



ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C

OFFICE OF
INSPECTOR GENERAL

September 17, 2003

Memorandum

Subject: Auditor's Report for the South Carolina Clean Water State Revolving Fund Program (the Program) as of June 30, 2002
Audit Report No. 2003-1-00139

From: William M. Dayton
National SRF Audit Manager

A handwritten signature in black ink, appearing to read "William M. Dayton", is written over the typed name and title.

To: Jimmy Palmer
Regional Administrator
EPA, Region 4
Atlanta, GA

Attached is a copy of the subject audit we sent to the State of South Carolina. The audit contains reports on the financial statements, internal controls, and compliance requirements applicable to the Drinking Water State Revolving Fund (SRF) program in South Carolina for the year ended June 30, 2002.

We issued an unqualified opinion on the financial statements and on the compliance requirements applicable to the Clean Water SRF program. In addition, we did not note any matters involving the internal control system and operations that we consider to be material weaknesses.

Since we did not have any compliance matters or costs questioned, and we are closing the audit report on issuance

The OIG has no objection to the release of this report to any member of the public upon request. The report contains no confidential business or proprietary information.

If you have any questions or concerns regarding this matter, please feel free to contact me at (916) 498-6590.

Attachment



ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C

OFFICE OF
INSPECTOR GENERAL

September 17, 2003

Mr. R. Lewis Shaw, Deputy Commissioner
South Carolina Department of Health and Environmental Control

Mr. Michael S. Gulledge, Director
Office of Local Government
South Carolina State Budget and Control Board

Re: Audit Reports of the Financial Statements of the South Carolina Clean Water State Revolving
Fund Program for the year ended June 30, 2002
Audit Report No. 2003-1-00139

Dear Mr. Shaw and Mr. Gulledge:

Enclosed please find an electronic copy of the audited financial statements for the South Carolina Clean Water State Revolving Fund Program for the year ended June 30, 2002. We made certain adjustments and reclassifications, to which you have agreed, in order to have the financial statements follow EPA's current reporting guidelines, which are in accordance with generally accepted accounting principles

We would like to thank you and your staff for the cooperation and courtesies we received during our audit. Please feel free to call me at (916) 498-6590 should you have any comments or questions.

Sincerely,

A handwritten signature in black ink, appearing to read "William M. Dayton".

William M. Dayton
National SRF Audit Manager



OIG
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

**South Carolina Clean Water
State Revolving Fund**

**Financial Statements with
Independent Auditor's Report, June 30, 2002**

Audit Report Number 2003-1-00139

Issued September 17 , 2003

**State of South Carolina
Clean Water State Revolving Fund Program**

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UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

Independent Auditor's Report

To: Mr. R. Lewis Shaw, Deputy Commissioner
South Carolina Department of Health and Environmental Control

Mr. Michael S. Gulledege, Director
Office of Local Government
South Carolina State Budget and Control Board

We have audited the accompanying combining balance sheet of the South Carolina Clean Water State Revolving Fund Program (the Program) as of June 30, 2002, and the related combining statement of revenues, expenses and changes in fund balance, and combined statement of cash flows for the year then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

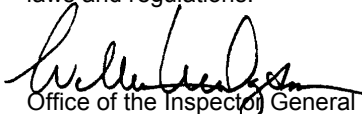
We conducted our audit in accordance with generally accepted auditing standards in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The scope of our examination did not include an audit of the financial statements of the preceding year sufficient to enable us to express, and we do not express, an opinion on the balance sheet of the Program as of June 30, 2001 or the related statements of revenue, expenses and changes in fund balance, and cash flows for the year then ended, nor do we express an opinion on the consistency of application of accounting principles with the preceding year.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the South Carolina Department of Health and Environmental Control Clean Water State Revolving Fund Program as of June 30, 2002 and the results of its operation and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1, the financial statements referred to above are intended to present the financial position and results of operations of the Program, a component of the general fund of the State of South Carolina. These statements are not intended to present the financial position or results of operations for the State of South Carolina, the South Carolina Department of Health and Environmental Control, or the South Carolina State Budget and Control Board, of which the Program is a part. Certain supplementary information referred to as Management Discussion and Analysis, although not a required part of the basic financial statements, has been omitted for this program-specific financial

In accordance with *Government Auditing Standards*, we have also issued a report dated April 25, 2003 on our consideration of the Program's internal control structure and a report dated April 25, 2003 on its compliance with laws and regulations.


Office of the Inspector General
April 25, 2003

South Carolina Clean Water State Revolving Fund Program

Combining Balance Sheet June 30, 2002 (With comparative unaudited totals for 2001)

<u>Assets</u>	<u>SRF</u>	<u>Loan Fee Account</u>	<u>(Memorandum only) Total 2002</u>	<u>(Unaudited) 2001</u>
Current Assets:				
Cash and cash equivalents	\$ 104,779,234	\$ 2,297,242	\$ 107,076,476	\$ 111,841,503
Current receivables:				
Loan interest	1,518,102		1,518,102	1,333,425
Investment earnings	1,303,105		1,303,105	1,245,099
Current portion of loans receivable	16,177,397		16,177,397	10,205,046
Total current receivables	<u>18,998,604</u>		<u>18,998,604</u>	<u>12,783,570</u>
Total current assets	123,777,838	2,297,242	126,075,080	124,625,073
Non-Current Assets:				
Loans receivable, net of current portion	<u>236,304,430</u>		<u>236,304,430</u>	<u>196,125,571</u>
Total non-current assets	<u>236,304,430</u>		<u>236,304,430</u>	<u>196,125,571</u>
Total assets	<u><u>360,082,268</u></u>	<u><u>2,297,242</u></u>	<u><u>362,379,510</u></u>	<u><u>320,750,644</u></u>
 <u>Liabilities and Fund Equity</u>				
Current Liabilities:				
Accounts payable	3,017,537		3,017,537	455,396
Fund Equity	<u>357,064,731</u>	<u>2,297,242</u>	<u>359,361,973</u>	<u>320,295,248</u>
Total liabilities and fund equity	<u><u>\$ 360,082,268</u></u>	<u><u>\$ 2,297,242</u></u>	<u><u>\$ 362,379,510</u></u>	<u><u>\$ 320,750,644</u></u>

The accompanying notes are an integral part of these financial statements.

**South Carolina Clean Water
State Revolving Fund Program**
Combining Statement of Revenues, Expenses
and Changes in Fund Equity
For the year ended June 30, 2002
(With comparative unaudited totals for 2001)

	<u>SRF</u>	<u>Loan Fee Account</u>	(Memorandum only) Total 2002	<i>Unaudited 2001</i>
Revenues:				
Loan interest	\$ 9,142,442		\$ 9,142,442	\$ 8,294,872
Investment earnings	5,484,867	\$ 93,168	5,578,035	5,999,367
Management fees		571,625	571,625	565,858
Total revenues	<u>14,677,309</u>	<u>664,793</u>	<u>15,342,102</u>	<u>14,860,097</u>
Expenses:				
Administrative costs:				
Salaries and benefits	310,625	306,937	617,562	480,574
Contractual services	45,627	22,936	68,563	63,804
Other	27,878	49,979	77,857	94,355
Total expenses	<u>384,130</u>	<u>379,852</u>	<u>793,982</u>	<u>638,733</u>
Operating income	14,293,179	284,941	14,578,120	14,221,364
Non-operating income:				
Federal capitalization grant	21,537,870		21,537,870	25,962,367
State matching funds	<u>2,950,735</u>		<u>2,950,735</u>	<u>9,234,860</u>
Non-operating income	24,488,605		24,488,605	35,197,227
Fund equity, beginning of year	<u>318,282,947</u>	<u>2,012,301</u>	<u>320,295,248</u>	<u>270,876,657</u>
Fund balance, end of year	<u>\$ 357,064,731</u>	<u>\$ 2,297,242</u>	<u>\$ 359,361,973</u>	<u>\$ 320,295,248</u>

The accompanying notes are an integral part of these financial statements.

**South Carolina Clean Water
State Revolving Fund Program
Combined Statement of Cash Flows
For the year ended June 30, 2002
(With comparative unaudited totals for 2001)**

	<u>2002</u>	<u>(Unaudited) 2001</u>
Cash flows from operating activities:		
Cash received from customers	\$ 12,596,927	\$ 9,612,590
Investment income	5,427,889	6,119,535
Payments to employees and suppliers	<u>(738,372)</u>	<u>(696,414)</u>
Net cash provided by operating activities	17,286,444	15,035,711
Cash flows from capital and related financing activities:		
Funds received from EPA	21,537,870	25,962,367
Funds received from the State of South Carolina	<u>2,950,735</u>	<u>9,234,860</u>
Net cash provided by capital and related financing activities	24,488,605	35,197,227
Cash flows from investing activities:		
Loan disbursements	(56,745,122)	(33,019,348)
Repayment of loans	<u>10,205,046</u>	<u>8,262,465</u>
Net cash (used in) investing activities	<u>(46,540,076)</u>	<u>(24,756,883)</u>
Increase (decrease) in cash and cash equivalents	(4,765,027)	25,476,055
Cash and cash equivalents, beginning of year	<u>111,841,503</u>	<u>86,365,448</u>
Cash and cash equivalents, end of year	<u>\$ 107,076,476</u>	<u>\$ 111,841,503</u>
Reconciliation of operating income to cash provided by operating activities:		
Operating income	\$ 14,578,120	\$ 14,221,365
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		2,732
(Increase) decrease in current receivables	(242,683)	409,110
Increase in current liabilities	<u>2,951,007</u>	<u>402,504</u>
Net cash provided by operating activities	<u>\$ 17,286,444</u>	<u>\$ 15,035,711</u>

The accompanying notes are an integral part of these financial statements.

South Carolina Clean Water State Revolving Fund Program Notes to Financial Statements

1. Organization of the Fund

The South Carolina Clean Water State Revolving Fund program was established pursuant to Title VI of the Federal Water Quality Act of 1987. The Act established the State Revolving Fund (SRF) program to replace the construction grants program. The purpose of the SRF is to provide low interest loans to local governments for the purpose of constructing wastewater treatment facilities, nonpoint source pollution control facilities, and estuary management plans. The loan repayment period ranges from 10 to 20 years, and all repayments, including interest and principal, must be credited to the Fund.

The SRF Program is jointly administered by the State of South Carolina's Department of Health and Environmental Control (DHEC) and the South Carolina Water Quality Revolving Fund Authority through the State Budget and Control Board (the Board). DHEC is responsible for administering the technical and program activities of the Program, and the Board is responsible for all financial and management functions. The Program consists of two funds: a loan fund to record loan and related activity, plus DHEC administrative expenses, and a loan fee fund that collects loan closing fees charged to loan recipients, and pays administrative expenses of the Board related to the program.

The Program does not have any full time employees. Instead, DHEC employees charge for time spent on program activities and the Program reimburses DHEC for such costs. The Board employees are paid from loan fee revenues based on a cost allocation plan which is adjusted annually. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Program. Employees are covered by the benefits available to State of South Carolina employees.

The Program financial statements, footnotes, and related schedules are presented for the U.S. Environmental Protection Agency. The Program is included in the State of South Carolina's general purpose financial statements as a special revenue Program which uses the modified accrual basis of accounting. Due to differences in reporting methods, there may be differences between the amounts reported in these financial statements and the general purpose financial statements.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements for the Program are presented as a proprietary fund. As such, the Program is accounted for using the flow of economic resources measurement focus and is maintained on the accrual method of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred. All assets and liabilities associated with the operations of the Program are included on the balance sheet. The State has elected to follow the accounting pronouncements of the Governmental Accounting Standards Board (GASB), as well as statements issued by the Financial Accounting Standards Board on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

All monies of the Program are deposited with the South Carolina State Treasurer's Office which is responsible for maintaining these deposits in accordance with South Carolina State law. The Program considers all such deposits to be cash. Investment interest earnings on these deposits are received by the Program on a monthly basis. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Program, as further discussed in Note 3. Consequently, management of the Program does not have any control over the investment of the excess cash. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

**South Carolina Clean Water
State Revolving Fund Program
Notes to Financial Statements**

2. Summary of Significant Accounting Policies (continued)

Loans Receivable

Loans are funded by capitalization grants from EPA, State matching funds and fund earnings. Loan funds are advanced to local agencies on a cost reimbursement basis, and interest begins accruing when funds are disbursed. After construction is completed, the local agency can elect to add the construction period interest to the loan amount, or they can pay it in total at the end of the deferral period. Loans are amortized over periods of 10 to 20 years. Loan repayments must begin within one year of construction completion and are made on a quarterly basis. There is no provision for uncollectible accounts, as all repayments are current, and management believes all loans will be repaid according to the loan terms.

Contributed Capital

In accordance with generally accepted accounting principles, funds received from EPA and the State of South Carolina for the capitalization of the Program are recorded as non-operating income on the statement of revenues, expenses and changes in fund equity.

Reclassifications

Certain amounts in the 2001 unaudited financial statements have been reclassified to conform to the presentation in the 2002 financial statements.

3. Cash and Cash Equivalents

All cash in the Program is deposited with the State Treasurer who is responsible for maintaining and investing the pooled cash balances in accordance with State laws. The Treasurer is required to maintain a mix of investments in order to allow funds to be withdrawn at any time to meet normal operating needs. The Program's share of the investment income from the local government investment pool is based on the average daily balance for the period and is credited to the Program monthly. Details of the investments can be obtained from the State Treasurer's Office.

All cash and investments in the local government investment pool are stated at cost, which approximates fair market value. Investments in local government investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form.

	<u>Cost</u>	<u>Market Value</u>
Not subject to categorization:		
Local government investment pool	\$ 107,076,476	\$ 107,076,476

4. Loans Receivable

The Program has made loans to qualified local agencies at interest rates ranging from 2 percent to 4.75 percent. Interest rates are set in the original loan agreement.

**South Carolina Clean Water
State Revolving Fund Program
Notes to Financial Statements**

4. Loans Receivable (continued)

Details of loans receivable as of June 30, 1999 are as follows:

	<u>Loan Authorized</u>	<u>Remaining Commitment</u>	<u>Outstanding Balance</u>
Completed projects	\$ 181,096,220	\$ 0	\$ 132,381,999
Projects in progress	167,697,370	47,597,542	120,099,828
Totals	<u>\$ 348,793,590</u>	<u>\$ 47,597,542</u>	252,481,827
Less amounts due within one year			16,177,397
Loans receivable, June 30, 2002			<u>\$ 236,304,430</u>

Loans mature at various intervals through April 1, 2022. The scheduled minimum principal repayments in future years are as follows:

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 16,006,831	\$ 9,019,176	\$ 25,026,007
2004	11,424,652	8,378,902	19,803,554
2005	11,888,347	7,921,916	19,810,263
2006	12,371,046	7,446,382	19,817,428
2007	12,873,535	6,951,541	19,825,076
2008-2012	66,401,821	32,182,996	98,584,817
2013-2017	60,683,923	18,902,631	79,586,554
2018-2022	<u>36,846,774</u>	<u>6,765,847</u>	<u>43,612,621</u>
Total	<u>\$ 228,496,929</u>	<u>\$ 97,569,391</u>	<u>\$ 326,066,320</u>
Projects not in repayment	<u>23,984,898</u>		
Loans receivable, June 30, 2002	<u>\$ 252,481,827</u>		

Loans to Major Local Agencies:

As of June 30, 2002, the Program had made loans to various entities that, in aggregate, exceeded \$5,000,000. The balances of these loans represent approximately 82 percent of the total loans outstanding, at June 30, 2002as follows:

<u>Borrower</u>	<u>Authorized Loans</u>	<u>Amount Outstanding</u>
Aiken County	\$ 6,340,757	\$ 5,852,528
Beaufort-Jasper Water & Sewer	28,445,900	17,957,908
City of Dillon	12,154,933	9,333,449
City of Florence	24,687,110	17,668,962
City of Georgetown	9,826,771	7,439,262
Grand Strand Water & Sewer	48,411,227	30,406,591
Greenwood Metro District	6,143,920	5,861,021
City of Lancaster	7,769,705	6,351,635
Hilton Head PSD	10,194,238	9,925,439
Town of Mount Pleasant	16,759,448	12,000,732
City of Myrtle Beach	15,372,215	11,363,780
Oconee County	8,190,000	6,241,316
Spartanburg Sanitary District	12,218,707	7,642,157
City of Sumter	12,447,401	10,069,390
W. Carolina Reg. Sewer Authority	<u>66,596,989</u>	<u>46,949,605</u>
Subtotal of loans over \$5 million	<u>\$ 285,559,321</u>	<u>\$ 205,063,775</u>
Loans under \$5 million	<u>63,234,269</u>	<u>47,418,052</u>
Total loans	<u>\$ 348,793,590</u>	<u>\$ 252,481,827</u>

**South Carolina Clean Water
State Revolving Fund Program
Notes to Financial Statements**

5. Fund Equity

Fund equity consists of three components: capitalization grants from the EPA, state matching contributions, and accumulated earnings of the program.

As of June 30, 2002, EPA has awarded capitalization grants of \$230,289,884 to the State, of which \$227,733,031 has been drawn for loans and administrative expenses. The State of South Carolina must also contribute an amount equal to 20 percent of the federal capitalization amount. The State has provided match funds of \$49,513,466.

The components of fund equity as of June 30, 2001 and 2002 are as follows:

	<u>2001</u>	<u>2002 Activity</u>	<u>2002</u>
Federal capitalization grants	\$ 206,195,161	\$ 21,537,870	\$ 227,733,031
State matching contributions	46,562,731	2,950,735	49,513,466
Accumulated earnings	<u>65,525,055</u>	<u>14,293,179</u>	<u>79,818,234</u>
Total fund equity	<u>\$ 318,282,947</u>	<u>\$ 38,781,784</u>	<u>\$ 357,064,731</u>

The following summarizes the capitalization grant award, amounts drawn on each grant as of the balance sheet date, and balances available for future loans:

	<u>Grant Amount</u>	<u>Draws June 30, 2001</u>	<u>2002 Draws</u>	<u>Draws June 30, 2002</u>	<u>Grant Funds Available June 30, 2002</u>
1989-1998	\$ 172,843,224	\$ 172,843,224	\$ 0	\$ 172,843,224	\$ 0
1999	13,796,145	13,796,145		13,796,145	0
2000	13,778,770	13,778,770		13,778,770	0
2001	13,657,446	5,777,022	7,880,424	13,657,446	0
2002	16,214,299	0	13,657,446	13,657,446	2,556,853
Totals	<u>\$ 230,289,884</u>	<u>\$ 206,195,161</u>	<u>\$ 21,537,870</u>	<u>\$ 227,733,031</u>	<u>\$ 2,556,853</u>

As of June 30, 2001 and 2002, State matching contributions were as follows:

	<u>Total Match June 30, 2001</u>	<u>2002 Contribution</u>	<u>Total Match June, 30 2002</u>
South Carolina State Matching Contribution	<u>\$ 46,562,731</u>	<u>\$ 2,950,735</u>	<u>\$ 49,513,466</u>

6. Administrative Costs and Loan Fee Revenue

The Clean Water Act provides for states to use up to four percent of the capitalization grants toward SRF program administrative costs. The Program also charges local agencies a one time loan closing fee which has ranged from one to two percent. These fees are deposited in the loan fee fund and are to be used to pay for the administrative costs incurred by the Board for the clean water revolving loan program. During the years ended June 30, 2001 and 2002, fees of \$ 565,858 and \$ 571,625 were earned, respectively.

**South Carolina Clean Water
State Revolving Fund Program
Notes to Financial Statements**

7. Contingencies, Related Parties, and Subsequent Events

Contingencies

The Program is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Program business, or acts of God. The State maintains insurance for all risks of loss which is included in the indirect costs allocated to the Program.

According to DHEC management and legal counsel, there are no other loss contingencies which require disclosure or accrual under the Statement of Financial Accounting Standards No. 5.

Related Parties

There are no related party transactions with or related amounts receivable from management of the Program.

Subsequent Events

On April 14, 1999, EPA awarded the fiscal year 2003 federal capitalization grant for \$13,568,643. In addition, binding commitments were made for five local agencies totaling \$25,988,732. There were no other subsequent events following the fiscal year-end requiring disclosure in these financial statements.

**Independent Auditor's Report on the
Internal Control Structure Based on an
Audit of the Financial Statements
Performed in Accordance with
*Government Auditing Standards***



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

TO: Mr. R. Lewis Shaw, Deputy Commissioner
South Carolina Department of Health and Environmental Control

Mr. Michael S. Gullledge, Director
Office of Local Government
South Carolina State Budget and Control Board

We have audited the financial statements of the South Carolina Clean Water State Revolving Fund Program (the Program) as of and for the year ended June 30, 2002, and have issued our report thereon dated April 25, 2003.

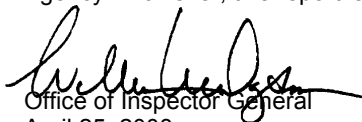
We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Program is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Program for the year ended June 30, 2002, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of management of the Program and the U.S. Environmental Protection Agency. However, this report is a matter of public record and distribution is not limited.


Office of Inspector General
April 25, 2003

**Independent Auditor's Report
on Compliance with Requirements Applicable to the
Environmental Protection Agency's
State Revolving Fund Program
in Accordance with
*Government Auditing Standards***



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C.

OFFICE OF
INSPECTOR GENERAL

TO: Mr. R. Lewis Shaw, Deputy Commissioner
South Carolina Department of Health and Environmental Control

Mr. Michael S. Gullledge, Director
Office of Local Government
South Carolina State Budget and Control Board

We have audited the financial statements of the South Carolina Clean Water State Revolving Fund Program (the Program) as of and for the year ended June 30, 2002, and have issued our report thereon dated April 25, 2003.

We have also audited the Program's compliance with specific program requirements governing allowability for specific activities, allowable types of assistance, state matching, period of availability of funds and binding commitments, cash management, program income, and subrecipient monitoring that are applicable to the Program for the year ended June 30, 2002. The management of the Program is responsible for the Program's compliance with those requirements. Our responsibility is to express an opinion on those requirements based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Program's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Program complied, in all material respects, with the specific program requirements that are applicable to the Program for the year ended June 30, 2002.

This report is intended for the information of management of the Program and the U.S. Environmental Protection Agency. However, this report is a matter of public record and its distribution is not limited.


Office of Inspector General
April 25, 2003

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