

**CURRENT AUDIT FINDINGS AND RECOMMENDATIONS**

Federal Compliance Audit Finding:

**Finding No. 2017-007: Inadequate Monitoring Controls Over Program Income**

**Type of Finding: Significant deficiency and Non-Compliance**

*CFDA Title:* Capitalization Grants for Clean Water State Revolving Funds

*CFDA Number:* 66.458

*Federal Award Number:* CS-46000112-0

*Federal Award Year:* 2012

*Federal Agency:* US Environmental Protection Agency (EPA)

*Type of Finding:* Significant deficiency and Non-Compliance

*Category of Finding:* Program Income

*Questioned Costs:* \$31,378.05

**Criteria:**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the Internal Control – Integrated Framework (2013 Framework) defined internal control as:

... a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The 2013 Framework in the GAO Green Book – Standards on Internal Control goes on to say “[m]anagement should establish and operate monitoring activities to monitor the internal control system and evaluate the results” as well as “[m]anagement should remediate identified internal control deficiencies on a timely basis”

The OMB Compliance Supplement 2017 states the following:

1. If States collect fees as a result of loans made with grant funds (i.e., funds awarded by EPA in the capitalization grant) and the fees are not included as principal in the loan, they are considered program income and must be accounted for as indicated below.

The permissible use of fees resulting from loans awarded from a particular capitalization grant varies depending on when the fee is collected.

- a. Regardless of when the funds are used, if the fee is collected during the grant period, i.e., before all funds are disbursed, it may be used under either the addition or cost sharing or matching alternatives for use of program income. Under either alternative or combination of alternatives, use of program income is limited to (1) the activities allowed under section III.A.3, “Activities Allowed or Unallowed; (2) administrative expenses exceeding the limitations in WRRDA-amended Section 603(d)(7) of the FWPCA (see III.G.3.a Matching, Level of Effort, Earmarking – Earmarking”); and (3) State match if program income is deposited outside of the CWSRF Fund.
- b. Fees collected after the grant period may be used as indicated under paragraph 1.a, above, as well as for other water quality-related purposes and combined financial administration of the CWSRFs and DWSRFs where the programs are administered by the same State agency, provided that the State's grant conditions include this provision

## DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES

(Fees Charged by States to Recipients of Clean Water State Revolving Fund Assistance, (October 20, 2005 Federal Register, 70 FR 61039), section II.C.

### Condition:

DENR collects surcharge fees from CWSRF projects that are deposited either into the Fund's restricted account or discretionary account. The fees are deposited into the restricted account if the project is being funded by a grant that is open. The fees are deposited into the discretionary account if the project was funded by a grant that has closed. The funds in the restricted account are only used for administrative costs. The funds in the discretionary account are used for admin costs, bank fees and payments for professional services provided to DENR.

DENR notifies the trustee when a grant closes to let them know that they can move future payments for those projects from the restricted account to the discretionary account. After DENR notifies the trustee it does not perform any monitoring controls to ensure that payments were disbursed to the correct accounts.

During testing we identified that four payments from two different projects were deposited into the discretionary account before the grant that funded the projects had closed.

### Cause:

The internal controls in place over monitoring of the CWSRF program income were inadequate.

### Effect:

As a result of the inadequate monitoring controls over program income, the DENR is not able to prevent, detect and correct misstatements on a timely basis increasing the likelihood program income being used incorrectly resulting in noncompliance with the program income requirements.

### Questioned Costs:

\$31,378.05

When calculating the questioned costs we totaled the four payments that were deposited incorrectly. This resulted in questioned costs of \$31,378.05.

### Further Information:

Sampling was not used to test program income; instead, we tested every project's income that was funded by the last CWSRF grant that closed.

### Recommendations:

1. We recommend that after every grant closure DENR monitors the affected projects next payment that is collected by the trustee to ensure that the payments were disbursed to the correct accounts.

### Views of Responsible Officials:

The Department of Environment and Natural Resources concurs with this finding.

DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES

Corrective Action Plan: (Submitted by DENR)

Jon Peschong is the contact person responsible for the corrective action plan for this comment. Effective immediately, DENR will monitor the surcharge fees collected from loan repayments. The Grant and Loan Specialists will monitor the open and closed capitalization grants and will verify that the surcharge fees collected from each loan repayment are deposited in either the restricted or discretionary state admin accounts.

DRAFT