



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 6
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Mr. Joe Freeman, Director
Financial Assistance Division
Oklahoma Water Resources Board
3800 N. Classen Boulevard
Oklahoma City, Oklahoma 73118

APR 14 2016

Dear Mr. Freeman:

Enclosed is the Draft State Fiscal Year (SFY) 2015 Clean Water State Revolving Fund (CWSRF) Base program Annual Program Evaluation Report (PER) for your review. The report is based on the State's FY 2015 CWSRF Annual Report, on-site discussions and file reviews on December 7th-10th, 2015, and the EPA's completion of our standardized national checklists of Program Evaluation questions. We appreciate your assistance, as well as that of your staff in this review process.

The CWSRF requires that states comply with Title VI, Section 606(e) of the Clean Water Act (CWA), 40 CFR 35.3165(c), its capitalization grant conditions, and operating agreement conditions. Notwithstanding a few recommendations for improvements, OWRB is effectively managing the OWRB program.

If you have suggestions for revisions to the report before it is finalized, please e-mail them to Mike Vaughan at vaughan.michael@epa.gov within three weeks of your receipt of this report. If you find the draft report to be accurate and acceptable, as is, please let us know and we will issue the final report under the signature of our Division Director, to be sent to Mr. J.D. Strong, Executive Director. If you have any questions, please contact me at (214) 665-7110, or have your staff contact Mike Vaughan at (214) 665-7313.

Sincerely yours,

A handwritten signature in black ink, appearing to read "C. Hosch".

Claudia Hosch
Associate Director
Assistance Programs Branch

Enclosure

cc (w/encl.): Ms. Lori Johnson (OWRB)

U.S. Environmental Protection Agency,
Region 6



Clean Water
State Revolving Fund

Oklahoma Draft Program Evaluation Report

State Fiscal Year 7/01/2014 - 6/30/2015

Prepared by EPA Region 6
Assistance Programs Branch
April 2016

CWSRF BASE PROGRAM EVALUATION REPORT

I. Introduction

The purpose of this Program Evaluation Report (PER) is to present findings, conclusions, and recommendations based on the State's Fiscal Year 2015 (SFY 2015) operation of the Clean Water State Revolving Fund (CWSRF) Program, and to document whether the State has complied with the requirements of Title VI of the Clean Water Act (CWA).

CWA Title VI, Section 606(e), and 40 CFR 35.3165(c) require the Environmental Protection Agency (EPA) to conduct an annual review of each State's SRF program in terms of the Annual Report and other such materials considered necessary and appropriate in carrying out the purposes of Title VI of the CWA.

The purposes of the annual review are:

- to evaluate the success of the State's performance in achieving goals and objectives identified in the Intended Use Plan (IUP), and the State's Annual Report;
- to evaluate the State's compliance with its Operating Agreement;
- to determine compliance with Part 31 of the general grant regulations and the provisions of the capitalization grant agreement, including special conditions;
- to assess the financial status and performance of the fund;
- to review the status of resolution of prior year Program Evaluation Report (PER) findings; and
- to examine and follow up on any open audit findings and recommendations.

II. Review Results and EPA Recommendations

This annual program review covered the SFY 2015 operation, as well as previous years, and was conducted both in-house at EPA and on-site at the Oklahoma Water Resources Board's (OWRB) offices. The review was initially conducted on December 7-10, 2015 and covered active grant CS40000214. The review continued through the following weeks & was completed in January 2016. In addition to staff interviews, EPA reviewed the following two project files: Colbert Public Utilities Authority and El Reno Municipal Authority. On January 20, 2016, EPA and OWRB staff participated in a conference call to discuss the Annual Review Checklist.

Notwithstanding the following observations, EPA found that OWRB is in compliance with Title VI, Section 606(e) of the Clean Water Act (CWA), 40 CFR 35.3165(c), the capitalization grant conditions, and operating agreement conditions.

A. Programmatic, Technical, and Environmental Results

1. Operating Agreement

The revised OWRB Operating Agreement (OA) was submitted to EPA Region 6 for review on January 27th, 2015. After going through a detailed review by EPA's Program Manager, and Legal Counsel, it was determined that this revised OA was acceptable. It was approved on March 26th, 2015.

2. Green Project Reserve

Green Project Reserve (GPR) requirements were established for the CWSRF base program in EPA's Federal Fiscal Year 2012 appropriation. They were passed through to the State in their capitalization grant. OWRB's responsibilities this year were to solicit and fund GPR projects, or components of projects, for not less than 10% of the capitalization grant amount. The four categories of GPR are green infrastructure, energy efficiency, water efficiency, and environmentally innovative projects. The State must also identify those projects in the IUP and Annual Report, indicate whether they are categorically green or will require a business case, review all business cases, and post any business cases on their website by the end of the quarter in which the loan is made.

The CWSRF FY15 Annual Report stated that GPR qualifying loans signed in SFY15 totaled \$1,400,335. These projects were identified as meeting the FY14 capitalization grant requirement for GPR in CBR. Oklahoma anticipates closing additional green projects in SFY16 to meet the FY15 capitalization grant requirement.

EPA relies on the information in CBR to report to the Office of Management and Budget (OMB), the Office of the Inspector General (OIG), and Congress concerning the GPR grant requirement. As GPR information changes, updates to these systems should be made timely. At a minimum, final GPR expenditure amounts, verified with pay requests, should be updated in CBR. OWRB has an SOP that indicates they are updating project information at the end of the project.

In last year's PER, EPA recommended OWRB ensure CBR project descriptions include GPR information if applicable. The two projects reviewed for this onsite were updated to include GPR information during the onsite review. Thank you for this update, and please continue to add this information to future project descriptions.

3. Implementing Federal Cross-Cutting Authorities

On November 5, 2013, EPA released a memo titled "Procedures for Implementing Environmental Federal Cross-Cutting Authorities in the Clean Water and Drinking Water State Revolving Fund Programs," which clarifies procedures for applying federal environmental cross-cutting authorities to projects and activities receiving assistance under the Clean Water and Drinking Water State Revolving Funds. In order to streamline the cross-cutting process, this memo states that records do not necessarily need to show

that each federal agency responsible for administering a cross-cutting authority has been consulted on the particular project. Specifically, if State SRF staff perform an internal analysis and conclusively determine that the proposed project has no potential impact related to a federal cross-cutting authority, then it is not necessary to consult with the agency responsible for that cross-cutter.

EPA Commendation: Last year, EPA recommended that OWRB update their crosscutter SOP to include more information on the State internal analysis when moving forward with projects that have not received a correspondence letter for a crosscutter. OWRB reviewed the SOP for Environmental Assessments – Finding of no significant impact (EA-FONSI) and made necessary updates regarding internal determinations. Thank you for updating this SOP.

4. Cross-cutter Compliance as it applies to Federal Funding Accountability and Transparency Act (FFATA)

EPA staff reviewed information reported to FSRS and compared the information to documentation in the project file and information reported in CBR. OWRB reports based on actual federal draws equaling the total amount of the capitalization grant. OWRB believes that this process is more transparent because it is based on the federal funds that are actually provided to the borrower. This method of reporting causes the “initial award” date reported in CBR to not match the “Subaward Obligation/Action Date” in FSRS. EPA staff will follow-up with EPA Headquarters to ensure that this reporting method meets the needs of the CWSRF program and FFATA requirements. A summary of information reported to FSRS is below.

EPA reviewed information reported to FSRS for OWRB for FY14, and compared the information to what was in the project file. There was a small error regarding the project amount for Colbert that was corrected during the review. A summary of information reported to FSRS is below.

Grant	FY	Cap Grant Amount Awarded	Reported to FFATA
40000211	FY11	\$11,930,000	\$11,930,000
40000212	FY12	\$11,419,000	\$11,419,000
40000213	FY13	\$10,786,000	\$10,786,000
40000214	FY14	\$11,328,000	\$11,328,000
40000215	FY15	\$11,269,000	\$0 – this info. has not been entered into FSRS

EPA Commendation: Last year, EPA recommended the process for FFATA reporting be reviewed, and a FFATA SOP be created to help mitigate errors in the national FSRS system. Per our request, OWRB did provide EPA with their FFATA SOP.

5. Clean Water Benefits Reporting (CBR)

Recent requests from Congress, the Office of Management and Budget (OMB), and EPA's Office of Inspector General (OIG) have highlighted the importance of having timely and complete data related to CWSRF performance. This point is further illustrated by the recent OIG review of the CWSRF Green Project Reserve. The CWSRF Benefits Reporting system (CBR) plays a critical role in EPA's ability to effectively respond, and the memorandum released January 9, 2015 requests the State's support in ensuring that the CWSRF reporting has reliable project level information that is complete and entered in a timely manner. EPA staff reviewed the CWSRF data as part of this annual review and compared the reported data to information located in the project file.

Regarding CBR reporting, EPA discussed the following concerning accurate CBR data: 1. includes actual dates, not estimates; 2. has construction start dates that are reflected on the notice to proceed for construction projects; 3. has agreement dates consistent with the bond agreements; and 4. has detailed project descriptions. If project information changes throughout a project, i.e. project description, green amount, etc., EPA recommends OWRB update CBR to include most recent and accurate information. At a minimum the State is required to update all information when the project is complete. OWRB has stated that CBR data is reviewed annually when compiling the Annual Report.

EPA Commendation: Last year EPA recommended OWRB ensure CBR project descriptions include GPR information if applicable. The two projects reviewed this year had green components identified in the project descriptions. Thank you for providing this information for GPR projects.

EPA Commendation: In the last PER, EPA recommended that the OWRB SOP for CBR Reporting be updated to reflect the additional annual review of CBR data. This information is mentioned in the latest OWRB CBR SOP. Thank you for updating this SOP.

9. Climate Resiliency and Sustainability

Sustainable water infrastructure is critical to providing the American public with clean and safe water. Recognizing that the first priority of water infrastructure is to protect public health and water quality, EPA works with its state partners to build upon existing efforts that support water infrastructure and community sustainability. EPA Region 6 looks forward to continuing this partnership with OWRB following the five principles from EPA's Clean Water and Drinking Water Infrastructure Sustainability Policy (2010). These five areas being: (1) promoting planning processes that support sustainability; (2) encouraging community sustainability; (3) promoting sustainable water and wastewater systems; (4) targeting SRF assistance; and (5) measuring success.

As part of the FY15 Annual Onsite Review, OWRB reported the following:

FY15 Annual Report

- OWRB has a program goal to encourage communities to plan and integrate innovative water conservation practices including reuse, reclamation, conservation pricing, conservation incentives, or other measures into their projects that will assist Oklahoma in reaching the goals outlined in the Water for 2060 initiative. As part of the OWRB's ongoing outreach to systems, discussions on conservation and other Water for 2060 proposed measures are continually discussed during field visits and conferences. As a result, the first projects to be funded in SFY 2016 via the CWSRF program will be Automated Meter Reading Projects.
- The American Public Works Association of Oklahoma (APWAOK) and the Oklahoma Water Environment Association (OWEA), a member association of the Water Environment Federation (WEF), held their annual technical conference in the spring of 2015. The theme was "Moving Forward to a Sustainable Oklahoma." Featured presentations addressed water reuse, asset and capital planning, treatment plant operations and sustainability, water/wastewater, regulatory updates, innovative design and more. Among the presenters was OWRB's executive director, J.D. Strong, with an update on the 2060 Comprehensive Water Plan. The OWRB's exhibit at the conference was able to reach out to current and potential customers in order to discuss the CWSRF expanded eligibilities and funding for potential projects.
- Oklahoma's severe statewide drought and then extreme flooding further emphasized the real need for water resiliency and sustainability planning in communities. Oklahoma's CWSRF program encourages system sustainability by employing multiple steps beginning with the application questionnaire utilized to rank and review projects, giving preference to those projects that include green infrastructure. Once the project is slated for possible funding, OWRB engineers work closely with each project engineer to ensure that all possible options and technology with regard to reducing energy and water use is considered in the design.
- In 2015 the OWRB finalized its online OASIS interface to bring sustainability ideas to new applicants or entities that want to consider a new project. The OASIS tool explores the benefits of these sustainability alternatives through the *Background Questions* section of the application.
- Sustainability policy and goals were also addressed in the Wastewater Planning Guide (Guide) and Fiscal Sustainability Plan (FSP) released in July 2015. The Guide and FSP encourage systems to consider designing facilities that will be sustainable well into the future and can assist in fulfilling the new CWA requirements for asset management and system planning.

- As amended, the CWA now includes section 603(d)(1)(E) which states that a Fiscal Sustainability Plan (FSP) will be developed and implemented for proposed “repair, replacement, or expansion,…” of existing treatment works. Per EPA guidance, FSPs are required for projects with an application date on, or after, October 1, 2014. With new guidance in place, sustainability is intended to take a front seat in the design and development phase using the entity’s own FSP.

The FSP includes, at a minimum:

- An inventory of critical assets (Section 4 of the Guide, Asset Management: Inventory Development, System Operation and Maintenance);
- An evaluation of the condition and performance of those assets (Sections 4 & 5, Wastewater System Administration, of the Guide);
- Documentation that the system has evaluated and will be implementing water and energy conservation efforts; and
- A plan to maintain, repair and replace the treatment works over time, and a plan to fund these activities (Section 8 of the Guide).

An FSP is not initially required to describe an entire system, but rather, be a dynamic plan of sustainability that describes, in logical sections, the project being funded. As new projects come online, their respective FSPs should be added to any earlier FSPs that may exist, and describe how it fits into the larger system context. The OWRB encourages that entities take a look at developing a system-wide FSP (fundable by the CWSRF), or at least doing so in stages as subsequent projects come online.

- Resiliency of water and wastewater systems in Oklahoma can best be attained through cooperation and connection between systems for redundancy and increased capacity. While such activities are more common in the water than in the wastewater sector, where feasible, it will be strongly encouraged by the Water for 2060 Advisory Council on its list of recommendations to go before the State legislature in fall of 2015.

The OWRB has addressed resiliency to extreme events such as drought and climate change in its production of the Oklahoma Comprehensive Water Plan (OCWP) where studies were done for different climate scenarios. An analysis tool, dubbed “Oklahoma H2O,” was developed to compare projected demands by basin; and an online drought tool developed in conjunction with the US Bureau of Reclamation and others. The OCWP further addresses climate change by providing new 2030 and 2060 demand projections for the two scenarios for both the Municipal and Industrial sector and the Crop Irrigation sector. The scenarios are for a “Hot/Dry” weather pattern and a “Warm/Wet” pattern. Both show a significant increase in demand. The OCWP Executive Report summarizes that: “Impacts on surface water gaps are expected to be most significant under the

Hot/Dry scenario and are anticipated to increase in severity. Federal, state, and local water planners should continue to monitor climate change science in light of these potential impacts on Oklahoma's supplies and demand."

FY15 Annual Review Checklist:

- OWRB encourages the use of asset management programs by developing planning guides for Water and Wastewater future projects. OWRB's Project Priority List (PPL) does include projects that emerged as a result of an asset management program.
- OWRB encourages planning processes by potential SRF recipients that include steps to consider other relevant community sustainability priorities from other sectors, such as transportation and housing. OWRB does this by encouraging Green Infrastructure (GI) and Low Impact Development (LID).

EPA Commendation: EPA Region 6 is pleased with the effort OWRB is making to address climate change and sustainability within their program.

6. Water Resources Reform and Development Act (WRRDA) Implementation:

On June 10, 2014, President Obama signed into law the Water Resources Reform and Development Act of 2014 (WRRDA). Among its provisions are amendments to Titles I, II, V, and VI of the Federal Water Pollution Control Act (FWPCA). Final interpretive guidance memo (Interpretive Guidance for Certain Amendments in the Water Resources Reform and Development Act to Titles I, II, V, and VI of the Federal Water Pollution Control Act) was issued on January 6th, 2015 for those provisions affecting the Clean Water State Revolving Fund (CWSRF) program. This document includes additional supplemental information on section 602(b)(13), as well as several appendices and a set of questions and answers.

During this review we did not review projects that are affected by these new WRRDA requirements. However, we did discuss WRRDA procedures onsite as part of the Annual Review Checklist. OWRB has stated there are no issues with implementing WRRDA at this time.

7. Funding Agency Coordinating Team (FACT)

OWRB is a member of The Funding Agency Coordinating Team (FACT). FACT is a group of federal and state organizations that offer financing to eligible Oklahoma public entities for water and wastewater projects. The purpose of the team is to facilitate the funding process through communication and streamlined application processes. FACT provides a single uniform method for requesting funding and regulatory approvals, and it offers guides, checklists, and forms that are accepted by all FACT-participating agencies.

EPA Commendation: EPA commends OWRB for their dedication to helping potential borrowers through a streamlined approach throughout the state with ongoing communication through the application process.

B. Financial Review Results and Recommendations

1. Cash Draws

Beginning with SFY 2012 reviews (FY 2013 reporting), the EPA Regions are required to perform transaction testing on SRF cash draws identified by the EPA Office of the Chief Financial Officer (OCFO), using a statistical sampling approach. Each year, the EPA Headquarters SRF branches communicate the selected cash draws (including the date and amount) to the Regions, upon OCFO identification. If fewer than four CWSRF and four DWSRF cash draws are identified by the statistical sampling approach, the Regions select additional cash draws to ensure that a minimum of four draws are reviewed for each program. No OCFO cash draws were selected for SFY2015 for the OK-CWSRF program. EPA R6 selected four draws to meet the requirement of four (4) cash draw testing requirement.

	Grant#	Date	Amount	Selected by:
1.	CS40000214	12/15/14	\$ 375,048.94	Region 6
2.	CS40000214	12/23/14	\$989,633.42	Region 6
3.	CS40000214	03/31/15	\$548,774.81	Region 6
4.	CS40000214	04/21/15	\$241,706.17	Region 6

All four draws tested were loan draws made to reimburse construction expenditures. Construction expenditures included construction services and materials, engineering services, environmental consulting, and inspection services for CWSRF projects. No improper payments were found from the four draws sampled. One improper payment was reported by State management.

Improper Payment Report by the State: The State reported that a draw down from Capitalization Grant # CS40000214 in the amount of \$314,807.79 was drawn correctly but improperly paid to the Ardmore PWA in the amount of \$317,807.79. The correct amount was drawn from the grant, and agrees with the disbursement request. The \$314,807.79 was deposited into the 340 account (OWRB’s clearing account) but the amount sent from the clearing account was \$317,807.79. This was noted as human error and was caught when the account was reconciled. The state has contacted Ardmore PWA who has agreed to refund the \$3,000.00, which will be deposited back into the 340 account.

EPA Recommendation: Please provide EPA of notification when this issue has been refunded and resolved.

EPA Recommendation: Please describe what internal controls are in place to keep this type of issue from occurring (i.e. current controls and any new controls that will be implemented to ensure proper payments go to the recipient).

2. State Match

OWRB uses State funds and leveraged bond proceeds to provide for their State match portion. The program draws State match of the grant first and then draws 100% federal funds. EPA staff validated this process during the review.

3. Timely and Expeditious Use of Funds

The OWRB reimburses their recipient's as requests are received. In the transactions reviewed for 2015 the disbursements were processed in on average in two business days. The program has a strong demand for CWSRF funds, and the OWRB leverages the program and issues bonds as needed. At present, OWRB has only the FY15 grant open financially with a balance available of \$9,617,435.67.

EPA Commendation: EPA commends OWRB for their timely and expeditious use of funds, and for having no significant unliquidated obligations (ULOs).

4. Compliance With Audit Requirements

Arledge & Associates Inc., Certified Public Accountants were retained to audit SFY 2015 CWSRF financial statements for the program. A copy of the audited financial statements for the program, along with the financial statements of the administrative fund held outside the CWSRF, was finalized in a report dated September 23, 2015, and was provided to EPA. An A-133 Audit was prepared for SFY 2014. There were no findings noted in the audit.

5. Single Audits

The loan recipients are required, for 2015, to provide single audits when annual expenditures of federal funds exceed \$750K. The audits are reviewed by the State. At the time of the on-site review, the single audits required for FY2015 were not yet due and request letters were sent to recipients reminding them of the single audit requirement. OWRB collected the FY2014 single audits. An audit checklist is prepared for each recipient's audit, and findings are noted and followed-up on.

EPA Recommendation: Please provide a status report of all SFY2015 single audits required, and received, upon the finalization of the PER. If there are any findings in the reports provided, please indicate the findings, and the action taken to resolve them.

6. Staff Time Allocation/Reporting

All CWSRF and DWSRF programs are required to comply with federal requirements specified in Title 2 CFR Part 225. Labor, fringe benefits, and indirect costs charged to federal grants must be based on actual activities performed, as opposed to budget allocations. In 2013, the Office of Inspector General (OIG) released a report stating that some State programs were not reporting actual time on activities performed. EPA staff reviewed payroll data for the CWSRF program for SFY 2015 while onsite.

EPA Commendation: EPA's review of State payroll records indicates that staff are recording actual time spent on the SRF program, and proper internal controls and approvals are in place to verify staff time and reporting.

7. Financial Management

EPA commends the OWRB for the financial management and staffing of the CWSRF program. All financial, accounting, and internal control processes are documented and being updated regularly in standard operating procedures (SOPs). The OWRB management regularly analyze the sustainability of the program to ensure it will exist into perpetuity, and regularly gets advice and cash flow modeling from their financial advisors, First Southwest Company. Financial and accounting records, as well as internal controls of the funds, are well managed and documented.

8. Financial Indicators

The State reported the following cumulative financial indicators:

CWSRF	National 2015	State 2013	State 2014	State 2015
Federal Return on Investment	258%	278%	287%	289%
Executed Loans % of Funds Available	98%	100%	102%	101%
Disbursements as % of Executed Loans	88%	85%	84%	86%
Additional Loans Made Due to Leveraging	-	303,332,828	326,916,897	320,822,916
Sustainability (Retained Earning) Excludes Subsidy	-	56,764,966	56,632,768	59,039,002

The financial indicators show that the return of federal investment has remained strong over the last few years. The assistance provided as a percent of funds available (also referred to as the “pace” of the program) is strong and above the national average. Disbursements as a percent of assistance provided have remained stable. The State is monitoring the submission of disbursement requests and processes them timely as received. The OK-CWSRF continues to have a strong leveraging program and provides funds to communities according to demand, using the leveraged funds. As stated above, the sustainability of the program is well managed by the OWRB, along with the advice and modeling of their financial advisors.

III. Statement of Compliance with SRF Annual Review Guidance

We have conducted an annual review of the OWRB's Clean Water State Revolving Fund Program for program year 2015, in accordance with EPA's SRF Annual Review Guidance.

OWRB FY15 EOY CWSRF PER

Recommended Action Items

RECOMENDED ACTION ITEMS	DUE DATE
Please provide a status report of all SFY2015 single audits required, and received, upon the finalization of the PER. If there are any findings in the reports provided, please indicate the findings, and the action taken to resolve them.	Upon Finalization of this PER
Please notify EPA when the issue with the Ardmore PWA improper payment has been refunded and resolved.	FY16
Going along with the above, please describe what internal controls are in place to keep this type of improper payment issue from occurring (i.e. current controls and any new controls that will be implemented to ensure proper payments go to the recipient).	FY16