

DRINKING WATER REVOLVING LOAN FUND

**LOUISIANA DEPARTMENT OF HEALTH
OFFICE OF PUBLIC HEALTH**

STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES

**Financial Statement Audit for the
Year Ended June 30, 2023
Issued August 21, 2024**

**LOUISIANA LEGISLATIVE AUDITOR
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August 13, 2024

Independent Auditor's Report

**DRINKING WATER REVOLVING LOAN FUND
LOUISIANA DEPARTMENT OF HEALTH,
OFFICE OF PUBLIC HEALTH
STATE OF LOUISIANA**
New Orleans, Louisiana

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Louisiana Department of Health, Office of Public Health - Drinking Water Revolving Loan Fund (DWRLF), an enterprise fund of the state of Louisiana, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the fund's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the DWRLF as of June 30, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in note 1, the financial statements present only the DWRLF, and do not purport to, and do not, present fairly the financial position of the state of Louisiana,

the Louisiana Department of Health, or the Office of Public Health as of June 30, 2023, and their respective changes in financial position or cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the DWRLF's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently-known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with *GAAS* and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with *GAAS* and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the DWRLF's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the DWRLF's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the DWRLF's basic financial statements. The accompanying supplemental information schedules, including the Schedule of Net Position, by Account; the Schedule of Revenues, Expenses, and Changes in Fund Net Position, by Account; and the Schedule of Cash Flows, by Account, on pages 23 through 26, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the accompanying supplemental information schedules referred to above are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Louisiana Drinking Water Revolving Loan Fund Annual Report (issued under separate cover), but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards and Other Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2024, on our consideration of the DWRLF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DWRLF's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DWRLF's internal control over financial reporting and compliance.

In addition, we have issued a report dated August 13, 2024, on our consideration of the DWRLF's internal control over compliance with certain laws and regulations, and our tests of its compliance with those laws and regulations, in accordance with certain requirements of the OMB *Compliance Supplement* (Appendix XI of Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*), for the Drinking Water State Revolving Fund Program, as required by the U.S. Environmental Protection Agency.

Respectfully submitted,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

ABS:REW:JPT:BQD:aa

DWRLF 2023

**DRINKING WATER REVOLVING LOAN FUND
LOUISIANA DEPARTMENT OF HEALTH,
OFFICE OF PUBLIC HEALTH
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

Statement of Net Position, June 30, 2023

ASSETS

Current assets:

Cash in State Treasury (note 2)	\$212,029,892
Receivables (note 3)	<u>10,762,125</u>
Total current assets	222,792,017

Noncurrent assets - loans receivable (note 4)	<u>126,325,744</u>
Total assets	<u><u>349,117,761</u></u>

LIABILITIES

Current liabilities

Accounts payable and accruals (note 6)	1,475,370
Unearned revenue	<u>855,606</u>
Total liabilities	<u><u>2,330,976</u></u>

NET POSITION - Unrestricted	<u><u>\$346,786,785</u></u>
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The accompanying notes are an integral part of this statement.

**DRINKING WATER REVOLVING LOAN FUND
LOUISIANA DEPARTMENT OF HEALTH,
OFFICE OF PUBLIC HEALTH
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Revenues, Expenses,
and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2023**

OPERATING REVENUES

Federal funds - set-aside programs	\$1,884,323
Interest earned on loans receivable	3,115,860
Interest earned on cash in State Treasury	276,278
Administrative fees	671,653
Total operating revenues	<u>5,948,114</u>

OPERATING EXPENSES

Set-aside expenses (note 5)	1,884,323
Principal forgiveness - Environmental Protection Agency	6,539,743
Total operating expenses	<u>8,424,066</u>

OPERATING LOSS (2,475,952)

NONOPERATING REVENUES

Intergovernmental revenues	<u>2,693,000</u>
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INCOME BEFORE OTHER REVENUES AND EXPENSES 217,048

Capital contributions	<u>8,630,430</u>
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CHANGE IN NET POSITION 8,847,478

NET POSITION AT BEGINNING OF YEAR 337,939,307

NET POSITION AT END OF YEAR \$346,786,785

The accompanying notes are an integral part of this statement.

**DRINKING WATER REVOLVING LOAN FUND
LOUISIANA DEPARTMENT OF HEALTH,
OFFICE OF PUBLIC HEALTH
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2023**

Cash flows from operating activities

Cash received from interest on loans	\$3,115,287
Cash received from interest on cash in State Treasury	392,739
Cash received from administrative fees	664,750
Cash received from repayment of loan principal	16,167,575
Cash received from allocations for set-aside programs	1,587,519
Cash payments for set-aside programs	(1,587,519)
Cash payments to borrowers	<u>(20,680,832)</u>
Net cash used by operating activities	<u>(340,481)</u>

Cash flows from noncapital financing activities

Contributed capital	9,380,061
Intergovernmental revenue	<u>2,693,000</u>
Net cash provided by noncapital financing activities	<u>12,073,061</u>

Net increase in cash 11,732,580

Cash at beginning of year 200,297,312

Cash at end of year \$212,029,892

(Continued)

The accompanying notes are an integral part of this statement.

**DRINKING WATER REVOLVING LOAN FUND
 LOUISIANA DEPARTMENT OF HEALTH,
 OFFICE OF PUBLIC HEALTH
 STATE OF LOUISIANA
 PROPRIETARY FUND - ENTERPRISE FUND
 Statement of Cash Flows
 For the Fiscal Year Ended June 30, 2023**

**Reconciliation of operating loss to net cash used
 by operating activities**

Operating loss	(\$2,475,952)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in assets and liabilities:	
(Increase) in accounts receivable	(306,279)
Decrease in due from others	116,461
Decrease in loans receivable	2,028,486
Increase in accounts payable and accrued expenses	<u>296,803</u>
Net cash used by operating activities	<u><u>(\$340,481)</u></u>

Noncash investing, capital, and financing activities

Principal forgiveness on loans - Environmental Protection Agency	<u><u>\$6,539,743</u></u>
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(Concluded)

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

The Louisiana Department of Health, Office of Public Health (LDH-OPH) is a department of the state of Louisiana. LDH-OPH was created in accordance with Louisiana Revised Statutes (R.S.) 36:251(c) and 258(b) as a part of the executive branch of government. LDH-OPH is charged with protection of the public health of residents of the state of Louisiana.

The Drinking Water Revolving Loan Fund (DWRLF) program was established pursuant to the federal Safe Drinking Water Act Amendments of 1996 (SDWA). The DWRLF program provides financial assistance to both publicly- and privately-owned community water systems and nonprofit non-community water systems for projects eligible under the SDWA. The DWRLF program presently operates under R.S. 40:2821-2826. These statutes establish a DWRLF program capitalized by federal grants (Capitalization Grants for Drinking Water State Revolving Funds, Assistance Listing 66.468), by state funds when required or available, and by any other funds generated by the operation of the program. The DWRLF program provides assistance through loans for infrastructure projects and other assistance in the form of set-aside activities for program administration, technical assistance, state program management, local assistance, and other state programs. All efforts are directed toward improving drinking water quality by assisting systems in providing drinking water that meets established standards and that achieves the goals of the SDWA.

LDH-OPH is responsible for the operations and administration of the DWRLF program. LDH-OPH is authorized to apply for and accept capitalization grants from the United States Environmental Protection Agency (EPA), to establish assistance priorities, to perform oversight and other related activities, and to provide financial administration of the set-aside and loan accounts for the DWRLF program.

The DWRLF does not have any full-time employees. However, time spent on the DWRLF program by employees of LDH-OPH is captured, and the DWRLF subsequently reimburses LDH-OPH for salaries and benefits as well as other operating expenses of the fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards.

These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by GASB.

B. REPORTING ENTITY

GASB Codification Section 2100 establishes criteria for determining the governmental reporting entity and has defined the governmental reporting entity to be the state of Louisiana. The accompanying financial statements represent activity of a fund of the state of Louisiana that is administered by LDH-OPH, a department within state government. The DWRLF is part of the primary government of the state of Louisiana.

Annually, the state of Louisiana issues an annual comprehensive financial report, which includes the activity contained in the accompanying financial statements. Those basic financial statements are audited by the Louisiana Legislative Auditor.

C. FUND ACCOUNTING

For the purposes of this report, the DWRLF uses a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The transactions of the DWRLF are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the Statement of Net Position.

The DWRLF uses the accrual basis of accounting. Revenues are recognized in the accounting period when they are earned, and expenses are recognized when the related liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the DWRLF are federal funds and interest earnings. Operating

expenses include the set-aside expenses. Non-operating revenue consists of match dollars received through state appropriations.

E. BUDGETS AND BUDGETARY ACCOUNTING

The DWRLF is budgeted annually by the Louisiana Legislature. The set-aside activities are budgeted as part of the operations of LDH-OPH in the General Appropriations Act. The Ancillary Appropriations Act (Act 169 of the 2022 Regular Session) authorized expenditures of \$47,988,458 for the loan program. The fund is allowed to retain resources to fund future loans and eligible program activities. Because the fund is an enterprise fund, a budgetary comparison is neither required nor presented in the financial statements.

F. LOANS RECEIVABLE

The DWRLF is operated as a direct loan program. The program provides loans and other financial assistance to public water systems for the purpose of planning, constructing, and rehabilitating public water systems.

The program lends federal and state monies directly to public water systems. For every \$5 provided by the federal government, the state is required to provide a matching share of \$1. The effective match share reflects a federal rate of 83.33% and a state rate of 16.67%. Recycling of principal and interest repayments from borrowing water systems allows the program to operate in perpetuity thereby benefiting other water systems wishing to borrow in the future. Borrowers pay principal and interest directly to the loan program, and all monies are deposited directly into the program. Principal repayments can only be used to make additional loans to water systems. Interest earnings on investments and loans can also be used to make additional loans. In addition, with EPA approval, interest earnings on investments and loans are used to pay off revenue bonds sold to capitalize the program by providing state matching funds.

The loans made by the DWRLF must be made at or below market interest rate with a repayment period not exceeding 20, 25, or 30 years plus an interim construction-financing period. The current loan rate is 1.95% for new water construction/water system rehabilitation projects. In addition, water systems are charged an administrative fee of 0.5% on outstanding loan balances payable semiannually. Interest and administrative fees are calculated from the date that funds are advanced and after the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed.

As evidence of its obligations to pay principal and interest on the loans, each borrower must establish a dedicated source of revenue (or in the case of a privately-owned system, demonstrate that there is adequate security) for repayment of the loan [42 USC 300j-12(f)(1)(D)]. For substantially all of these loans, the loan recipient issues bonds that are purchased by LDH, as

administrator of the DWRLF, to secure the repayment of the principal loaned. Principal and interest on the bonds are paid to the DWRLF and upon repayment of the loan, the bonds are returned to the loan recipient. Minimum required coverage ratios are established depending on the nature of the bonded indebtedness issued by the loan recipient as follows:

For limited tax bonds, the principal and interest due in any year on the amount borrowed shall not exceed 75% of the revenues estimated to be received from the levy of the pledged millage in the year in which the indebtedness is issued [R.S. 39:522(B)].

For sales tax bonds, the total amount of principal and interest falling due in any year, together with principal and interest falling due in such year on any previously issued sales tax bonds, shall never exceed 75% of the amount of sales tax revenues estimated by the governing authority of the issue to be received by it in the calendar year in which the bonds are issued [R.S. 39:523(C)].

For revenue bonds, the requirements for coverage are established contractually in the loan documents [R.S. 39:524(G)]. Expected coverage ratios might range from 110% to 130% or more. The DWRLF goal for collections of the dedicated revenues for repayment of the loan secured by revenue bonds is 125%; however, many factors can create deviation from this goal. It is customary to use the same minimum required coverage ratio as was previously established for outstanding debt of the loan recipient.

For general obligation bonds, the requirements for coverage are statutorily set. The governing authority of the issuer is required to impose and collect annually, in excess of all other taxes, a tax on all property subject to taxation by the issuer sufficient in amount to pay the interest and the principal falling due each year, or such amount as may be required for any sinking fund necessary to retire said bonds at maturity [R.S. 39:521(D)]. Typically, the bond millage is adjusted each year so as to generate enough revenues to pay debt service in the ensuing calendar year. No coverage requirements or debt service reserves exist because the tax can be adjusted each year *without any limitation whatsoever* to collect the appropriate amount each year.

In the case of sales tax bonds and revenue bonds, each loan recipient is also required to set up a debt service reserve fund equal to one-half of one year's annual debt service requirements for the purpose of paying principal and interest should the dedicated revenues be insufficient for that purpose. The requirement to maintain a debt service reserve fund is not statutorily required, but is usual and customary for these kinds of indebtedness.

Because of the reserve requirements and the absence of any delinquent loans, there is no provision for uncollectible amounts.

G. NET POSITION

Net position comprises the various net earnings from operations, nonoperating revenues, and contributions of capital. Net position is classified in the following components as applicable:

Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position consists of resources subject to external constraints placed on the resources by creditors, grantors, contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of all other net assets that are not included in the other categories previously mentioned.

H. CAPITAL CONTRIBUTIONS

The funds drawn for loans from the EPA capitalization grants authorized by the SDWA Amendments of 1996 are recorded as capital contributions. Funds drawn for loans authorized by the Infrastructure Investment and Jobs Act 2021 (BIL) are also recorded as capital contributions.

I. COMPENSATED ABSENCES, PENSION BENEFITS AND POSTRETIREMENT BENEFITS

LDH-OPH provides employees to work on the DWRLF program. Compensated absences, pension benefits, and postretirement benefits are provided and recorded by LDH-OPH and allocated to the fund based on time worked. These allocated expenses are included in the fund financial statements; however, no liability for compensated absences, postemployment benefits, or pension benefits is recorded in the fund financial statements, and no disclosures for compensated absences, pension benefits, or postretirement benefits are included in the fund financial statements, as the ultimate liability is with LDH-OPH rather than the fund.

J. ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. UNEARNED REVENUE

The unearned revenue is due to revenue collected from the FS996968-25 grant (Grant 25) for base loan payments, which were determined to be in excess of the federal portion of the base loan budget within DWRLF's Intended Use Plan (IUP).

2. CASH IN STATE TREASURY

As reflected on Statement A, the DWRLF has cash totaling \$212,029,892 at June 30, 2023. All monies of the fund are deposited with the State Treasurer's office. Cash balances are held and controlled by the State Treasurer and are secured from risk by the State Treasurer through separate custodial agreements, and the risk disclosures required by accounting principles generally accepted in the United States are included within the state of Louisiana's financial statements.

3. RECEIVABLES - DUE FROM OTHERS

As shown on Statement A, the DWRLF has a total due from others of \$10,762,125. This total is comprised of the following:

Due from the federal government - set-aside programs	\$1,475,370
Due from others	105,976
Due from water systems	9,163,241
Due from State Treasury - interest	<u>17,538</u>
Total	<u><u>\$10,762,125</u></u>

Of the \$9,163,241 due from water systems, \$8,316,000 is the current portion of the principal due, \$695,903 is loan interest, and \$151,338 is administrative fees on loans.

4. NONCURRENT ASSETS - LOANS RECEIVABLE

The DWRLF makes loans to community water systems both privately- and publicly-owned and nonprofit non-community water systems for projects that meet the eligibility requirements of the program. Loans are financed by capitalization grants, state match, and revolving funds. The effective interest rate on loans ranges from 1.95% to 3.45%, with an additional 0.5% administration fee, that must be repaid over 20, 25, or 30 years starting two years after the closing date of the loan or one year after the project is completed, whichever occurs first. As of June 30, 2023, 170 of the loans have been closed (completed drawing funds for construction), and the remaining loan commitment balance (loans authorized less loans disbursed) totals \$77,703,854. In addition, 93 of the loans are completely paid off. Loans mature at various intervals through October 1, 2051. The scheduled principal payments on loans maturing in subsequent years are as follows:

Year ending June 30:

2024	\$8,316,000
2025	10,959,079
2026	8,924,000
2027	9,178,000
2028	9,438,203
2029 - 2033	43,425,706
2034 - 2038	31,158,201
2039 - 2043	10,723,496
2044 - 2048	1,549,895
2049 - 2052	969,164

Total loans receivable	<u><u>\$134,641,744</u></u>
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Long-term receivable portion	<u><u>\$126,325,744</u></u>
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As of June 30, 2023, the DWRLF had made 184 loans to 121 water systems. The 10 largest outstanding loans, in the aggregate, exceeded \$53 million. The outstanding balances of these loans represent approximately 40% of the total loans receivable as follows:

<u>Loan Recipient</u>	<u>Outstanding Balance</u>
Saint Bernard Parish, Loan #2	\$10,364,000
City of Bossier City	7,350,331
Calcasieu WWD#5 of Wards 3 and 8	6,183,641
Baton Rouge Water Co. Inc.	5,948,262
Town of Mamou	4,629,645
City of Carencro	4,453,000
City of Shreveport #4B	4,027,302
City of Alexandria #2	3,616,845
Saint Bernard Parish, Loan #3	3,554,369
Southwest Ouachita Waterworks, Inc.	<u>3,339,000</u>
Total of major loans	53,466,395
Non-major loans	<u>81,175,349</u>
Total loans receivable	<u><u>\$134,641,744</u></u>

The full list of loans can be found in the Louisiana Drinking Water Revolving Loan Fund Annual Report for fiscal year 2023.

The DWRLF has been awarded 28 federal grants from the EPA. These grants are available through the EPA's Automated Clearing House Payment System (ACH) and the Automated Standard Application for Payments (ASAP) System. Twenty-five grants were authorized by the SDWA Amendments of 1996 and require matching funds from the state. One grant was funded under the American Recovery and Reinvestment Act of 2009 and required no matching funds from the state. Two grants are funded through the Bi-Partisan Infrastructure Law Act of 2021, the Emerging Contaminants grant that requires no matching funds from the state, and the General Supplement grant that requires a 10% match from the state. As of June 30, 2023, the EPA has awarded grants of \$407,295,700 to the state, of which \$356,419,717 has been drawn, \$315,083,567 for loans, and \$41,336,150 for set-aside activities.

Grant Source	Grant Amount	Cash Basis Cumulative Dollar Draws Set-Asides	Cash Basis Cumulative Dollar Draws Loans	Total Cash Basis Cumulative Dollars Drawn as of June 30, 2023	Remaining Grant Dollars Available as of June 30, 2023
FS996968-01-2	\$20,420,300	\$4,307,056	\$16,113,244	\$20,420,300	
FS996968-02-2	9,949,200	1,553,988	8,395,212	9,949,200	
FS996968-03-0	10,427,700	1,642,927	8,784,773	10,427,700	
FS996968-04-0	10,837,400	1,070,826	9,766,574	10,837,400	
FS996968-05-0	18,934,800		18,934,800	18,934,800	
FS996968-06-0	8,004,100	1,311,487	6,692,613	8,004,100	
FS996968-07-0	8,303,100	1,470,000	6,833,100	8,303,100	
FS996968-08-0	8,285,500	1,165,000	7,120,500	8,285,500	
FS996968-09-0	11,658,600	1,511,662	10,146,938	11,658,600	
FS996968-10-0	11,659,000	236,662	11,422,338	11,659,000	
FS996968-11-0	11,540,000	2,000,000	9,540,000	11,540,000	
2F-96692001-0	27,626,000	315,000	27,311,000	27,626,000	
FS996968-12-0	11,540,000	1,900,000	9,640,000	11,540,000	
FS996968-13-0	25,649,000	2,425,000	23,224,000	25,649,000	
FS996968-14-0	17,798,000	2,565,000	15,233,000	17,798,000	
FS996968-15-0	16,962,000	2,875,000	14,087,000	16,962,000	
FS996968-16-0	15,914,000	2,639,152	13,274,848	15,914,000	
FS996968-17-0	12,127,000	2,615,000	9,512,000	12,127,000	
FS996968-18-0	12,047,000	1,183,630	10,863,370	12,047,000	
FS996968-19-0	11,396,000	1,325,000	10,071,000	11,396,000	
FS996968-20-0	11,299,000	2,320,000	8,979,000	11,299,000	
FS996968-21-0	16,625,000		16,625,000	16,625,000	
FS996968-22-0	16,621,000	1,693,166	14,927,834	16,621,000	
FS996968-23-0	16,480,000	2,004,910	13,879,999	15,884,909	\$595,091
FS996968-24-0	16,465,000	1,205,684	8,924,433	10,130,117	6,334,883
FS996968-25-0	10,489,000		3,449,996	3,449,996	7,039,004
INFRASTRURE 861R004D01	26,930,000		1,330,995	1,330,995	25,599,005
INFRASTRURE 861R004E01	11,308,000				11,308,000
	<u>\$407,295,700</u>	<u>\$41,336,150</u>	<u>\$315,083,567</u>	<u>\$356,419,717</u>	<u>\$50,875,983</u>

The state has provided its required matching share of federal grant awards through General Fund appropriations and the sale of revenue bonds. Cash contributions from General Fund appropriations and sales of revenue bonds have totaled \$72,086,185 including the 2023 contribution. Matching contributions are as follows:

	Cumulative State Match as of June 30, 2022	2023 Contribution	Cumulative State Match as of June 30, 2023
State cash contribution	<u>\$69,393,185</u>	<u>\$2,693,000</u>	<u>\$72,086,185</u>

5. SET-ASIDE EXPENSES

A portion of the federal grant amounts awarded by the EPA can be specified to fund set-aside activities as follows:

- Up to 2% to provide technical assistance to small water systems
- Up to 10% to provide state program management
- Up to 15% to provide assistance in the development and implementation of local drinking water protection initiatives and other local assistance and state programs. Also, no more than 10% of the grant is used on any one of the defined activities.
- To provide administration and technical assistance to public water systems, the greater of \$400,000; 1/5% of the current valuation of the fund; or an amount equal to 4% of all grant awards to the fund.

Set-aside expenses are summarized as follows:

	2023	Prior Years	Total
Administration	\$810,397	\$8,778,729	\$9,589,126
Small system technical assistance	287,385	4,478,195	4,765,580
State programs	265,514	20,436,923	20,702,437
Local assistance and state programs	521,027	6,899,380	7,420,407
ARRA Grant	NONE	315,000	315,000
Total	<u>\$1,884,323</u>	<u>\$40,908,227</u>	<u>\$42,792,550</u>

The amount of fiscal year 2023 set-aside expenses of \$1,884,323 includes accruals and payables of \$1,475,370.

6. PAYABLES

The following is a summary of payables and accrued expenses at June 30, 2023:

Vendor payables	\$1,459,340
Payroll accrual	<u>16,030</u>
Total	<u><u>\$1,475,370</u></u>

7. LONG-TERM LIABILITIES

There were no bonds and other long-term debt transactions of the fund for the year ended June 30, 2023.

The fund is allowed by CFR 35.3550(g)(3) to issue general obligation or revenue bonds to derive the state match. Furthermore, the secretary of LDH, through a Resolution by Executive Order pursuant to R.S. 30:2011 *et seq.*, was authorized, for state matching purposes, to borrow through the issuance of LDH's note to the Louisiana Public Facilities Authority (LPFA), a conduit issuer of serial bonds for LDH and the state.

The serial bond issues, LPFA Revenue Bonds (Drinking Water Revolving Loan Fund Match Project) Series 2002 and 2006, were issued during the fiscal year ending June 30, 2003, and June 30, 2006, in an amount up to \$8,000,000 and \$7,300,000, respectively. The 2006 series was subsequently amended several times to increase the maximum amount allowed to \$83,300,000. This Indenture of Trust was issued between the LPFA and Hancock Bank of Louisiana. This indebtedness was secured solely from the pledge of a portion of the revenues received by LDH from loans made by the program (interest earned on loans receivable and interest earned on cash in State Treasury). The LPFA is a public trust and public corporation organized and existing for the benefit of the state of Louisiana.

Following is a historical summary of both series including their amendments, issuance costs, and proceeds:

BONDS PAYABLE

Bond Issuance Date	Bond Issuance Amount	Draw Number	Draw Date	Fiscal Year	Draw Amount	Bonds Cancelled	Issuance Costs & Fees	Bond Proceeds	Bond Available Balance	Date Defeased
12/23/2002 <i>Series 2002</i>	\$8,000,000	1	12/23/2002	2003	\$1,000,000		\$76,788	\$923,212	\$7,000,000	12/24/2002
			10/29/2003	2004			(251)	251	7,000,000	
		2	12/12/2003		1,000,000		66,712	933,288	6,000,000	12/13/2003
		3	3/18/2004		500,000		4,550	495,450	5,500,000	3/19/2004
		4	5/26/2004		1,000,000		7,754	992,246	4,500,000	5/27/2004
			11/29/2004	2005			(674)	674	4,500,000	
		5	5/3/2005		1,000,000		7,754	992,246	3,500,000	5/4/2005
		6	6/23/2005		1,000,000		7,201	992,799	2,500,000	8/16/2005
		Cancelled	5/18/2006	2006		\$2,500,000				
	\$8,000,000				\$5,500,000	\$2,500,000	\$169,834	\$5,330,166	None	
5/18/2006 <i>Series 2006</i>	\$7,300,000	1	5/18/2006	2006	\$1,000,000		\$57,989	\$942,011	\$6,300,000	5/19/2006
		2	11/29/2006	2007	1,500,000		12,330	1,487,670	4,800,000	11/30/2006
		3	9/6/2007	2008	1,250,000		8,550	1,241,450	3,550,000	9/7/2007
			12/28/2007				8,875	(8,875)	3,550,000	
		4	3/31/2008		1,000,000		7,396	992,604	2,550,000	4/1/2008
8/28/2008 <i>(Amendment 1)</i>	5,000,000							7,550,000		
		5	9/9/2008	2009	1,250,000		8,301	1,241,699	6,300,000	9/10/2008
			12/31/2008				15,750	(15,750)	6,300,000	
		6	1/13/2009		1,000,000		7,387	992,613	5,300,000	1/14/2009
3/10/2009 <i>(Amendment 2)</i>	1,000,000							6,300,000		
		7	11/12/2009	2010	2,000,000		21,968	1,978,032	4,300,000	11/13/2009
5/20/2010 <i>(Amendment 3)</i>	5,000,000	8	5/20/2010		3,300,000		22,177	3,277,823	6,000,000	5/21/2010
									6,000,000	
9/1/2010 <i>(Amendment 4)</i>	10,000,000	9	9/1/2010	2011	2,000,000		14,150	1,985,850	14,000,000	1/7/2011
		10	12/1/2010		2,000,000		29,381	1,970,619	12,000,000	6/17/2011
		11	2/9/2011		2,000,000		10,746	1,989,254	10,000,000	12/29/2011
			6/10/2011				12,700	(12,700)	10,000,000	
		12	1/6/2012	2012	1,500,000		10,395	1,489,605	8,500,000	5/8/2012
			5/8/2012				12,700	(12,700)	8,500,000	
		13	7/25/2012	2013	1,000,000		7,163	992,837	7,500,000	7/26/2012
		14	10/23/2012		1,000,000		7,052	992,948	6,500,000	10/24/2012
		15	1/22/2013		1,250,000		21,019	1,228,981	5,250,000	1/23/2013
		16	4/18/2013		1,000,000		7,071	992,929	4,250,000	5/1/2013
7/22/2013 <i>(Amendment 5)</i>	10,000,000	17	7/18/2013	2014	1,500,000		9,363	1,490,637	12,750,000	9/13/2013
			7/30/2013				20,000	(20,000)	12,750,000	
							22,061	(22,061)	12,750,000	
		18	11/13/2013		1,250,000		8,566	1,241,434	11,500,000	12/20/2013
		19	4/3/2014		1,200,000		20,801	1,179,199	10,300,000	5/2/2014
		20	8/7/2014	2015	1,200,000		8,036	1,191,964	9,100,000	8/8/2014
		21	12/18/2014		1,250,000		8,303	1,241,697	7,850,000	12/19/2014
		22	7/30/2015	2016	2,500,000		24,907	2,475,093	5,350,000	7/31/2015
		23	2/4/2016		2,000,000		23,532	1,976,468	3,350,000	2/5/2016
		24	6/21/2016		2,000,000		11,383	1,988,617	1,350,000	6/22/2016
9/30/2016 <i>(Amendment 6)</i>	10,000,000			2017			29,415	(29,415)	11,350,000	
		25	12/7/2016		1,500,000		10,231	1,489,769	9,850,000	12/8/2016
		26	4/26/2017		1,500,000		9,157	1,490,843	8,350,000	4/27/2017
		27	2/22/2018	2018	2,500,000		66,201	2,433,799	5,850,000	2/23/2018
		28	9/18/2018	2019	3,200,000		13,819	3,186,181	2,650,000	9/19/2018
4/1/2019 <i>(Amendment 7)</i>	10,000,000						30,421	(30,421)	12,650,000	
		29	10/9/2019	2020	3,200,000		88,858	3,111,142	9,450,000	10/10/2019
		30	11/5/2020	2021	3,200,000		88,828	3,111,172	6,250,000	11/6/2020
		31	10/20/2021	2022	3,300,000		88,817	3,211,183	2,950,000	10/21/2021
6/9/2022 <i>(Amendment 8)</i>	25,000,000	32	6/27/2022		3,200,000		38,790	(38,790)	27,950,000	
							113,749	3,086,251	24,750,000	6/28/2022
	\$83,300,000				\$58,550,000		\$1,038,338	\$57,511,662		
	\$91,300,000				\$64,050,000		\$1,208,172	\$62,841,828		

As of June 30, 2023, a total of \$62,841,828 was generated for matching fund purposes by the issuance of these serial bonds. Bond issuance costs of \$1,208,172 were absorbed by bond proceeds and are, therefore, not required to be charged against the 4% administrative costs allowance in accordance with Drinking Water State Revolving Fund program guidelines. There is an available balance of \$24,750,000 on Series 2006 as amended.

8. LITIGATION AND CLAIMS

Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by legislative appropriation. The DWRLF has no lawsuits outstanding at June 30, 2023.

SUPPLEMENTARY INFORMATION SCHEDULE

As of and for the Year Ended June 30, 2023

The Drinking Water Revolving Loan Fund is considered one fund, which is comprised of a loan element and an administrative and state match element. The U.S. Environmental Protection Agency requested information on each of these elements. The supplementary information schedules 1 through 3 provide the details requested by the U.S. Environmental Protection Agency.

**DRINKING WATER REVOLVING LOAN FUND
LOUISIANA DEPARTMENT OF HEALTH,
OFFICE OF PUBLIC HEALTH
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

Schedule of Net Position, by Account, June 30, 2023

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Current assets:			
Cash in State Treasury	\$196,894,329	\$15,135,563	\$212,029,892
Receivables	10,593,249	168,876	10,762,125
Total current assets	<u>207,487,578</u>	<u>15,304,439</u>	<u>222,792,017</u>
Noncurrent assets - loans receivable	126,325,744	NONE	126,325,744
Total assets	<u>333,813,322</u>	<u>15,304,439</u>	<u>349,117,761</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accruals	1,475,370	NONE	1,475,370
Unearned revenue	855,606	NONE	855,606
Total liabilities	<u>2,330,976</u>	<u>NONE</u>	<u>2,330,976</u>
NET POSITION - Unrestricted	<u>\$331,482,346</u>	<u>\$15,304,439</u>	<u>\$346,786,785</u>

**DRINKING WATER REVOLVING LOAN FUND
LOUISIANA DEPARTMENT OF HEALTH,
OFFICE OF PUBLIC HEALTH
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Schedule of Revenues, Expenses, and
Changes in Fund Net Position, by Account
For the Fiscal Year Ended June 30, 2023**

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
OPERATING REVENUES			
Federal funds - set-aside programs	\$1,884,323		\$1,884,323
Interest earned on loans receivable	3,115,860		3,115,860
Interest earned on cash in State Treasury	245,845	\$30,433	276,278
Administrative fees		671,653	671,653
Total operating revenues	<u>5,246,028</u>	<u>702,086</u>	<u>5,948,114</u>
OPERATING EXPENSES			
Set-aside expenses	\$1,884,323		1,884,323
Principal forgiveness - Environmental Protection Agency	6,539,743		6,539,743
Total operating expenses	<u>8,424,066</u>	<u>NONE</u>	<u>8,424,066</u>
OPERATING INCOME (LOSS)	(3,178,038)	702,086	(2,475,952)
NONOPERATING REVENUES			
Intergovernmental revenues	NONE	2,693,000	2,693,000
INCOME (LOSS) BEFORE OTHER REVENUES AND EXPENSES	(3,178,038)	3,395,086	217,048
Capital contributions	8,630,430	NONE	8,630,430
CHANGE IN NET POSITION	5,452,392	3,395,086	8,847,478
NET POSITION - BEGINNING OF YEAR, Restated	<u>326,029,954</u>	<u>11,909,353</u>	<u>337,939,307</u>
NET POSITION - END OF YEAR	<u>\$331,482,346</u>	<u>\$15,304,439</u>	<u>\$346,786,785</u>

**DRINKING WATER REVOLVING LOAN FUND
LOUISIANA DEPARTMENT OF HEALTH,
OFFICE OF PUBLIC HEALTH
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Schedule of Cash Flows, by Account
For the Fiscal Year Ended June 30, 2023**

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
Cash flows from operating activities			
Cash received from interest on loans	\$3,115,287		\$3,115,287
Cash received from interest on cash in State Treasury	371,979	\$20,760	392,739
Cash received from administrative fees		664,750	664,750
Cash received from repayment of loan principal	16,167,575		16,167,575
Cash received from allocations for set-aside programs	1,587,519		1,587,519
Cash payments for set-aside programs	(1,587,519)		(1,587,519)
Cash payments to borrowers	(20,680,832)		(20,680,832)
Net cash provided (used) by operating activities	<u>(1,025,991)</u>	<u>685,510</u>	<u>(340,481)</u>
Cash flows from noncapital financing activities			
Contributed capital	9,380,061		9,380,061
Intergovernmental revenue	0	2,693,000	2,693,000
Net cash provided by noncapital financing activities	<u>9,380,061</u>	<u>2,693,000</u>	<u>12,073,061</u>
Net increase in cash	8,354,070	3,378,510	11,732,580
Cash at beginning of year	<u>188,540,259</u>	<u>11,757,053</u>	<u>200,297,312</u>
Cash at end of year	<u><u>\$196,894,329</u></u>	<u><u>\$15,135,563</u></u>	<u><u>\$212,029,892</u></u>

(Continued)

**DRINKING WATER REVOLVING LOAN FUND
LOUISIANA DEPARTMENT OF HEALTH,
OFFICE OF PUBLIC HEALTH
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND
Schedule of Cash Flows, by Account, 2023**

	LOAN ACCOUNT	ADMINISTRATIVE AND STATE MATCH ACCOUNT	TOTAL
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	(\$3,178,038)	\$702,086	(\$2,475,952)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Changes in assets and liabilities:			
(Increase) in accounts receivable	(299,376)	(6,903)	(306,279)
(Increase) Decrease in due from others	126,134	(9,673)	116,461
Decrease in loans receivable	2,028,486		2,028,486
Increase in accounts payable and accrued expenses	296,803		296,803
Net cash provided (used) by operating activities	<u><u>(\$1,025,991)</u></u>	<u><u>\$685,510</u></u>	<u><u>(\$340,481)</u></u>
Noncash investing, capital, and financing activities			
Principal forgiveness on loans - Environmental Protection Agency	\$6,539,743	NONE	\$6,539,743

(Concluded)

**OTHER REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND THE
U.S. ENVIRONMENTAL PROTECTION AGENCY**

Exhibits A-B

The following pages contain reports on internal control over financial reporting and on compliance with laws, regulations, and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States and on internal control and compliance with requirements applicable to the Capitalization Grants for Drinking Water State Revolving Loan Funds Program in accordance with certain requirements of the OMB *Compliance Supplement* as required by the U.S. Environmental Protection Agency.

August 13, 2024

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards

Independent Auditor's Report

**DRINKING WATER REVOLVING LOAN FUND
LOUISIANA DEPARTMENT OF HEALTH,
OFFICE OF PUBLIC HEALTH
STATE OF LOUISIANA**
New Orleans, Louisiana

We have audited, in accordance with the 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 (*Government Auditing Standards*), the financial statements of the Louisiana Department of Health, Office of Public Health - Drinking Water Revolving Loan Fund (DWRLF), an enterprise fund of the state of Louisiana, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the DWRLF's basic financial statements, and have issued our report thereon dated August 13, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DWRLF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DWRLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the DWRLF's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the fund's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified the following deficiency in internal control that we consider to be a material weakness.

Weakness in Controls over the Drinking Water Revolving Loan Fund Financial Report

The Louisiana Department of Health (LDH) – Office of Public Health (OPH) did not have adequate controls over the preparation of the Drinking Water Revolving Loan Fund’s (DWRLF) financial statements and related note disclosures (Financial Report) for fiscal year 2023. Failure to perform an adequate review over the DWRLF’s Financial Report caused the financial statements and related note disclosures to have numerous errors requiring adjustment, some of which were material. Examples of errors identified in the DWRLF’s Financial Report that required adjustment are noted below:

- Financial statements:
 - On the Statement of Revenues, Expenses, and Changes in Fund Net Position, OPH erroneously reported \$2.7 million of statutory dedicated funds as operating revenue. These funds should have been recorded as nonoperating revenue.
 - On the Statement of Net Position, \$855,606 of unearned revenue was erroneously recorded to accounts payable.
- Notes to the Financial Statements:
 - OPH’s loan receivable note to the financial statements did not include all material disclosures, including three of the elements required by the U.S. Environmental Protection Agency, to be disclosed.

Internal controls over financial reporting should include adequate procedures to record, process, and compile financial data needed to prepare accurate and complete financial statements that are free from material misstatements. Those internal controls should include an effective review of the financial statements, including the note disclosures, ensuring that errors can be detected and corrected.

OPH management should strengthen controls over the DWRLF’s Financial Report preparation process to ensure that the Financial Report is adequately reviewed and

free from material misstatements. Management concurred with the finding and provided a corrective action plan (see Appendix A, pg. 1-2).

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DWRLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

DWRLF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DWRLF's response to the finding identified in our audit and described previously. The DWRLF's response included in Appendix A: Management's Corrective Action Plans and Responses to the Findings and Recommendations was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

ABS:REW:JPT:BQD:aa

DWRLF 2023

August 13, 2024

Report on Compliance With Requirements Applicable
to the Capitalization Grants for Drinking Water State Revolving Funds
Program and on Internal Control Over Compliance in Accordance With
Certain Requirements of the OMB *Compliance Supplement*,
as Required by the U.S. Environmental Protection Agency

Independent Auditor's Report

**DRINKING WATER REVOLVING LOAN FUND
LOUISIANA DEPARTMENT OF HEALTH,
OFFICE OF PUBLIC HEALTH
STATE OF LOUISIANA**
New Orleans, Louisiana

**Report on Compliance for the Capitalization Grants for Drinking Water
State Revolving Funds program**

***Qualified Opinion on Compliance for the Capitalization Grants for Drinking
Water State Revolving Funds program***

We have audited the Louisiana Department of Health, Office of Public Health - Drinking Water Revolving Loan Fund's (DWRLF) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on the Capitalization Grants for Drinking Water State Revolving Funds program (Assistance Listing 66.468) for the year ended June 30, 2023.

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on the Capitalization Grants for Drinking Water State Revolving Funds program section of our report, DWRLF complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Capitalization Grants for Drinking Water State Revolving Funds program for the year ended June 30, 2023.

***Basis for Qualified Opinion on the Capitalization Grants for Drinking Water
State Revolving Funds program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable

to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and certain requirements of the OMB *Compliance Supplement*, (Appendix XI of Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*), as required by the U.S. Environmental Protection Agency (EPA). Our responsibilities under those standards and the requirements of the OMB *Compliance Supplement* as required by the EPA are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of DWRLF and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on compliance for the Capitalization Grants for Drinking Water State Revolving Funds program. Our audit does not provide a legal determination of DWRLF's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on the Capitalization Grants for Drinking Water State Revolving Funds program

As described in the below finding, DWRLF did not comply with requirements regarding cash management for the Capitalization Grants for Drinking Water State Revolving Funds program. Compliance with such requirements is necessary, in our opinion, for DWRLF to comply with the requirements applicable to that program.

Inadequate Controls over and Noncompliance with Cash Management Requirements

The Louisiana Department of Health, Office of Public Health (OPH), did not have adequate controls to monitor the federal grant funds remaining and to ensure funds were not overdrawn on federal awards within the Drinking Water Revolving Loan Fund (DWRLF) program. During Fiscal Year 2023, OPH drew \$855,606 in excess federal funds above the allowed budget for the DWRLF's base loan allocation for the applicable award year. Due to this error, OPH converted the associated expenditures from being federally-funded to state-funded, resulting in \$855,606 in excess federal funds on hand as of June 30, 2023. As a result, OPH failed to minimize the time elapsing between the drawdown of these funds from the federal government and the disbursement of these funds for allowable program purposes.

Federal regulations allow a state to draw cash based on the proportionate Federal share of incurred projects costs and require the state to minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a state to the minimum amounts needed by the state and must time the disbursements to be in accord with the actual, immediate cash requirements.

Failure to implement sufficient controls over federal cash management requirements increases the risk that unallowable costs could be reimbursed by the federal grantor. OPH should strengthen existing controls to ensure federal funds are only drawn as necessary and are disbursed timely for eligible federal DWRLF program purposes. Management concurred with the finding and provided a corrective action plan (see Appendix A, pg. 3-4).

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Capitalization Grants for Drinking Water State Revolving Funds program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on DWRLF's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and certain requirements of the OMB *Compliance Supplement* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about DWRLF's compliance with the requirements of the federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and certain requirements of the OMB *Compliance Supplement*, as required by EPA, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding DWRLF's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of DWRLF's internal control over compliance relevant to the audit in order to design audit procedures that are

appropriate in the circumstances and to test and report on internal control over compliance in accordance with certain requirements of the *OMB Compliance Supplement*, but not for the purpose of expressing an opinion on the effectiveness of DWRLF's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described previously in the Basis for Qualified Opinion section to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described below to be a significant deficiency.

Weakness in Controls over Payroll

The Louisiana Department of Health, Office of Public Health (OPH), did not ensure payroll expenditures were approved for the Drinking Water Revolving Loan Fund (DWRLF) program. In a sample of 40 payroll transactions tested from a population of 267 transactions totaling \$833,436, two (5%) time statements were not approved by the employees' supervisors.

State policy requires supervisors to approve time statements for accuracy. Timekeepers are responsible for reviewing the LaGov ZP241 eCertification report prior to payroll processing to identify any supervisors who have not approved their staff's time statements. Federal regulations require that records must be supported by a system of internal control, which provides reasonable assurance that the charges are accurate, allowable, and properly allocated. Furthermore, the records must comply with the established accounting policies and practices of the non-federal entity. OPH lacked sufficient controls to ensure electronic time statements were properly approved in accordance with federal and state regulations. Failure to adequately approve program expenditures increases the risk that unallowable costs could be reimbursed by the federal grantor.

OPH should ensure employees comply with existing policies and procedures, including properly approving electronic time statements. Management concurred with the finding and provided a corrective action plan (see Appendix A, pg. 5-6).

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on DWRLF's responses to the internal control over compliance findings identified in our compliance audit described previously. DWRLF's responses, included in Management's Corrective Action Plans and Responses to the Findings and Recommendations (Appendix A), were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on certain requirements of the OMB *Compliance Supplement*, as required by the EPA. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

ABS:REW:JPT:BQD:aa

DWRLF 2023

APPENDIX A: MANAGEMENT'S RESPONSES



State of Louisiana
Louisiana Department of Health
Office of the Secretary

VIA E-MAIL ONLY

July 3, 2024

Michael J. "Mike" Waguespack, CPA
Louisiana Legislative Auditor
P.O. Box 94397
Baton Rouge, La 70804-9397

Re: Weakness in Controls over the Drinking Water Revolving Loan Fund Financial Report

Dear Mr. Waguespack,

The Louisiana Department of Health (LDH) acknowledges receipt of correspondence from the Louisiana Legislative Auditor dated June 24, 2024, regarding a reportable audit finding related to Weakness in Controls over the Drinking Water Revolving Loan Fund Financial Report (DWRLF) at the LDH. The LDH appreciates the opportunity to provide this response to your office's findings.

Finding: Weakness in Controls over the Drinking Water Revolving Loan Fund Financial Report

Recommendation: OPH Management should strengthen controls over the DWRLF's Financial Report preparation process to ensure the Financial Report is adequately reviewed and free from material misstatements.

LDH Response: LDH agrees with the finding and recommendation due to the materiality threshold of the misstatements in the Annual Financial Report that resulted in reclassifications, which had a net zero effect on the financial statements and the note adjustment in the EPA Annual Report that was due to an administrative oversight.

Corrective Action Plan: To mitigate recurrence of this issue, OPH DWRLF Management will collaborate with LDH Fiscal on the DWRLF Annual Report preparation and the OPH Annual Financial Report to include a review process to ensure the financial statements are free from material misstatements and omissions.

The anticipated corrective action plan will be completed February 28, 2025.

Michael J. "Mike" Waguespack, CPA
Weakness in Controls over the Drinking Water Revolving Loan Fund Financial Report
July 3, 2024
Page 2

You may contact Joel McKenzie, DWRLF Program Manager, by telephone at 225-342-8206 or by email at Joel.McKenzie@la.gov or Quintesah Syas, Comptroller, by telephone at 225-342-9333 or by e-mail at Quintesah.Syas@la.gov with any questions about this matter.

Sincerely,

A handwritten signature in blue ink that reads "Michael Harrington". The signature is written in a cursive style with a large, sweeping initial "M".

Michael Harrington, MBA, MA
Secretary

Jeff Landry
GOVERNOR



Ralph L. Abraham, M.D.
SECRETARY

State of Louisiana
Louisiana Department of Health
Office of the Secretary

VIA E-MAIL ONLY

June 20, 2024

Michael J. Waguespack, CPA
Louisiana Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Inadequate Controls over and Noncompliance with Cash Management Requirements

Dear Mr. Waguespack,

The Louisiana Department of Health (LDH) acknowledges receipt of correspondence from the Louisiana Legislative Auditor dated June 11, 2024, regarding a reportable audit finding related to inadequate controls over and noncompliance with cash management requirements for the Drinking Water Revolving Loan Fund (DWRLF) at the LDH. The LDH appreciates the opportunity to provide this response to your office's findings.

Finding: Inadequate Controls over and Noncompliance with Cash Management Requirements

Recommendation: OPH should strengthen existing controls to ensure federal funds are only drawn as necessary and are disbursed timely for eligible federal DWRLF program purposes.

LDH Response: LDH agrees with the finding and recommendation.

Corrective Action Plan: To prevent a reoccurrence of this issue, LDH Fiscal will work with DWRLF staff to revise the DWRLF reconciliation process to improve the cash projection to ensure that funds are drawn and distributed timely in accordance with Federal regulations.

The anticipated completion date of this corrective action plan is December 31, 2024.

Michael J. Waguespack, CPA
Inadequate Controls over and Noncompliance with Cash Management Requirements
June 20, 2024
Page 2

You may contact Helen Harris, LDH Fiscal Director, by telephone at 225-342-9568 or by e-mail at helen.harris@la.gov with any questions about this matter.

Sincerely,

DocuSigned by:

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Ralph L. Abraham, M.D.
Secretary

Jeff Landry
GOVERNOR



Ralph L. Abraham, M.D.
SECRETARY

State of Louisiana

Louisiana Department of Health
Office of the Secretary

May 23, 2024

Michael J. "Mike" Waguespack, CPA
Louisiana Legislative Auditor
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Re: Weakness in Controls over Payroll-Drinking Water Revolving Loan Fund

Dear Mr. Waguespack:

The Louisiana Department of Health (LDH) acknowledges receipt of correspondence from the Louisiana Legislative Auditor (LLA) dated May 15, 2024, regarding a reportable audit finding related to Weakness in Controls over Payroll for the following programs in the Office of Public Health (OPH): Drinking Water Revolving Loan Fund (DWRLF). LDH appreciates the opportunity to provide this response to your office's finding.

Finding: Weakness in Controls over Payroll

Recommendation: OPH should ensure employees comply with existing policies and procedures, including properly certifying and approving electronic time statements.

LDH Response: LDH concurs with the finding and concurs with the recommendation.

As part of a comprehensive agency-wide plan to address this finding, OPH developed a corrective action plan to enact control measures and monitor the certification and approval of electronic time statements. OPH implemented an updated Time Entry Policy that was put into place in April 2024. This policy includes employee, supervisor, and time administrator responsibilities regarding the certification and approval of electronic time statements. This policy was distributed agency wide.

The corrective actions that have been implemented were updated in the policy.

All OPH Time Administrators were required to attend the LDH in-person Time Administrator Training held in Spring 2024.

OPH Leadership conducted a training with all OPH Time Administrators to review the corrective actions being implemented. OPH will require time administrators meet in-person face to face with all OPH new hires (and transfers) within seven (7) working days of hire/transfer to provide instruction on employee/supervisor time approval/time certification activities.

In lieu of the current LDH deadline of 10 PM Wednesday to certify time and 10 PM Wednesday for supervisors to approve time, a new OPH internal deadline has been established for all employees. All OPH employees must have their time certified by 5 PM on payroll-week Mondays and all OPH supervisors must have all timesheets approved by 2 PM on payroll-week Tuesdays.

Time Administrators will be required to run payroll compliance reports after 2 PM on payroll-week Tuesdays and provide notice to non-compliance employees Wednesday morning. Time Administrators will send a notification to staff identified in the report as non-compliant (or to their supervisor) to inform them of the non-compliance and provide a deadline (2 PM Wednesday) for the employee to take the needed action.

Telework privileges will be revoked for employees/supervisors who fail to certify/approve time timely for three pay periods. Additionally, they will receive a letter of improvement outlining expectations regarding time certification/approval processes.

You may contact Amanda Ames, Chief Engineer, by telephone at (225) 342-7499, or by email at amanda.ames@la.gov.

Sincerely,

DocuSigned by:

CF38B383F66F4AE...

Ralph L. Abraham, M.D.
Secretary