



September 23, 2015

To the Directors of the
Oklahoma Department of Environmental Quality
Oklahoma Drinking Water State Revolving Fund Loan Program

We have audited the financial statements of the Oklahoma Department of Environmental Quality/Oklahoma Drinking Water State Revolving Fund Loan Program (the "Program") for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 6, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Program are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the Program during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the Program's financial statements at June 30, 2015 is the provision for loan losses. Management's estimate of the reserve for bad debt allowance for the Drinking Water State Revolving Loan Fund is based upon reserving the next principal payment due by the debtor in instances in which the debt coverage ratio for that debtor is less than the required 1.25%.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following summarizes the adjustments detected as a result of our audit procedures and which have been corrected by management.

Set-Aside Programs:

- The financial statements for the Program's set aside activities are largely created at year end through a series of adjustments which roll financial statement balances forward from year to year. There were no other proposed or recorded adjustments for the Set-Aside Programs.

Revolving Loan Fund Program:

- We proposed an adjustment to correct an error in the recording of principal forgiveness in the amount of \$247,810.
- We proposed an adjustment to correct the beginning balance of net position in the amount of \$1,000,000 related to a prior year audit entry that was not recorded related to the correction of the fair value of investment for the same amount.

There were no other adjustments proposed that were not recorded.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 23, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Program's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to supplemental combining financial information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Directors of the Oklahoma Department of Environmental Quality and management of the Program and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Arledge & Associates, P.C.

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Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
AJE1	Adjusting	06/30/15					
		2100	ADMIN FEE RECEIVABLE	43,405.80			
		4000	ADMIN FEES		43,405.80		
			To fix admin accrual on Loans Receivables.			43,405.80	G-3
AJE2	Adjusting	06/30/15					
		3800	TRANS to OK DW State	18,525.21			
		3815	Transfer To(From) OWRB		18,525.21		
			To correct client coding and combine into one account all amounts that relate to monies trans to DWSRF during the year.			0.00	R-1
AJE3	Adjusting	06/30/15					
		2530	Due to OWRB Agency	17,198.00			
		5100	INDIRECT COST EXPENSE		17,198.00		
			To adjust IDC owed to OWRB to actual. This amount is PY IDC payable that needed to be adjusted to zero.			17,198.00	See G-5
AJE4	Adjusting	06/30/15					
		3000	FUND BALANCE	109,491.94			
		3001	FUND BALANCE-RESTRICTED		109,491.94		
			To close out / combine unnecessary equity account balances into one account.			0.00	R-1
TOTAL				<u>188,620.95</u>	<u>188,620.95</u>	<u>60,603.80</u>	