



John Keel, CPA
State Auditor

An Audit Report on

The Economically Distressed Areas Program at the Water Development Board

September 2009

Report No. 10-004

The Economically Distressed Areas Program at the Water Development Board

Overall Conclusion

Through its Economically Distressed Areas Program (EDAP) the Water Development Board (Agency) provides grants, loans, or a combination of both to economically distressed areas to plan and construct water and wastewater systems. While the Agency appropriately reviews and approves recipients' applications to ensure eligibility for EDAP funds, it should make improvements in monitoring EDAP contracts and related expenditures. Specifically:

- The Agency did not have a process to ensure that it consistently disbursed funds to EDAP recipients within 30 days of the request for funds. For 28 of 30 disbursements that auditors tested, the Agency disbursed funds to the EDAP recipients within an average of 36 calendar days after the request for funds. This did not meet the 30 calendar days that management asserts is its goal for making disbursements. The delays in disbursements are occasionally due to recipients not submitting all supporting documentation with their original requests for funds. The Agency did not have a process to track the time from when a recipient submitted a complete request for funds to the time the Agency made the disbursement.
- EDAP projects are not consistently completed by original contract completion dates or within original budgets. For 8 EDAP contracts that auditors tested, the average original expected completion time was 3.2 years. However, the average actual completion time for the 6 projects that had been completed through those 8 contracts was 8.4 years. The majority of the extensions were caused by issues relating to construction (47 percent) and planning, acquisition, and design (17 percent). The Agency also adjusted the budgets for the 8 contracts tested from \$55,510,489 to \$72,717,989, a net increase of \$17,207,500 or 31 percent. In addition, the Agency made

Background Information

The Water Development Board's (Agency) Economically Distressed Areas Program (EDAP) was established in 1989 by the 71st Legislature. EDAP provides funds for water and wastewater services in economically distressed areas when the present facilities are inadequate to meet residents' minimal needs.

As of September 1, 2005, an economically distressed area is an area in which:

- Water supply or wastewater systems are inadequate to meet residential users' minimum needs.
- Financial resources are inadequate to provide services to meet those needs.
- An established residential subdivision existed on or before June 1, 2005.
- Residential users in the area earn less than 75 percent of the median state household income.

Between the inception of EDAP in 1989 and February 28, 2009:

- Water Development Board members approved \$535,043,930 in state and federal funds for EDAP. Of that amount, 66 percent was designated for wastewater projects, 31 percent was designated for water projects, and the remaining 3 percent was designated for a combination of both.
- The Agency spent \$463,520,020 (87 percent of the total amount approved). Of that amount, 67 percent was spent on wastewater projects, 30 percent was spent on water projects, and the remaining 3 percent was spent on a combination of both.

For additional background information, see Appendix 2.

amendments to the EDAP contracts tested after the existing contract completion dates had expired.

- The Agency did not consistently monitor to ensure that (1) it makes all EDAP disbursements prior to or during its final accounting for an EDAP contract and (2) recipients' requests for funds are supported or properly approved. Auditors tested 30 EDAP disbursements totaling \$4,818,414 that the Agency made to EDAP recipients and determined that 6 of those disbursements totaling \$347,482 (7 percent) were not paid prior to or during the final accounting, were not adequately supported by documentation such as invoices, or were not properly approved.
- While the Agency made appropriate determinations when it calculated the amount of EDAP grants or loans to award, it should make certain improvements in its ongoing monitoring of recipients' financial condition. For example, the Agency did not always complete accurate summaries of EDAP recipients' audit reports. Preparing accurate summaries is important in verifying whether EDAP recipients have reserved enough funds to meet the debt service requirements on their EDAP loans.

Multiple sections and divisions at the Agency currently have responsibility for overseeing various aspects of EDAP. To improve monitoring of EDAP projects, the Agency should consider designating an employee with sufficient authority to be responsible for coordinating and monitoring all aspects of the EDAP program.

Auditors also identified other less significant issues that were communicated separately in writing to the Agency.

Summary of Management's Response

The Agency generally agrees with many of the recommendations and will make appropriate changes to its policy and procedures. The Agency's management responses to the specific recommendations in this report are presented immediately following each set of recommendations in the Detailed Results section of this report. In addition, the Agency's summary of its management's response is included in Appendix 6 on page 31.

Summary of Information Technology Review

The Agency uses an internal accounting system, Micro Information Product (MIP), as well as the State's accounting system, the Uniform Statewide Accounting System (USAS). The Agency also uses the Financial Information System (FIS) as its loan and debt management system (FIS is a Web-based client-server system that functions as a subledger to MIP). Based on prior audit work (see Appendix 7), controls over MIP, USAS, and FIS were sufficient for auditors to use the data in those systems for

audit work. Auditors identified other, less significant information technology issues that were communicated separately in writing to the Agency.

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to determine whether processes associated with EDAP at the Agency provide reasonable assurance that:

- Recipients of financial assistance complete projects in a timely manner and within budget.
- The Agency's payments to grant recipients are supported and comply with the terms of grant agreements.
- Recipients of financial assistance are financially sound.
- The Agency funds viable projects in a timely manner.

The scope of this audit covered contracts, financial assessment reviews, and audit summary reviews with activity between September 1, 2007, and February 28, 2009.

The audit methodology included collecting information and documentation, performing selected tests and other procedures, analyzing the results of the tests, and conducting interviews with Agency management and staff.

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Detailed Results

Chapter 1

The Agency Funds Eligible EDAP Projects, But It Did Not Ensure That It Consistently Disbursed Funds to EDAP Recipients in a Timely Manner

The Water Development Board (Agency) appropriately reviewed and approved recipients' applications to ensure that they were eligible for Economically Distressed Areas Program (EDAP) funds. Auditors tested applications associated with eight ongoing EDAP contracts between the Agency and EDAP recipients. Those contracts totaled \$76,911,775, and the Agency had spent \$49,407,581 (64 percent) of that amount as of February 28, 2009. Both the Agency and members of the Water Development Board appropriately reviewed and approved the applications associated with these contracts. All eight recipients for the contracts tested met the EDAP application requirements that were in place during the time period when the applications were under review. Examples of these requirements included the following¹:

- The recipient adopted model subdivision rules.
- The recipient proposed a project that either addressed inadequate water supply or was for wastewater services.
- The recipient proposed a project in an area that was an established residential subdivision as of June 1, 2005.
- Residential users in the area covered by the recipient's application earned less than 75 percent of the median state household income.

However, the Agency did not have a process to ensure that it consistently disbursed funds to EDAP recipients within 30 days of the request of funds. For 28 of 30 EDAP disbursements that auditors tested, the Agency disbursed funds to the recipients within an average of 36 calendar days after the recipients had requested funds. This was not within the 30 calendar days that management asserts is its goal for making disbursements. The Agency made the other two disbursements tested during its completion of the final accounting for the associated EDAP contracts, which delayed those disbursements by approximately 11 months. When those two disbursements are included, the Agency took an average of 46 days to make all 30 disbursements tested. In addition, the Agency did not have a process to track

¹ The examples of requirements listed here were in effect as of September 1, 2005. Three of the eight contracts tested were associated with applications filed prior to September 1, 2005, and therefore, may have been subject to different requirements.

the time from when a recipient submitted a complete request for funds to the time the Agency made the disbursement. The delays in disbursements are occasionally due to recipients not submitting all supporting documentation with their original requests for funds.

Recommendations

The Agency should:

- Formalize its policy regarding the number of days within which it will disburse funds to EDAP recipients.
- Monitor and disburse funds to EDAP recipients in accordance with the time frames in its formal policy.

Management's Response

Since the inception of EDAP in 1989, Management and the Board of the Texas Water Development Board (Agency) believe that the overall goals and objectives of the program are being met. Statutory guidance identifies the major goals and objectives, which are to provide "funds for water and wastewater services in economically distressed areas when the present facilities are inadequate to meet residents' minimal needs."

We concur with auditor's opinion that "the Water Development Board (Agency) appropriately reviews and approves recipient's applications to ensure that they are eligible for Economically Distressed Areas Program (EDAP) funds."

Regarding the first recommendation, the 30 days is a procedural goal for disbursement once a request is considered administratively complete. While it is this agency's objective to provide reimbursement funding as soon as possible to our applicants, this is a goal, not an absolute, and timing is dependant upon the quality of documentation provided by our applicants. The calculation of the average disbursement period of 36 days is measured from the date of the initial request, whether administratively complete, or not, to the date of disbursement. In order to perform a true measure of the disbursement efficiency, the calculation should consider the time from the point the recipient submitted an administratively complete disbursement request to the time the Agency disburses the funds. Management recognizes that the current processes and systems do not capture the point at which additional information has been requested from the recipient due to an incomplete request, or the point at which sufficient documentation is submitted in order for the request to be considered administratively complete. A revised process which will capture this information is being reviewed, and should be implemented soon.

Regarding the second recommendation, Management agrees and has initiated a process which will allow the tracking of dates when disbursement requests are considered administratively complete.

Management is committed to continuous process improvement and recognizes that there is room for that accomplishment.

EDAP Projects Are Not Consistently Completed by Original Contract Completion Dates or Within Original Budgets, and the Agency Did Not Consistently Extend Contract Completion Dates Before Contracts Expired

EDAP projects are not consistently completed by original contract completion dates or within original budgets.

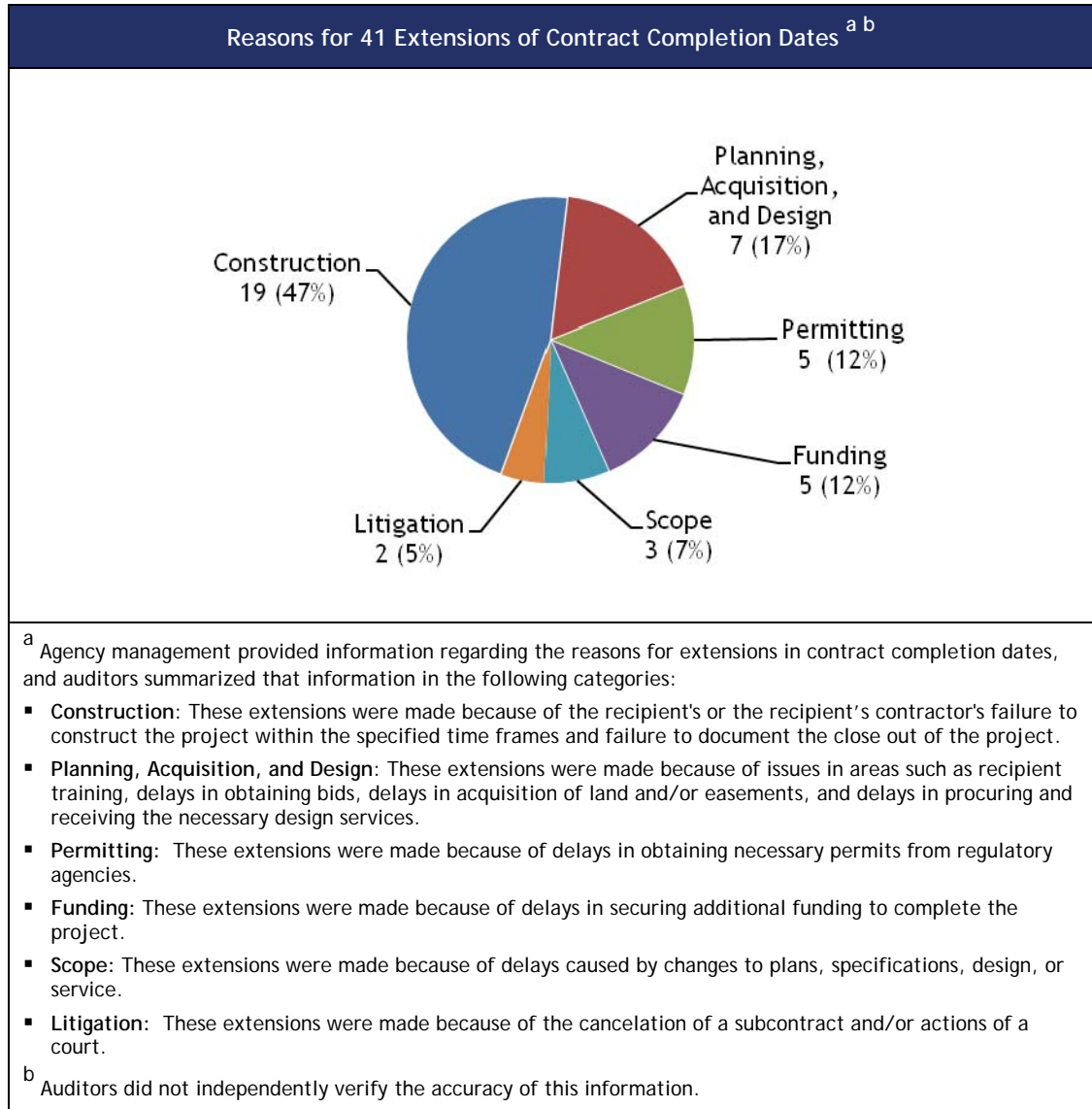
After the members of the Water Development Board approve an EDAP project, the Agency enters into a contract with the recipient that includes a project time line. Auditors tested eight EDAP contracts that had activity between September 1, 2007, and February 28, 2009, and identified the following:

- The original expected completion time for those 8 contracts ranged from 1.5 years to 6.7 years after approval by the members of the Water Development Board, with an average of 3.2 years.
- The actual time to complete 6 (75 percent) of the 8 projects associated with those 8 contracts ranged from 4 years to 11.8 years, with an average of 8.4 years (this includes the time from the date the members of the Water Development Board approved the project to the date the final inspection report was issued). The remaining 2 projects tested did not have a final inspection report issued as of the time of audit testing, but one had already exceeded its original contract completion date by 2 years and the other had already exceeded its original contract completion date by 5 years as of February 28, 2009.

When projects are not completed by the original contract completion dates, this could lead to increases in costs (as noted below), and citizens do not receive critical water and wastewater services within the time lines originally specified in the contracts.

For the 8 EDAP contracts that auditors tested, 41 (89 percent) of the 46 associated contract amendments extended the contract completion dates. Agency management provided information detailing the reasons for the extensions (see Figure 1 on the next page). The majority of the extensions (64 percent) were caused by issues relating to construction (47 percent) or planning, acquisition, and design (17 percent).

Figure 1



Source: Information self-reported by the Agency.

Statutory Requirement for Water Development Board Approval of EDAP Budget Changes

Texas Water Code, Sec. 17.931. APPLICATION AMENDMENT. (a) A political subdivision may request the [Water Development Board] in writing to approve a change to or a modification of the budget or project plan included in its application. (b) A change or modification may not be implemented unless the [Water Development Board] provides its written approval.

EDAP Contract Dates

- **Contract completion date:** Date identified in the contract on which the EDAP project should be completed and the contract should be closed out.
- **Contract effective date:** Date identified as the effective date in the EDAP contract.
- **Contract signed date:** Date that the EDAP contract is signed by the Agency and the recipient. This date is also considered the contract execution date. When the signed date was not specified on the contract, auditors used the execution date on the contract initiation form as the contract signed date.

These definitions were developed by auditors for use during this audit.

Example of an EDAP Contract Extension Provision

Below is an example of an EDAP contract provision regarding a contract extension:

"The parties agree that upon sixty (60) days prior notice, the city may request an extension of any of the time periods set pursuant to the terms of this Agreement. The parties further agree that the [Water Development Board] Executive Administrator, in his sole discretion, can grant or deny such requested extensions."

EDAP contracts allow the Agency's Executive Administrator to grant or deny requests for contract extensions, and the Executive Administrator has delegated this authority to the Agency's Deputy Executive Administrator. However, the Agency is not required to report extension of contract completion dates to the members of the Water Development Board. A monthly report the Agency provides to the members of the Water Development Board lists the completion dates for all EDAP contracts, but it does not specify whether those completion dates have changed. Therefore, the members of the Water Development Board may not be aware of the number of EDAP contract extensions the Agency grants.

Although budget modifications were generally approved, the Agency did not ensure that EDAP recipients complete projects within the budget amounts originally authorized by the members of the Water Development Board.

Texas Water Code, Section 17.931, requires that EDAP project budget increases or decreases must be approved by the members of the Water Development Board (see text box). The members of the Water Development Board approved modifications to the budgets for 7 (88 percent) of the 8 EDAP contracts that auditors tested. The Agency reduced the budget for another EDAP contract through two amendments, but those reductions were not approved by the members of the Water Development Board as required. However, recipients did not always complete projects within the authorized budget amounts. The total original contract amount for the 8 contracts tested was \$55,510,489, and the final total contract amount was \$72,717,989, a net increase of \$17,207,500 or 31 percent. When project costs and budgets increase, this reduces the amount of EDAP funds available to serve other economically distressed areas.

To address the extensions of the original contract completion dates and increases in budget, the members of the Water Development Board approved a change in procedures in December 2006. The members of the Water Development Board now approve planning, acquisition, and design funds separately from construction funds. The revised procedures should help to partially address concerns over increased timelines and budgets for EDAP projects. No projects that were approved under the revised rules had been completed as of the time this audit; therefore, auditors could not test projects that were subject to the revised procedures.

The Agency did not consistently monitor to ensure that it extended EDAP contracts before they expired.

The Agency amended EDAP contracts after the existing completion dates expired. Specifically, for the 8 EDAP contracts and 46 associated contract amendments that auditors tested:

- 13 (28 percent) of the 46 EDAP contract amendments had an effective date that was after the existing contract completion date had expired. This means that there was a lapse in the contract between the contract completion date and the effective date of the next amendment.
- 28 (62 percent) of 45 EDAP contract amendments that auditors tested for signature dates were signed after the existing contract completion date had expired. This means that there was no contract in place between the contract completion date and the date that the next amendment was signed.
- 45 (83 percent) of the 54 EDAP contracts and contract amendments tested did not specify the date the contract or contract amendment was signed by the recipient and/or by the Agency. For these 45 contracts and contract amendments, auditors considered the signed date to be the execution date on the contract initiation form or the date the agency received the signed contract from the recipient. In addition, 44 of those 45 contracts or contract amendments were not signed before the effective date of the contracts or the amendments. For example, one contract had an effective date of December 31, 2007, but the contract was not signed until February 19, 2008. Because the signed date is considered the contract execution date, there was a lapse in that contract between those two dates.

Because the Agency did not consistently extend EDAP contract completion dates promptly, the Agency reimbursed one EDAP recipient for project expenditures after the contract had expired and before a new amendment was in effect. In this case, the contract ended on May 31, 2004, and the amendment to extend the contract was not executed until May 3, 2005. The recipient made a capital equipment purchase (a backhoe that cost \$77,758) in October 2004, which was during the time when the Agency did not have an executed contract with the recipient. The recipient did not submit its entire reimbursement request of \$190,876 until April 2008 (see Chapter 3 for additional details).

In addition, for two EDAP contracts for which the contract completion dates had expired, the Agency executed amendments through letters (outside of its contracting procedures) that extended the contract completion dates. These contract amendments do not contain a Schedule C, which is required by the contract to specify the contract period.

Recommendations

The Agency should:

- Notify the members of the Water Development Board about all extensions in EDAP contract completion dates, and consider obtaining their approval for these extensions (either separately or through the monthly Water Development Board report).

- Adequately review and monitor the contracts and the completion dates that EDAP contractors prepare to minimize the number of extensions in contract completion dates.
- Adequately review and monitor the contracts and the cost information that EDAP contractors prepare to minimize the number of changes in project budgets.
- Consider asking the members of the Water Development Board to approve all EDAP budget modifications (either separately or through the monthly Water Development Board report).
- Ensure that all EDAP contracts include the date on which each party signs the contract.
- Monitor EDAP contracts to ensure that contract completion dates do not expire before completion dates are extended through a signed contract amendment.
- Discontinue the use of letters to extend contract completion dates.

Management's Response

Management will adjust the monthly contract report given to the Board to provide information on amendments related to extensions and budget modifications, including those approved by the Executive Administrator based on delegation by the Board. There is a monthly item for the Finance Committee to discuss activities related to EDAP, and management will continue to inform the Board on a regular basis when a project encounters significant delays or problems. Although contract extensions and certain budget changes have been delegated by the Board to the Executive Administrator, changes in project scope and budget increases will continue to be routinely presented to the Board members for approval.

In reviewing completion dates, there did not seem to be consideration for, or any reference to, the effects on the projects caused by EDAP funding by the legislature, which occurred between 2003 and 2005 and triggered the moratorium by the Board. The Board anticipated the potential effect and wrote a letter to the state leadership and key legislators during the 2003 session warning of the consequence of their action. As explained by management during the audit, the reduction funding resulted in delays for design and construction funding and precipitated significant cost increases above original estimates.

Management has routinely reviewed and evaluated completion dates prepared by EDAP contractors; however, there are numerous circumstances not under control of the Agency that can cause delays and budget increases. For

example, specific circumstances that impacted the eight individual projects that were tested in the report included Hurricane Rita, EDAP budget cuts causing the need to pursue alternative funding, permitting issues with the United States National Forest Service, contractor bankruptcy, and across the board construction industry price increases in steel, concrete and pipe. In addition, while the Agency provides project oversight to all applicants, the Agency is not a party to the construction contracts and can not ensure completion in a specific timeframe. That is the applicants' responsibility and for the Agency to do so would result in exposure to lender liability.

The Agency, responding to the need to get adequate service to residents in economically distressed areas has implemented various policy changes in recent years to minimize project delays and extensions. Management will continue to evaluate improvements in order to minimize both project delays and increases in project budgets.

Management has also implemented the recommendation that all contracts have a signing date for each party. The prevailing method that is used by the Agency to execute its contracts is to have all parties sign and date the documents. It should be noted, however, that the use of "effective dates" is an acceptable method for contract execution.

Management has implemented procedures to monitor contract completion dates and ensure that they do not expire before extension amendments are executed.

Management previously discontinued the use of letters to extend completion dates in March 2008. The letter amendments tested were prior to this date. The recommendation was implemented prior to audit field work.

The Agency Did Not Monitor to Ensure That It Consistently Made All EDAP Disbursements Prior to or During Its Final Accounting for an EDAP Contract or That EDAP Recipients' Request for Funds Were Supported or Properly Approved

The Agency did not consistently monitor to ensure that (1) it made all EDAP disbursements prior to or during its final accounting for an EDAP contract and (2) recipients' requests for funds were supported or properly approved. Auditors tested 30 EDAP disbursements totaling \$4,818,414 that the Agency made to EDAP recipients and identified issues regarding 6 of those disbursements totaling \$347,482 (7 percent). Specifically:

- The Agency made one disbursement totaling \$190,876 after the EDAP recipient's contract with the Agency had been closed and after the Agency had conducted the final accounting for that contract. The recipient did not request reimbursement until 9 months after the Agency had conducted the final accounting for this contract, but the Agency still reimbursed the recipient. The time line in this case was as follows:

The Agency's Disbursements to EDAP Recipients

The Agency disburses funds to EDAP recipients in two ways:

- **Reimbursements:** The Agency reimburses EDAP recipients after they make expenditures. EDAP recipients' requests for reimbursements must be supported by invoices or other evidence, such as payments to third parties.
- **Advances:** The Agency advances funds to EDAP recipients before they make expenditures. EDAP recipients' requests for advances must be submitted for the correct periods and in accordance with the contract.

- ♦ The recipient paid the invoices supporting its request for reimbursement between 2002 and 2005.
- ♦ The Agency conducted the final accounting for the recipient's contract in July 2007, which resulted in the lapse of \$337,501 in funds. (A "lapse" in funds means that the recipient did not use all the approved funds and that the unused funds are now available for other projects.)
- ♦ The recipient requested reimbursement in April 2008.
- ♦ The Agency reopened the project and made the disbursement in June 2008 upon approval by its executive administrator.

In addition, one of the invoices included in the recipient's reimbursement request was for a capital equipment item (a backhoe that cost \$77,758) that the recipient purchased without obtaining pre-approval from the members of the Water Development Board. Contracts between the Agency and EDAP recipients require members of the Water Development Board approval for the purchase of capital equipment of more than \$5,000 (see Chapter 2 for additional details).

- The Agency made two disbursements totaling \$153,038 in response to EDAP recipients' requests for a reimbursement or advance that were not properly supported. One disbursement was for a recipient's reimbursement request that was not supported by detailed invoices. However, upon auditors' request, the recipient submitted the invoices to

the Agency, and the invoices supported the disbursement. The *EDAP Program Guidance Manual* states that appropriate documentation consists of items such as invoices. In addition, the recipient must provide documentation for each eligible cost paid for with funds provided by the Agency. The other disbursement was for another recipient's request for advance funds that was not supported by a signed estimate or partial payment request from the contractor. Without this support, auditors could not determine whether the advance was for the correct period and was submitted in accordance with the contract terms as required by the *EDAP Program Guidance Manual*.

- The Agency made three disbursements when the recipients' had not submitted documentation that was sufficiently detailed to demonstrate that their expenditures were eligible for reimbursement. The individual invoices that the recipients submitted, which were not detailed, totaled \$3,569. Those invoices were part of disbursements that totaled \$440,775. Contracts between the Agency and recipients require that invoices and documentation include detail sufficient to demonstrate that the expenditures are eligible for reimbursement.

In addition, auditors noted that EDAP recipients do not consistently submit bank statements when they request reimbursements. The checklist that Agency staff use when reviewing reimbursement requests required the Agency to check balances on the recipients' bank statements. Of the 30 disbursements tested, 24 met the criteria for the Agency to check the recipients' bank statements. Of those 24 disbursements, 11 (46 percent) disbursements totaling \$2,717,805 were not accompanied by bank statements from the EDAP recipients. Although the contracts between the Agency and EDAP recipients do not explicitly require recipients to submit bank statements, receiving recipients' bank statements can assist the Agency in ensuring that (1) vendors are paid the amounts reflected on the invoices and (2) statement balances match the amounts the recipient deposited and spent.

Recommendations

The Agency should:

- Account for all EDAP recipient expenditures during its final accounting for each EDAP contract. The Agency also should ensure that recipients obtain prior approval for capital equipment purchases that exceed \$5,000, as required by their contracts with the Agency.
- Enforce the contract requirement that invoices and documentation include detail sufficient to demonstrate that the EDAP recipients' expenditures are eligible for reimbursement or the EDAP recipients are eligible to receive

an advance of funds. The Agency should not disburse funds when recipients do not meet those requirements.

- Follow its EDAP disbursement checklist to track all supporting documentation for recipients' requests for funds, including bank statements.
- Consider including more detailed requirements regarding invoice and bank statement supporting documentation in its EDAP contracts.

Management's Response

Management will implement appropriate changes.

Regarding one of the disbursements identified by the Auditors related to the first bullet in this chapter, this disbursement was approved by Executive Administrator to reimburse the entity for the purchase of a backhoe.

Although Management could not locate a written approval for the purchase of the backhoe, Management asserts that it had given approval for the item prior to its purchase with the stipulation that the recipient could request reimbursement when, and only if, there were funds remaining after all construction had been completed. Following identification of surplus funds at the final accounting for the project, the entity renewed its request for reimbursement for the backhoe purchase. Management confirmed and recognizes that sufficient documentation was not properly in place for the three disbursements listed as part of this section. New steps have been taken by Contract Administration to ensure that all materials originally received from entities and reviewed by outlay processing staff are electronically scanned to network files prior to the physical documentation being forwarded to the file room. This should adequately address the Auditor's concerns and streamline any future reviews by Management or auditors.

Every effort is made to ensure that all eligible costs incurred by the EDAP applicant are submitted and processed in a timely manner; however, although staff may be aware of additional costs, these may not be allowed to be submitted until it is clear that remaining funds are not needed to complete construction related activities. A final accounting is performed by reviewing the records related to the project as provided by the entity. Final accounting determines whether there are surplus funds that could be recoverable, or in some instances whether there are additional charges that could be requested. The most efficient and effective use of any determined surplus is to apply it to previously unclaimed eligible costs for the grantee. To the extent there were additional disbursements, this indicates that there were additional appropriate charges the entity had not requested; therefore, if a surplus exists at the time of the final accounting, it is appropriate to disburse the funds.

The Agency Made Appropriate Determinations When It Calculated the Amount of EDAP Grants or Loans to Award, But It Should Make Certain Improvements in Its Ongoing Monitoring of EDAP Loan Recipients' Financial Condition

The Agency made appropriate determinations when it calculated the amount of EDAP grants or loans to award.

The Agency appropriately conducted grant-to-loan calculations before it awarded EDAP grants or loans. These calculations are required by Title 31, Texas Administrative Code, Section 363.506, and help to ensure that recipients that receive loans can repay those loans. Auditors recalculated the grant-to-loan calculations for 16 EDAP applications and identified no errors in the Agency's calculations. In addition:

- For the 16 EDAP applications tested, the members of the Water Development Board did not authorize loan or grant amounts that were greater than the amounts that the grant-to-loan calculations indicated were feasible for the applicants.
- For the 16 EDAP applications tested, 11 applicants were required to obtain a "nuisance letter" from the Department of State Health Services. All 11 applicants obtained that letter. A nuisance letter states that a nuisance dangerous to public health and safety exists resulting from water supply and sanitation problems in the area to be served by the proposed project. This letter is required for a recipient to receive more than 50 percent of funding in the form of a grant.

The Agency should make certain improvements in its ongoing monitoring of EDAP loan recipients' financial condition.

For all 10 EDAP loan recipients that auditors tested, the Agency conducted annual reviews and assessed the EDAP recipients' compliance with reserve fund requirements. However, the Agency did not always complete accurate summaries of EDAP recipients' audit reports (these summaries are referred to as "audit review summaries"). These summaries help to verify whether loan recipients have reserved enough funds to meet the debt service requirement on their EDAP loans. According to the *EDAP Program Guidance Manual*, Agency staff is responsible for monitoring the EDAP recipients' financial stability and compliance with Agency requirements from the first receipt of funds until the final bond interest payment.

For the 56 EDAP loan contracts the Agency monitored, the Agency identified 8 (14 percent) whose associated audit review summaries specified that the recipients had not fully complied with Agency requirements as of February 28, 2009. All 8 were noncompliant with at least one of five areas monitored

by the Agency. The types of noncompliance included (1) “deficient coverage,” which means that a recipient’s net system revenues were insufficient to meet average annual debt times the required coverage ratio and (2) “reserve fund shortage,” which means the recipient’s reserve fund cash balances were lower than the required reserve funds.

The Agency did not always complete accurate summaries of EDAP recipients’ audit reports. The Agency provided auditors with 10 completed audit review summaries it had prepared. When auditors requested support for the Agency’s calculations in those summaries, the Agency provided revised audit review summaries for 7 (70 percent) of the 10 audit review summaries. For 5 of those 7 audit review summaries, financial amounts on the revised audit review summaries had changed by more than 5 percent. Examples of financial amounts that changed included (1) the general obligation fund balance and (2) the calculation to divide interest and sinking tax plus net revenue by the total current debt service. The Agency asserted that these changes were due to human error and lack of staff experience in preparing those summaries. It is important to note that none of these changes in financial amounts altered the Agency’s determination regarding an EDAP recipient’s compliance with debt service requirements.

In addition, the Agency did not consistently maintain documentation to support the original numbers in the audit review summaries auditors tested. As a result, auditors were not able to verify certain figures, such as the number of water and sewer connections, on 5 (50 percent) of the 10 audit review summaries tested.

The Agency does not have formal policies and procedures to ensure that it prepares accurate audit review summaries, evaluates those summaries appropriately, and conducts a quality control review of those summaries. Having such policies and procedures could help the Agency reduce the number of errors on the audit summaries.

All 10 EDAP recipients that auditors tested made scheduled debt service payments in fiscal year 2008 as required by their loan agreement with the Agency, and their payment amounts matched the amounts on the pre-approval debt service schedules. In addition, when recipients did not meet reserve fund requirements, the Agency took appropriate action.

Recommendations

The Agency should:

- Revise, approve, and implement formal policies and procedures for conducting and documenting audit review summaries to monitor EDAP recipients’ financial condition.

- Implement review and quality control processes to ensure the accuracy of information in its audit review summaries for EDAP recipients.

Management's Response

Management will update our procedures to improve appropriate review and quality control procedures.

Management continues to seek out best practices and periodically updates its procedures as needed. For instance, management improved documentation (e.g. retention of an excel based audit trail) of audit summaries in the fall of 2008, prior to audit field work. Additionally, prior to the audit, procedures were updated during fiscal 2009, and are being maintained to stay current. Auditor's recommended changes will be reviewed and incorporated. We concur with the auditor's observation that there was no substantive effect of inaccuracies identified in the audit summaries. This is evidenced by the fact that there have been no loan defaults in the EDAP loan program.

Other Matters for Consideration

Multiple sections and divisions at the Agency have responsibility for overseeing various aspects of EDAP (see the Agency's organizational chart in Appendix 5). For example:

- The Project Oversight section within the Project Finance Division receives EDAP applications.
- The Legal Services Division, the Environmental Review section and Engineering section within the Construction Assistance Division, and the Financial Assessment section within the Project Finance Division must approve EDAP applications.
- The Financial Assessment section within the Project Finance Division determines the amount of funding an EDAP recipient can receive and the allocation of that funding (loan versus grant).
- The Legal Services Division develops the original contracts for EDAP projects.
- The Contracting and Purchasing section within the Operations and Administration Division prepares EDAP contract amendments.
- The Contract Payments section within the Operations and Administration Division and the Engineering section within the Construction Assistance Division must approve disbursements to EDAP recipients before the Revenue, Payroll, and Accounts Payable section within the Finance Division makes the disbursements.
- The Inspection and Field Support section within the Construction Assistance Division monitors EDAP projects on a monthly basis after construction has started.
- The Financial Monitoring section within the Finance Division conducts the EDAP contract final accounting and monitors the financial condition of EDAP recipients that receive loans.

It is possible that the issues discussed in Chapters 1 through 4 of this report could have been caused by the fact that multiple sections and divisions oversee various aspects of EDAP.

Recommendation

To strengthen its monitoring of EDAP projects, the Agency should consider designating an employee with sufficient authority to be responsible for coordinating and monitoring all aspects of the EDAP program.

Management's Response

In July 2008, Project Lead positions were created to serve as overall project coordinators and to provide a single point of contact for projects. While these positions are located within Project Finance they provide coordination through all areas of the Agency and do so very effectively. While for our other state programs we have assigned multiple programs to one Project Lead, the EDAP program has one dedicated Project Lead. The Deputies within the various offices of the Agency meet weekly to coordinate activities and resolve issues. In addition, the core offices involved in projects have routine monthly meetings where issues impacting projects are addressed. The Agency considers the EDAP Project Lead position and the existing office coordination to be adequate in addressing coordinating and monitoring aspects for the EDAP program.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether processes associated with the Economically Distressed Areas Program (EDAP) at the Water Development Board (Agency) provide reasonable assurance that:

- Recipients of financial assistance complete projects in a timely manner and within budget.
- The Agency's payments to grant recipients are supported and comply with the terms of grant agreements.
- Recipients of financial assistance are financially sound.
- The Agency funds viable projects in a timely manner.

Scope

The scope of this audit covered contracts, financial assessment reviews, and audit summary reviews with activity between September 1, 2007, and February 28, 2009.

Methodology

The audit methodology included collecting information and documentation, performing selected tests and other procedures, analyzing the results of the tests, and conducting interviews with Agency management and staff.

Information collected and reviewed included the following:

- Hard copy files of selected EDAP project information (including contracts, amendments, and voucher information) maintained by Records Management, Operations and Administration, and other Agency program areas.
- Selected disbursement, loan, and grant data from the start of EDAP through February 29, 2009, extracted from the Agency's Financial Information System (FIS).
- Selected disbursement data recorded in the Agency's Micro Information Product (MIP) from the start of EDAP through February 29, 2009.

- Audit review summaries, EDAP recipients' annual financial reports, and other documentation used to assess the financial viability of selected EDAP loan recipients provided by the Agency's Financial Monitoring unit.
- Final inspection reports of selected EDAP projects provided by the Agency's Inspection and Field Support unit.
- Information from interviews with Agency staff.
- Grant-to-loan calculations performed by the Agency's Financial Assessment unit.
- Agency financial information on the terminated and canceled EDAP projects.
- Agency information for the amount of EDAP debt service paid for fiscal year 2008 and the estimated amount to be paid for fiscal year 2009.

Procedures and tests conducted included the following:

- Reviewed a sample of eight EDAP application files for compliance with income, census, model subdivision, and financial requirements.
- For a sample of 12 EDAP applications, calculated (1) the average number of days between the Agency receiving the applications and approval by the members of the Water Development Board and (2) the average number of days from the commitment date to the grant closing.
- Compared the amounts appropriated by the Legislature for EDAP debt service with the actual amounts that the Agency planned to spend for debt service.
- Determined the number of days taken to complete eight selected EDAP projects approved by the members of the Water Development Board.
- Analyzed and compared the original budget amounts for eight selected EDAP contracts to the actual amounts expended.
- Tested 30 EDAP disbursements that the Agency made to recipients totaling \$4,818,414 to determine whether they are supported by documentation and complied with contracts.
- Compared EDAP financial information from the Agency's internal accounting system (the Micro Information Product or MIP) to information in the Uniform Statewide Accounting System (USAS).

- Reviewed EDAP grant-to-loan policies and procedures for compliance with the Texas Water Code, the Texas Administrative Code, and Agency policies and procedures.
- Recalculated the grant-to-loan calculations for 16 EDAP applications to determine whether the Agency performed these calculations in compliance with state statute and Agency guidelines.
- Analyzed the Agency's audit review summaries for 10 EDAP loan recipients to determine whether they were complete and accurate.
- Reviewed and analyzed the total amounts expended on EDAP and the number of EDAP projects completed.

Criteria used included the following:

- Texas Water Code, Chapter 16, Subchapter J, Economically Distressed Areas.
- Texas Water Code, Chapter 17, Subchapter K, Assistance to Economically Distressed Areas for Water Supply and Sewer Service Projects.
- Title 31, Texas Administrative Code, Natural Resources, Part 10, Texas Water Development Board.
- *EDAP Program Guidance Manual* for the Agency's Colonia Wastewater Treatment Assistance Program and EDAP.
- *Agency Guidelines for Financial, Managerial, and Technical Training of Economically Distressed Areas Program Participants*.
- Agency policies and procedures for determining EDAP grant-to-loan calculations.
- The General Appropriations Act (80th Legislature).
- The Agency's legislative appropriations request for the 2010-2011 biennium.

Project Information

Audit fieldwork was conducted from May 2009 through July 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Ann E. Karnes, CPA (Project Manager)
- Jeff Grymkoski, MA (Assistant Project Manager)
- Rebekah Cartwright
- Darrell Edgar, CFE
- John Rios
- Karen Smith, CGAP
- Adam Wright
- Cyndie Holmes, CISA (Information Systems Audit Team)
- J. Scott Killingsworth, CIA, CGAP, CGFM (Quality Control Reviewer)
- Nicole M. Guerrero, MBA, CIA, CGAP, CICA (Audit Manager)

EDAP Background Information

The Water Development Board's (Agency) Economically Distressed Areas Program (EDAP) was established in 1989 by the 71st Legislature. EDAP provides funds for water and wastewater services in economically distressed areas when the present facilities are inadequate to meet residents' minimal needs.

As of September 1, 2005, an economically distressed area is an area in which:

- Water supply or wastewater systems are inadequate to meet residential users' minimum needs.
- Financial resources are inadequate to provide services to meet those needs.
- An established residential subdivision existed on or before June 1, 2005.
- Residential users in the area earn less than 75 percent of the median state household income.

The Agency has been authorized to spend \$800 million in state and federal funds on EDAP projects since the inception of the program in 1989. In 1989 and 1991, voters approved constitutional amendments permitting the members of the Water Development Board to authorize \$250 million in state general obligation bonds. From 1993 to 1999, the federal government provided \$300 million through the federal Colonia Wastewater Treatment Assistance Program (CWTAP) to complement the state funds for EDAP. Voters approved another \$250 million in general obligation bonds in November 2007, but those bonds have not been issued. As of February 28, 2009, the members of the Water Development Board had approved \$535,043,930 of state and federal funds for EDAP, and the Agency had spent \$463,520,020 (87 percent of the total amount approved) since the inception of the program in 1989.

The Legislature appropriated \$43,321,356 to pay the State's share of debt service on EDAP loans for the 2008-2009 biennium. An estimated \$13,505,167 in General Revenue funds for EDAP is expected to lapse after the end of fiscal year 2009.

According to the General Appropriation Act (80th Legislature), the Agency was authorized to have 326.1 full-time equivalent (FTEs) employees for fiscal year 2008 and 348.1 for fiscal year 2009.

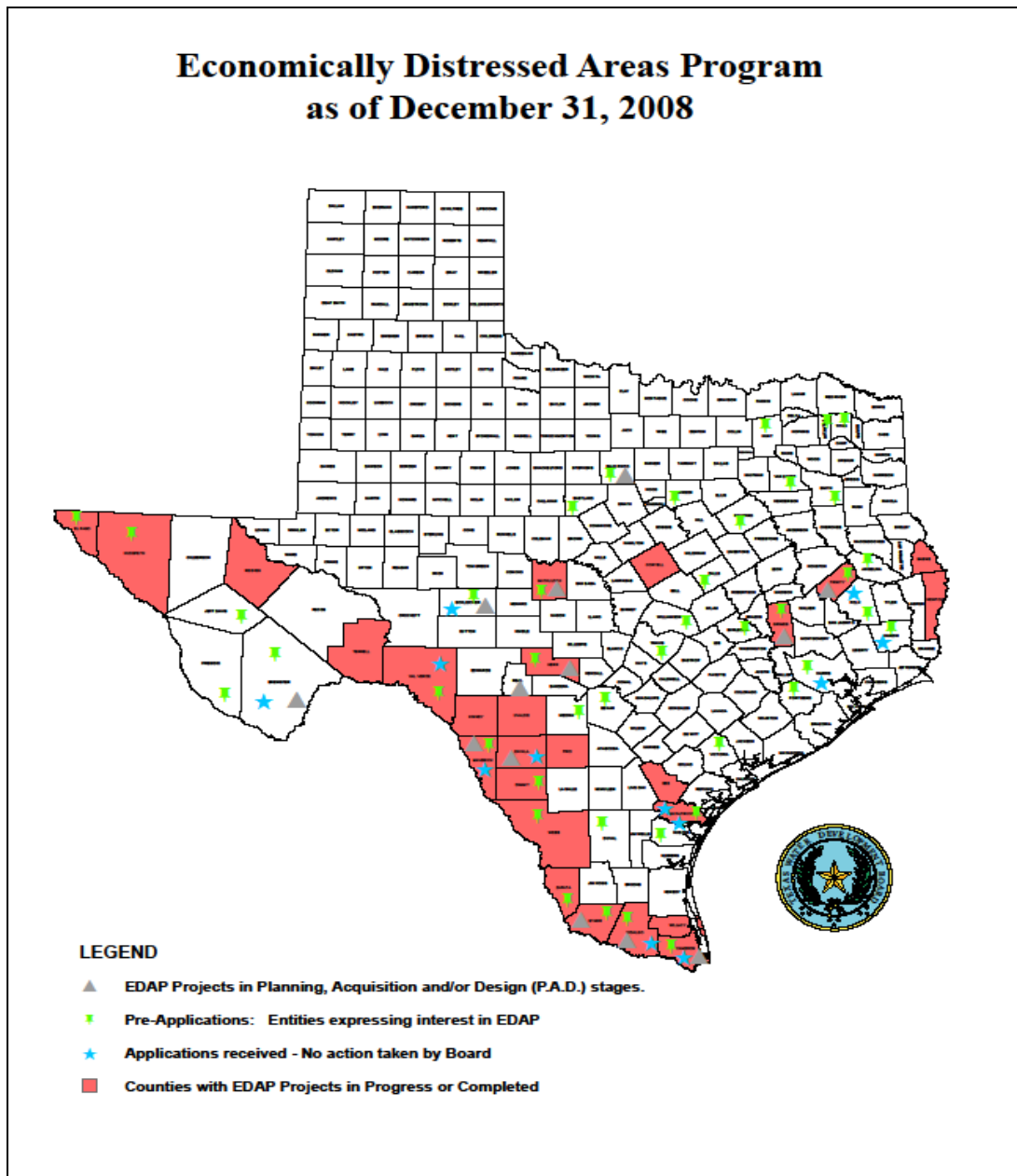
According to the Agency's legislative appropriations request for the 2010–2011 biennium, the Agency allocated 27.6 FTEs to EDAP for fiscal year 2008 and 31.0 FTEs to EDAP for fiscal year 2009.

From the inception of EDAP in 1989 through February 28, 2009, the Agency reports that a total of 94 projects had been completed or were in progress or planning. The Agency had canceled 34 EDAP projects as of December 31, 2008. The Agency was unable to provide information for 7 of those 34 projects due to the age of those projects. Of the \$65,686,835 that had been approved for the remaining 27 canceled projects, the Agency had disbursed \$8,686,389 (13 percent) prior to project cancelation. The majority of the canceled projects for which funds had been disbursed were initiated between 1993 and 1997.

Map of Texas Counties with EDAP Involvement as of December 31, 2008

As of December 31, 2008, Economically Distressed Areas Program (EDAP) projects were in progress or had been completed in 26 Texas counties. Additional counties have submitted EDAP pre-applications or have EDAP projects in the planning, acquisition, or design phase. Figure 2 shows the Texas counties that are involved in EDAP, and information regarding the total dollar amount provided to each county and recipient is presented in Appendix 4.

Figure 2



Source: Provided by the Water Development Board.

EDAP Amounts Approved, Amounts Spent, and Remaining Balances for Recipients and Counties

Table 1 shows the amount of Economically Distressed Areas Program (EDAP) funds approved for each recipient and county as of February 28, 2009. The table also shows the amounts spent and remaining balance for each recipient and county.

With \$111,192,560 or 21 percent of the total approved EDAP funds, Hidalgo County has had the most funds approved. El Paso County and Cameron County have the next largest amounts approved, with \$107,970,549 (20 percent) and \$70,834,485 (13 percent), respectively. These three counties comprised 54 percent of all EDAP funding approved as of February 28, 2009.

Table 1

EDAP Amounts Approved, Amounts Spent, and Remaining Balances By Recipient and County ^a (as of February 28, 2009)			
Recipient and County	Amount Approved by the Members of the Water Development Board	Amount Spent	Remaining Balance
Carrizo Hill Water Supply Corporation	\$2,506,408	\$2,506,408	\$0
Catarina Water Supply Corporation	959,760	959,760	0
Subtotals for Asherton County	\$3,466,168	\$3,466,168	\$0
Skidmore Water Supply Corporation	\$4,660,613	\$4,129,631	\$530,982
Tynan Water Supply Corporation	351,454	331,620	19,834
Subtotals for Bee County	\$5,012,067	\$4,461,251	\$550,816
City of Alpine	\$86,000	\$0	\$86,000
Subtotals for Brewster County	\$86,000	\$0	\$86,000
City of Brownsville	\$14,235,416	\$9,801,164	\$4,434,252
Town of Combes	11,249,865	11,249,865	0
City of Harlingen	1,370,459	1,370,459	0
City of La Feria	11,454,359	6,727,307	4,727,052
City of Los Fresnos	9,914,761	3,452,654	6,462,107
Olmito Water Supply Corporation	6,862,719	6,562,719	300,000
City of Primera	9,728,524	9,728,524	0
City of Rio Hondo	439,506	439,506	0
City of San Benito	1,724,382	1,724,382	0
City of Santa Rosa	3,854,495	807,833	3,046,662
Subtotals for Cameron County	\$70,834,485	\$51,864,412	\$18,970,073

**EDAP Amounts Approved, Amounts Spent, and Remaining Balances
By Recipient and County^a
(as of February 28, 2009)**

Recipient and County	Amount Approved by the Members of the Water Development Board	Amount Spent	Remaining Balance
City of Gatesville	\$2,883,301	\$2,883,301	\$0
Subtotals for Coryell County	\$2,883,301	\$2,883,301	\$0
City of Asherton	\$1,289,843	\$1,289,843	\$0
Subtotals for Dimmet County	\$1,289,843	\$1,289,843	\$0
El Paso County	\$ 10,653,496	\$10,653,496	\$0
El Paso County Tornillo Water Improvement District	13,688,497	12,526,453	1,162,044
El Paso Public Service Board	6,321,453	6,321,453	0
El Paso Water Control and Improvement District (WESTWAY)	5,681,674	5,681,674	0
City of El Paso	8,402,563	8,402,563	0
Lower Valley Water District	63,222,865	63,222,865	0
Subtotals for El Paso County	\$107,970,549	\$106,808,505	\$1,162,044
Moore Water Supply Corporation	\$1,910,000	\$1,782,809	\$127,191
Subtotals for Frio County	\$1,910,000	\$1,782,809	\$127,191
City of Bedias	\$845,000	\$0	\$845,000
Subtotals for Grimes County	\$845,000	\$0	\$845,000
Agua Special Utility District	\$6,121,108	\$5,843,680	\$277,428
City of Alton	11,334,388	11,334,388	0
City of Donna	8,970,306	8,792,646	177,660
City of Edinburg	11,428,102	11,428,102	0
City of Mercedes	9,026,566	8,187,580	838,986
Military Highway Water Supply Corporation	774,000	774,000	0
City of Mission	21,771,174	20,071,241	1,699,933
North Alamo Water Supply Corporation	4,761,330	4,761,330	0
City of Pharr	23,307,715	19,842,376	3,465,339
City of San Juan	10,506,103	10,506,103	0
City of Weslaco	3,191,767	3,191,767	0
Subtotals for Hidalgo County	\$111,192,560	\$104,733,213	\$6,459,346
Hudspeth County Water Control and Improvement District #1	\$2,120,967	\$2,120,967	\$0
Subtotals for Hudspeth County	\$2,120,967	\$2,120,967	\$0
Kerr County	\$178,500	\$0	\$178,500
Upper Guadalupe River Authority	51,750	0	51,750
Subtotals for Kerr County	\$230,250	\$0	\$230,250

**EDAP Amounts Approved, Amounts Spent, and Remaining Balances
By Recipient and County^a**
(as of February 28, 2009)

Recipient and County	Amount Approved by the Members of the Water Development Board	Amount Spent	Remaining Balance
City of Spofford	\$230,113	\$230,113	\$0
Subtotals for Kinney County	\$230,113	\$230,113	\$0
City of Eagle Pass	\$57,686,201	\$42,335,872	\$15,350,329
Subtotals for Maverick County	\$57,686,201	\$42,335,872	\$15,350,329
Richland Special Utility District	\$50,000	\$25,000	\$25,000
Subtotals for McCulloch County	\$50,000	\$25,000	\$25,000
South Newton Water Supply Corporation	\$14,864,853	\$14,356,694	\$508,159
Subtotals for Newton County	\$14,864,853	\$14,356,694	\$508,159
Palo Pinto County Municipal Water District #1	\$4,800,000	\$0	\$4,800,000
Subtotals for Palo Pinto County	\$4,800,000	\$0	\$4,800,000
Town of Pecos City	\$297,754	\$297,754	\$0
Subtotals for Reeves County	\$297,754	\$297,754	\$0
Brookeland Fresh Water Supply District	\$1,422,322	\$1,327,931	\$94,391
City of Pineland	1,313,278	1,313,278	0
Subtotals for Sabine County	\$2,735,600	\$2,641,209	\$94,391
City of Ingleside on the Bay	\$ 2,350,066	\$2,350,066	\$ 0
City of Ingleside	4,597,390	4,476,093	121,297
City of Odem	4,718,616	3,994,177	724,439
Rincon Water Supply Corporation	1,456,738	1,456,738	0
St. Paul Water Supply Corporation	1,428,036	1,428,036	0
Subtotals for San Patricio County	\$14,550,846	\$13,705,110	\$845,736
City of Eldorado	\$90,000	\$0	\$90,000
Subtotals for Schleicher County	\$90,000	\$0	\$90,000
City of La Grulla	\$ 1,842,300	\$ 0	\$1,842,300
City of Rio Grande City	1,120,608	1,120,608	0
City of Roma	38,450,491	34,918,745	3,531,746
Subtotals for Starr County	\$41,413,399	\$36,039,352	\$5,374,046
Terrell County Water Control and Improvement District #1	\$4,180,500	\$4,180,500	\$0
Subtotals for Terrell County	\$4,180,500	\$4,180,500	\$0
City of Groveton	\$105,500	\$0	\$105,500
Subtotals for Trinity County	\$105,500	\$0	\$105,500
Nueces River Authority	\$ 456,250	\$ 137,500	\$318,750
Windmill Water Supply Corporation	2,450,476	2,450,476	0

**EDAP Amounts Approved, Amounts Spent, and Remaining Balances
By Recipient and County ^a**
(as of February 28, 2009)

Recipient and County	Amount Approved by the Members of the Water Development Board	Amount Spent	Remaining Balance
Subtotals for Uvalde County	\$2,906,726	\$2,587,976	\$318,750
City of Del Rio	\$13,933,389	\$13,933,389	\$0
Subtotals for Val Verde County	\$13,933,389	\$13,933,389	\$0
City of Laredo	\$27,736,151	\$17,512,261	\$10,223,890
Webb County	28,848,758	25,724,284	3,124,474
Subtotals for Webb County	\$56,584,909	\$43,236,546	\$13,348,364
Sebastian Municipal Utility District	\$2,972,194	\$2,972,194	\$0
Subtotals for Willacy County	\$2,972,194	\$2,972,194	\$0
Siesta Shores Water Control and Improvement District	\$723,937	\$723,937	\$0
Subtotals for Zapata County	\$723,937	\$723,937	\$0
Batesville Water Supply Corporation	\$4,360,738	\$4,301,984	\$58,754
City of Crystal City	538,424	538,424	0
Zavala County Water Control and Improvement District	4,177,658	2,003,497	2,174,161
Subtotals for Zavala County	\$9,076,820	\$6,843,905	\$2,232,915
Grand Totals	\$535,043,930	\$463,520,020	\$71,523,910
^a Dollar amounts in this table do not always sum precisely due to rounding.			

Source: Information provided by the Water Development Board.

Table 2 lists the amount of EDAP funds approved by the Water Development Board by fiscal year, and the amounts spent and the remaining balances as of February 28, 2009.

Table 2

EDAP Amounts Approved, Amounts Spent, and Remaining Balances By Year			
Fiscal Year Initially Approved ^a	Amount Approved by the Members of the Water Development Board	Amount Spent (as of February 28, 2009)	Remaining Balance (as of February 28, 2009)
1991	\$ 9,172,641	\$ 9,172,641	\$ 0
1992	13,764,259	13,764,259	0
1993	21,595,846	21,595,846	0
1994	81,922,181	78,456,842	3,465,339
1995	25,685,350	25,685,350	0
1996	66,270,444	65,431,458	838,986
1997	58,358,286	58,358,286	0
1998	16,012,917	15,885,726	127,191
1999	24,695,318	18,113,442	6,581,876
2000	30,554,519	25,228,478	5,326,041
2001	44,803,716	37,040,320	7,763,396
2002	108,756,237	80,163,745	28,592,492
2003	5,574,000	5,574,000	0
2005	1,544,000	1,544,000	0
2007	3,352,300	3,106,897	245,403
2008	17,520,916	4,398,730	13,122,186
2009 ^b	5,461,000	0	5,461,000
Totals	\$535,043,930	\$463,520,020	\$71,523,910
^a The members of the Water Development Board did not approve funds in fiscal years 2004 or 2006.			
^b Information for 2009 was as of February 28, 2009.			

Source: Unaudited information provided by the Water Development Board.

The Agency's Summary of Its Management's Response

The Agency provided the following summary of its management's response.

Management generally agrees with many of the recommendations and will make appropriate changes to our policy and procedures.

Since the inception of the EDAP program in 1989, Management and the Board of Directors (Board) of the Texas Water Development Board (Agency) believe that the overall goals and objectives of the program are being met. Statutory guidance identifies the major goals and objectives, which are to provide "funds for water and wastewater services in economically distressed areas when the present facilities are inadequate to meet residents' minimal needs."

While there have been delays in the completion of some projects, EDAP has been successful in completing over 70 projects. The report does not reflect information the Board provided regarding issues that impacted projects, such as that noted in the Board's 2003 correspondence to the Legislature regarding budget reductions which delay bond issuances and restrict the Agency's ability to provide design and construction assistance to planned EDAP projects.

We concur with the auditor's statement that "the Water Development Board (Agency) appropriately reviewed recipient's applications to ensure that they were eligible for Economically Distressed Areas Program (EDAP) funds." The Auditor also concluded that "All 10 EDAP recipients that auditors tested made scheduled debt service payments in fiscal year 2008 as required by their loan agreement with the Agency, and their payment amounts matched the amounts on the pre-approval debt service schedules. In addition, when recipients did not meet reserve fund requirements, the Agency took appropriate action." The Board's due diligence regarding projects has been evidenced by the status of the 69 EDAP loans in an amount of \$37.9 million. Of these loans, 18 have been completely repaid, and the current outstanding balance is \$22.6 million. An illustration of the success of EDAP is among those entities that have repaid their loans early. One of EDAP's largest long-term projects was eventually able to access the securities market as an investment grade entity, and sell bonds to refund its EDAP loans. Since the inception of EDAP there has never been a default in the program.

Related State Auditor's Office Work

Related SAO Work		
Number	Product Name	Release Date
09-555	State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008	April 2009
09-330	State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2008	March 2009

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The Honorable Joe Straus III, Speaker of the House, Joint Chair
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The Honorable Jim Pitts, House Appropriations Committee
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