency	20,000,000	20,000,000	—	20,000,000
Plainview Mutual Water District	294,075	294,075	—	294,075
Rio Dell, City of	2,720,000	2,720,000	—	2,720,000
San Luis Obispo County Flood Control and Water Conservation District	26,000,000	24,694,034	—	24,694,034
Santiago Association	788,354	788,354	—	788,354
Shasta Community Services District	2,031,111	1,000,222	—	1,000,222
Spring Valley Heights Homeowners Association	1,907,000	1,714,252	—	1,714,252
Strathmore Public Utility District (420)	151,903	151,903	—	151,903
Terra Bella Irrigation District (146)	480,000	369,210	—	369,210
Tuolumne Utilities District (405)	115,619	115,619	—	115,619
Villa del Monte Mutual Water Company	1,056,328	213,165	—	213,165
Total active loans	<u>229,772,295</u>	<u>155,727,247</u>	<u>—</u>	<u>155,727,247</u>
Total	<u>\$ 655,012,655</u>	<u>\$ 580,819,046</u>	<u>\$ 63,593,823</u>	<u>\$ 517,225,223</u>

Loans mature at various intervals through July 1, 2038. The scheduled principal and interest payments on loans for fully disbursed projects maturing in the next four years and every five years thereafter are as follows:

Year Ending June 30	Principal	Interest	Total Debt Service
2010	\$ 18,795,246	\$ 6,666,947	\$ 25,462,193
2011	19,130,815	6,331,248	25,462,063
2012	19,459,042	5,987,199	25,446,241
2013	19,807,911	5,634,789	25,442,700
2014	20,165,510	5,273,651	25,439,161
2015-2019	105,655,847	20,653,803	126,309,650
2020-2024	106,584,498	10,483,942	117,068,440
2025-2029	53,526,804	2,016,817	55,543,621
2030-2034	2,395,603	—	2,395,603
2035-2039	636,273	—	636,273
Total	<u>\$ 366,157,549</u>	<u>\$ 63,048,396</u>	<u>\$ 429,205,945</u>

The amortization schedules for the active projects may change upon completion of the project when the final loan balance will be determined. Of the \$18.8 million in principal payments due in 2010, the fund received \$4.6 million in loan principal before June 30, 2009. The outstanding loans receivable balance was reduced accordingly.

NOTE 6— PENALTIES AND FEES

The Fund assesses a penalty of one-tenth of 1% per day from the repayment due date on the amount due on loan repayments past due. However, for the fiscal year ended June 30, 2009, the department elected not to impose late payment penalties. Changes to workload priorities associated with the department's reorganization delayed the preparation of loan recipient invoices, and late payment penalties were waived as a result. In prior years, late payment penalties were insignificant.

NOTE 7— RETIREMENT PLANPlan Description

The State is a member of the California Public Employees' Retirement System (CalPERS), which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

CalPERS is a defined benefit contributory retirement plan. Retirement contributions by employees are set by statute as a percentage of payroll (Tier I employees), or are zero (Tier II employees). Retirement contributions are actuarially determined under a program where total contributions plus CalPERS' investment earnings will provide the necessary funds to pay retirement benefits when incurred. The employer contributions are included in the cost of personal services.

The Fund is included in the State Miscellaneous Category within CalPERS. CalPERS functions as an investment and administrative agent for participating public agencies with the State of California, including the Fund. All risks and costs are shared proportionately by participating state agencies. For further information, refer to the *State of California Comprehensive Annual Financial Report*, and to the *CalPERS Comprehensive Annual Financial Report*.

NOTE 8— SUBSEQUENT EVENTS

On September 29, 2009, the EPA awarded the department a \$132.8 million capitalization grant for the period of July 1, 2009, through June 30, 2016. The grant consists of \$115.1 million to the loan fund and \$17.7 million to the set-aside funds. In addition, the State's 20% match of \$36.3 million will be added to the loan fund. Allowable project costs under this capitalization grant total \$169.2 million.

SUPPLEMENTAL INFORMATION SECTION

Schedule of Expenditures of Federal Awards Year Ended June 30, 2009

Federal Agency/Program Title	Federal Catalog Number	Federal Expenditures
U.S. Environmental Protection Agency:		
Capitalization Grants for Safe Drinking Water State Revolving Fund	66.468	\$ 51,105,083

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2009

NOTE 1— BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal Capitalization Grants for the Safe Drinking Water State Revolving Fund grant activity of the California Department of Public Health. The schedule is presented on the accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Accordingly, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2— LOANS TO SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the department disbursed \$41,627,778 in loan proceeds to subrecipients in the current year.

**OTHER INDEPENDENT AUDITOR'S REPORT
SECTION**



JOHN CHIANG
California State Controller

Mark B. Horton, M.D., M.S.P.H., Director
California Department of Public Health
1615 Capitol Avenue, MS 0500
P.O. Box 997377
Sacramento, CA 95899-7377

**AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the California Department of Public Health's Safe Drinking Water State Revolving Fund with the types of compliance requirements described in the U.S. Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to the capitalization grants for the Safe Drinking Water State Revolving Fund program for the year ended June 30, 2009. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the department's management. Our responsibility is to express an opinion on the Safe Drinking Water State Revolving Fund's compliance based on our audit.

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 General of the United States; and OMB Circular A-133, *Audits of States, Local Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 capitalization grants for the Safe Drinking Water State Revolving Fund program occurred. An audit includes examining, on a test basis, evidence about Safe Drinking Water State Revolving Fund'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. Our audit does not provide a legal determination of the Safe Drinking Water State Revolving Fund's compliance with those requirements.

In our opinion, the department complied, in all material respects, with the requirements referred to above that are applicable to each of its capitalization grants for the Safe Drinking Water State Revolving Fund for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 department's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of department management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

January 28, 2010

FINDINGS AND RECOMMENDATION SECTION

Schedule of Findings and Questioned Costs Year Ended June 30, 2009

SECTION I—Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over the program:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No
Auditee qualified as low-risk auditee?	No

Identification of the program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
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66.468	Capitalization Grants for the Safe Drinking Water State Resolving Fund
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SECTION II—Financial Statement Findings

No findings were noted.

SECTION III—Federal Award Findings and Questioned Costs

No findings were noted.

Schedule of Prior Year Findings Year Ended June 30, 2009

FINDING 08-01: Cash Management

Condition The department did not always minimize the time of the drawdown of federal funds and their disbursements. A federal loan disbursement of \$15,228,694 to the Los Angeles Department of Water was pending as of June 30, 2007. Subsequent to the state's fiscal year-end, the State Controller's Office (SCO) denied payment on July 11, 2007, due to insufficient information to evaluate the allowability of the claim. The claim was eventually paid on August 27, 2007, which resulted in the federal funds being held in the state account for 55 days. As this disbursement was accrued in the fiscal year (FY) 2006-07, it does not affect FY 2007-08 expenditures.

Recommendation To minimize returned claims, the department should reassess its claim scheduling policies and procedures to ensure all required documentation is properly authorized and provided to the SCO and, in the event claims are denied, to resolve the matter timely.

Current Status The department has reviewed its invoice processing procedures in November 2008 and has worked with payables staff to ensure that claims are processed in a timely manner. The department has minimized the time between the drawdowns of federal funds and their disbursements to subrecipients during FY 2008-09. No similar findings were noted in the FY 2008-09 audit.

FINDING 08-02: Reporting

Condition The department does not have adequate processes and procedures in place to ensure that all Safe Drinking Water State Revolving Fund federal financial reports are accurate.

- There were eight federal capitalization grants that required a Federal Financial Status Report (SF-269) to be submitted as of June 30, 2008. Of the eight, three Financial Status Reports contained state match amounts based on estimations instead of the actual match provided.
- The Federal Cash Transactions Reports (SF-272 and SF-272A) for the period of January 1, 2007, through December 31, 2007, contained an incorrect net disbursements total due to a mathematical error. This error resulted in the underreporting of current period net disbursements by \$7,084,150.

Recommendation The department should enhance its policies and procedures to ensure the Federal Financial Status Reports and Cash Transactions Reports are accurately prepared and reviewed.

Current Status The department has improved its procedures to ensure that Federal Financial Status Reports and Cash Transactions Reports are accurately prepared and reviewed. No similar findings were noted in the FY 2008-09 audit.

**State Controller's Office
Division of Audits
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