



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 4
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FEB 16 2016

Mr. Jeff deBessonnet
Director, Water Facilities Permitting Division
South Carolina Department of Health
and Environmental Control
2600 Bull Street
Columbia, South Carolina 29201

RECEIVED

FEB 22 2016

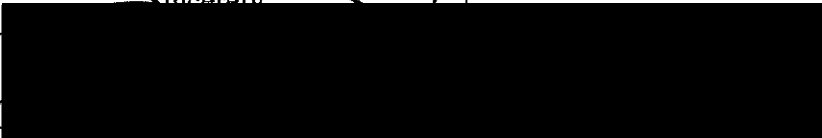
WATER FACILITIES
PERMITTING DIVISION

Dear Mr. deBessonnet:

Enclosed are the annual performance evaluation reports for South Carolina's Clean Water and Drinking Water State Revolving Fund Programs. We appreciate the input provided by your office regarding earlier drafts of these reports as well as the cooperation and courtesies you extended during our onsite review.

If you have any questions, please feel free to contact me at (404)562-9687 or call Ms. Sheryl Parsons at (404) 562-9337.

Sincerely,



Becky B. Allenbach, Chief
Grants and Drinking Water Branch
Water Protection Division

Enclosure



PERFORMANCE EVALUATION REPORT

South Carolina
Drinking Water State Revolving Fund
FY 2014 Program Review

Region 4
U. S. Environmental Protection Agency
December 2014

INTRODUCTION

The South Carolina Department of Health and Environmental Control (SCDHEC) initiated operations of the Drinking Water State Revolving Fund (DWSRF) Program in 1998, with the first of 19 capitalization grants from the U. S. Environmental Protection Agency Region 4.

During FY14, the State entered into 12 loans totaling \$40,636,323. Total disbursements from the fund were \$22,827,121.

The DWSRF has been administered in accordance with Section 1452 of the Safe Drinking Water Act (SDWA) as amended and is in compliance with the terms, schedules, provisions and assurances of the current fiscal year Intended Use Plan (IUP), the current Operating Agreement between the State and the EPA and the conditions of the DWSRF Capitalization Grant Agreements

South Carolina has a program pace of 88 percent, which is below the national average of 93 percent. South Carolina is encouraged to continue a vigorous outreach effort to improve its program pace.

SECTION I: PURPOSE AND SCOPE

The 2014 Annual Review of the SCDHEC has been completed by the EPA Region 4. The process was conducted as prescribed in the Annual Review Guide of the DWSRF dated March 1999 and the Annual Overview Guidance dated November 2012. Activities incorporated into the annual review included an analysis of South Carolina's 2014 Annual Report and an on-site visit to their office in Columbia, South Carolina to review files. The on-site review was conducted on December 8-12, 2014.

The annual review includes an examination of the State's Capitalization Grant (plus any amendment thereto), IUP, Operating Agreement and any additional documentation used to establish the DWSRF, relative to the annual report and other necessary and appropriate materials describing how the DWSRF performed over FY14. The scope of the annual review includes consideration of the legal, technical, managerial, financial and operational capabilities of the SCDHEC. Areas of general interest are compliance with grant conditions, certifications and assurances, adherence to specific proposals and progress toward stated goals and objectives.

Attending the entrance conference for the SCDHEC were Shawn Clarke, Mark Noble, Lynne LaSalle, John McCain, Brian Asbill, Kim Forston, Celeste Osterberg, Meredith Murphy, Doug Beaty, and Lorea Sample, John Litton, David Wilson, Judy Kalbaugh, Nancy Edmunds, Trish Comp, Loan Program Manager, Budget & Control Board (SCBCB), and Bonnie Ammons, Rural Infrastructure Authority. Attending from the EPA Region 4 were Cynthia Edwards, Pamela Dukes and Stacey Bouma.

The team members interviewed the appropriate staff persons as identified at the entrance conference and reviewed the following: project loan files, loan agreements, standard operating procedures, loan payment records, DBE records, financial records, time sheets and any other documents the State uses to manage the program.

After the on-site review was completed, an exit briefing was held to review the findings with the SCDHEC staff and to obtain clarification of any outstanding issues. Attending the exit briefing for the SCDHEC were Shawn Clarke, Mark Noble, David Wilson, Bonnie Ammons and Trish Comp. Attending from the EPA Region 4 were Cynthia Edwards, Pamela Dukes and Stacey Bouma.

SECTION II: COMPLIANCE REQUIREMENTS

There are 15 certifications or assurances which are required of a state in order to receive a capitalization grant. These assurances may appear in the grant application, operating agreement, or grant agreement. As these assurances are recurring, the State has agreed to them in its Operating Agreement. The State has done a good job of complying with the assurances.

Of particular note is items: the assurance of timely and expeditious use of funds. As of June 30, 2014, the pace of South Carolina's DWSRF was 88 percent; the national average is 93 percent.

Also to be noted is the DBE performance: the State's goals for Disadvantaged Business Enterprises is 6 percent; the actual DBE procurement awarded during FY14 was 12.8 percent. SCDHEC is to be commended for the work in raising DBE participation.

On the basis of our financial review, we conclude that the SCDHEC is in sound financial condition.

Set Aside Performance

The DWSRF program gives states the option of using up to 31 percent of their capitalization grant for activities that protect sources of drinking water and enhance water systems management.

State Program Management

Section 1452(g) (2) of the SDWA allows up to 10 percent of the DWSRF capitalization grant to be set-aside to support other program initiatives of the SDWA. South Carolina uses this set aside to supplement the PWSS program. The State disbursed \$339,829 during FY 2014.

Local Assistance Programs

Section 1452(k)(2) of the SDWA allows up to 15 percent of the DWSRF capitalization grant to be set-aside to support local assistance and other program initiatives of the SDWA. South Carolina has disbursed \$328,528 during the 2014 fiscal year.

Technical Assistance Programs

Section 1452(q) of the SDWA allows up to 2 percent of the DWSRF capitalization grant to be set-

aside to support small systems technical assistance. South Carolina continues to provide technical assistance to Public Water Systems (PWS) that serve fewer than 10,000 people. A total of \$15,979 was disbursed during FY 2014.

SECTION III: PROGRAM MANAGEMENT

The DWSRF has been administered in accordance with Section 1452 of the SDWA as amended, and is in compliance with the terms, schedules, provisions and assurances of the current fiscal year IUP, the current Operating Agreement between the State and the EPA, and the conditions of the DWSRF Capitalization Grant Agreement.

SCDHEC provided three short term goals and four long term goals, described in the FY14 IUP, to enhance the development of the DWSRF program and ensure maximum public health benefits. The short term goals and a description of the State's performance during FY14 are described below:

1. To increase participation of small water systems in the SRF loan program.

Twelve small system projects are on the selected projects listing this year totaling \$6,284,785; of this amount \$2,403,000 falls in the APF (all principal forgiveness) category while \$3,881,785 are loans. Of the loans, \$566,665 satisfies the requirements for GPR category.

2. To assist public water systems with implementation of treatment strategies to comply with the Stage 2 Disinfectant By-products (DBP) Rule.

The Area-Wide Optimization Program (AWOP), for more than 10 years, continues to assist PWSs to improve their water quality and protect the health of their communities, including technical assistance in implementing Stage 2 of the Disinfection Byproducts Rule and its stricter water quality requirements.

3. To enhance technical assistance to small communities.

Set-aside funding is being used to increase technical assistance support for small water systems. DHEC is beginning the third year funding Rural Water Association's work to help small systems become SRF financing eligible by concentrating on asset management, reducing water loss and getting their system maps up to date. AWOP provides technical assistance to smaller secondary systems of surface water sourced larger systems. Set-asides also provide technical assistance to small communities through several DHEC Bureau of Water programs such as operating permit issuance, sanitary surveys and construction permitting.

The long term goals and a description of the State's performance in FY14 are listed below:

1. To promote sustainable system capacity through consolidation of systems by taking advantage of the economies of scale to address technical, managerial, and financial capability challenges.

One municipal system received APF funding to connect to and consolidate a non-viable community system serving a population of 60. A water district in Spartanburg County received APF funding to connect and furnish water to a community water system serving 2340 with water quality issues.

Upcoming projects include: Greenwood CPW is receiving APF funds to consolidate a non-viable community system that serves a population of 235. APF funds are being used to install 15,000 LF of water line to connect a groundwater system, serving 315 customers and having elevated radium levels in to the High Hills RWC system. Both loan and APF funds are paying for the needed improvements to the Town of Timmonsville water system, serving 2,221 customers, in its consolidation into the City of Florence utility system.

2. To encourage the investment in green infrastructure, water and energy efficient improvements and environmentally innovative projects.

Two projects totaling \$2.9M funded automatic meter reading equipment in two coastal areas. Four upcoming projects totaling \$2.2M will also replace outdated meters with automatic meter reading equipment. All of these are loan projects and are GPR compliant.

3. Maintain a working relationship with other infrastructure funding authorities within the State to coordinate water quality funding.

Management of four infrastructure “funders” groups serving the State meet at least monthly to discuss both loans and grant requests, keeping communication lines open for other meetings as the need arises.

4. Maintain the fiscal integrity of the DWSRF to ensure perpetuity of the fund.

Project sponsors for SRF loans must comply with strict financial standards to be eligible for SRF funding; subsequently, this SRF program has not seen any loan defaults nor dealt with a missed payment since the program’s inception in 1996. Repayment or recycled dollars on hand are available for loan funding and are invested in high quality, safe investments that minimize any risk of loss to the SRF. Interest rates are now very competitive, so this program is attractive to eligible sponsors having eligible projects.

SECTION IV: PROJECT FILES REVIEWED

There were two project files reviewed during the annual oversight review. These projects are:

The City of Georgetown, water systems improvement. The City of Georgetown was awarded a loan for \$1,608,962 at 1.9 percent interest, to build a new 250,000 gallon elevated storage tank. This project serves a population over 9,381.

The City of Aiken, Shiloh Springs Upgrade. The City of Aiken was awarded an all principal forgiveness loan for \$1,000,000, on August 17, 2013, for the installation of an ion exchange filter system to remove radium from the finished water.

All projects were eligible for SRF funding and followed all environmental and procurement requirements.

SECTION V: ENVIRONMENTAL BENEFITS

During FY14, the State entered into 12 loans totaling \$40,636,323. The loans were for water treatment.

South Carolina updated the PWS Benefits reporting database as required in a timely fashion.

SECTION VI: CASH DRAWS

Four draws from the Compass System were reviewed during annual oversight. All samples were selected by OCFO. The draws from the base program are listed as follows: May 16, 2014 - \$466, July 30, 2014 - \$54,919, July 29, 2014 - \$531,740, and January 24, 2014 - \$555,544.

There was an improper payment noted for a cash draw transaction which was completed on July 30, 2014, for \$54,919. An all principal forgiveness project was paid with 100% federal funds, prior to the expenditure of the state match. This transaction error was discussed at great lengths during the closing meeting. The State has established internal controls to prevent this event from occurring again. They have conferred with all parties involved and developed the following plan of action and new procedures to curtail any future state match issues (see attachment A). A summary of the memorandum is listed as follows:

1. The Budget and Control Board (BCB) previously worked on a pattern developed to trigger the expenditure of funds. Federal loans are drawn first on a first in – first out (FIFO) basis.
2. An unexpected change in schedule caused principle forgiveness loans to precede federal loans.
3. Improved communication between Department of Health and Environmental Control (DHEC) and BCB concerning the processing of all principal forgiveness loans (APF), will resolve this issue in the future. For details concerning this matter see Attachment A.

The following negative cash draws were reviewed:

DWSRF – August 27, 2013 – (\$421,737.00) FS98431212

This negative draw down was due to an erroneous draw from the FY 2013 grant. The FY 2012 grant was debited to repay the erroneous draw to the grant. The FY 2013 grant was credited for the same amount.

DWSRF – August 27, 2014 – (\$31,197.00) FS98431211

This negative draw down is the exact same situation as the \$421,737.00 draw, except that the 2011 DW grant was debited and the 2012 grant was credited. Both this book entry and the one above were completed on August 26, 2014.

DW 2009 Grant – April 4, 2014 – (\$10,782.68), (\$313.43), and (\$85.18) – FS98431209

These three negative amounts occurred on the same day as part of the closeout process for the set asides (technical, AWOP, and Well Head Protection) on the 2009 DW grant. After receiving the Federal Financial Report (SF-425) from DHEC's financial analyst, DHEC's program manager had to make sure the unobligated balance on the FFR matched what ASAP had on the draw system. In this case, each of the three of the set asides needed funds to be returned. The 2011 DW grant was active in these categories with many expenditures. Book entries were completed for each amount on each set aside; debiting the 2009 grant and crediting the 2011 grant. Journal vouchers were completed on DHEC's accounting system to mirror these transactions on the federal system. The EPA personnel in the Las Vegas Financial Center have expressed to SCDHEC the preference in completing book entries, rather than waiting for refund checks to be delivered.

SECTION VII: PACE OF THE PROGRAM

The overall pace of the DWSRF program is 88 percent. The pace of the program is calculated by dividing the total dollars of loans made by the total dollars available for loans. The national average for the DWSRF is 93 percent.

SECTION VIII: BEST MANAGEMENT PRACTICES

SCDHEC has significantly reduced their unliquidated obligations by utilizing the First In, First Out method of fund disbursements with the set-asides. The State has an 89.2 percent spending rate for their set-asides while the national average stands at 84 percent. The State restructured how they manage the DWSRF to maximize their ability to fund DWSRF set-aside projects by adding staffing resources.

SECTION IX: FOLLOW UP FROM LAST YEAR'S PER

1. The EPA recommends that the SCBCB, in coordination with SCDHEC, utilize the EPA financial model to complete cash flow modeling and projections to assist them in managing their SRF programs. Cash flow modeling/financial planning is the principal technique for analyzing the financial impact of decisions over time.
2. The EPA recommends that SCDHEC participate in the Drinking Water Needs Survey (DWNS) and use the results as a resource for marketing and funding efforts.

Status: The next survey is scheduled for 2015. South Carolina did participate in the 2011 DWNS.

3. The EPA recommends that the State revise the project inspection reports to include Davis Bacon requirements and determine a frequency for inspections by the regional or DHEC Project Managers/Engineers.

Status: During the FY14 review, inspection reports were located in the files as required.

SECTION X: RECOMMENDATIONS

1. The SCDHEC and SCBCB should continue to communicate and coordinate, and adhere to newly developed internal controls between DHEC and BCB, to ensure payment proportionality is completed as required by regulations.
2. The State should continue to implement innovative incentives to attract potential project sponsors.

Provisions to Ensure Full State Match Expenditure Prior to Drawing Any Federal Money on a Cap Grant Awarded to South Carolina

In the past, the trigger used by the Budget and Control Board (BCB) for transferring and expending state match has been associated with the first time a new cap grant is needed for a loan booked to federal money. All loans identified as federal are disbursed on a first in, first out (FIFO) basis.

Until May of 2014, this procedure worked because additional subsidization projects in the form of all principal forgiveness (APF) had always lagged behind the loans. However, because some APF projects may begin earlier on a new cap grant than loans, it is clear that a new process is necessary to ensure compliance with state match timing requirements.

To ensure that the state match is always expended prior to any draw of federal money on a cap grant, DHEC and BCB have mutually agreed to adhere to the following procedures.

- When the IUPs are public noticed, DHEC will contact each APF project being recommended for funding to find out the estimated month and year when a preliminary engineering report (PER) and the plans and specifications (P&S) will be submitted to DHEC.
- At the end of the 30 day public notice period, DHEC will compile a list of the APF projects with the estimated month/year for each event and send to BCB.
- BCB will reset its trigger for state match expenditure to accommodate any early APFs on the list through whatever means may be necessary, including expending state match for a cap grant when all federal money for loans from the prior cap grant has not been fully spent – a temporary cessation of FIFO.
- If any of the APF projects submit a PER or P&S earlier than the original estimate, DHEC will immediately notify BCB.

