



**U. S. ENVIRONMENTAL PROTECTION AGENCY
REGION 4
PROGRAM EVALUATION REPORT
July 28, 2022**

Mississippi Drinking Water State Revolving Fund
State Fiscal Year 2021
October 1, 2020 – September 30, 2021

EXECUTIVE SUMMARY

This Program Evaluation Report (PER) reviews the performance of the Mississippi Department of Health's (MSDH) Drinking Water State Revolving Fund program (DWSRF) for MSDH fiscal year (FY) 2021, which runs from October 1, 2020, to September 30, 2021. The U.S. Environmental Protection Agency (EPA) is required by 40 CFR § 35.3570 to annually assess the success of MSDH's performance of activities to determine compliance with the terms of the capitalization grant agreement. In part, the EPA utilized MSDH's FY20 DWSRF Intended Use Plan (IUP) and FY21 annual report in its review.

The EPA FY20 capitalization grant provided Mississippi with \$11,853,000 in drinking water assistance. This required a 20 percent state match of \$2,370,600. When added to the DWSRF capitalization grant the total is \$14,223,600. During FY21, MSDH made 13 new loans to local governments totaling \$40,858,645. One of the metrics the EPA utilizes in evaluating state programs is "pace", which is defined as cumulative amount of loans issued as a percentage of all funds available. As of June 30, 2021, the reported pace of MSDH's program was 92 percent, an increase from MSDH's FY20 program pace of 90 percent. The national average for FY21 is 96 percent.

The Mississippi DWSRF has been administered in accordance with Section 1452 of the Safe Drinking Water Act (SDWA) as amended. The program is following all terms, schedules, provisions/assurances of the IUP, the operating agreement between MSDH and the EPA, and the conditions of the capitalization grant agreement.

SECTION I: PURPOSE AND SCOPE

The EPA Region 4 began the FY21 annual review of the Mississippi DWSRF with an opening meeting on June 1, 2022. The review concluded with a closing conference on July 29, 2022. This review process was conducted as prescribed in Section 1452 of the SDWA, 40 CFR § 35.3575 and in the Annual Review Guidance issued October 2021. The review was conducted virtually.

The purposes of the annual review are to:

1. Evaluate the success of the state's performance in achieving goals and objectives identified in the IUP and the state's annual report;
2. Evaluate the state's compliance with regulations, operating agreement, and capitalization grant agreement;
3. Assess the financial status and performance of the fund;
4. Review the program in accordance with EPA's SRF Annual Review Guidance;

5. Review the status of resolution of prior year PER findings; and
6. Examine and follow up on any open audit findings and recommendations.

In attendance at the virtual opening conference for MSDH were Lee Alford, Desmond Black, Jonathan Diaz, and Harry Gong. Attending from the EPA Region 4 were Johnnie Purify, Ronza Jordan, Jake Netemeyer, Amy Kuhs, Tracy Williams, Jean Ray, Matthew Lagod, Brooke Pine, Mohit Varma, and Martha Douglas.

During the review period, EPA Region 4 examined project files, loan agreements, additional supporting documents, tested financial transactions, met with MSDH staff to better understand issues and exchanged information.

At the completion of the review, a virtual exit briefing was held to review the observations made by the EPA and to clarify any outstanding issues. Attending the exit conference for MSDH were Lee Alford, Desmond Black, Jonathan Diaz, and Laurel Lynn Rowse. Attending from the EPA Region 4 were Chris Thomas, Johnnie Purify, Ronza Jordan, Amy Kuhs, Tracy Williams, Matthew Lagod, Brooke Pine, and Martha Douglas.

SECTION II: COMPLIANCE REQUIREMENTS

MSDH provided EPA with the most recent financial audit for the year ending September 30, 2020. This audit contained no findings.

MSDH's Disadvantaged Business Enterprises (DBE) goal for FY21 was 4.2 percent. MSDH's DBE participation percentage for FY21 was 1.46 percent. MSDH provides assurances that borrowers follow the six affirmative steps for DBE participation.

MSDH is in compliance with the 13 assurances stated in the grant agreement, including capacity development and operator certification requirements. These assurances have their basis in 40 CFR § 35.3550.

Based on the review, the following items describe the activities and observations of interest:

1. Assurance that the state has the authority to establish a fund and to operate the DWSRF program in accordance with the SDWA.

Status: MSDH provided the required Attorney General certification with the grant application.

2. Assurance that the state will comply with state statutes and regulations and abide by state law.

Status: MSDH certified this in the FY20 IUP.

3. Assurance that the state has the technical capability to operate the program.

Status: MSDH is in compliance with this assurance.

4. Assurance that the state will accept capitalization grant funds in accordance with a payment schedule.

Status: MSDH certified this in the FY20 IUP.

5. Assurance that the state will deposit all capitalization grant funds in the fund or set-aside account.

Status: MSDH has deposited the capitalization grant appropriately.

6. Assurance that the state will provide an amount at least equal to 20 percent of the capitalization grant (state match) in the fund.

Status: The FY20 capitalization grant was \$11,853,000. The 20 percent state match amount of \$2,370,600 was provided through state appropriation.

7. Assurance that the state will deposit net bond proceeds, interest earnings and repayments into the fund.

Status: All repayments and interest earnings are credited to the fund.

8. Assurance that the state will utilize Generally Accepted Accounting Principles.

Status: As noted in the FY20 state audit, MSDH has complied with this assurance.

9. Assurance that the state will have the fund and set-aside account audited annually in accordance with Generally Accepted Government Auditing Standards.

Status: The DWSRF is audited annually, 40 CFR § 35.3570(b) states that audits are due within one year after the end of the FY.

10. Assurance that the state will adopt policies and procedures to assure that borrowers have a dedicated source of revenue for repayments (or in the case of a privately-owned system, demonstrate that there is adequate security).

Status: MSDH has complied with this assurance in loan agreements to borrowers.

11. Assurance that the state will commit and expend funds as efficiently as possible and in an expeditious and timely manner.

Status: The overall pace percentage for MSDH is 119 percent, an increase from MSDH's FY20 program pace of 102 percent. MSDH disbursed a total of \$40,858,645 from the DWSRF in FY21.

12. Assurance that funds will be utilized in accordance with the IUP.

Status: The annual report documents that MSDH is in compliance with this assurance.

13. Assurance that the state will provide the EPA with a Biennial Report.

Status: MSDH has elected to provide an annual report to EPA for the MSDH DWSRF program. The annual report was received by December 31, 2021, for MSDH FY21 ending September 30, 2021. The report contained adequate and accurate information.

SECTION III: PROGRAM GOALS

MSDH has four long term goals and eight short term goals in their IUP. EPA evaluated one long-term and one short-term goal. MSDH is working toward meeting each of the goals evaluated. MSDH's status in meeting these goals is discussed in the DWSRF annual report. The goals and accomplishments reviewed for the FY21 PER, include:

Long term goal and status:

- Develop a tracking system to manage program documents and disbursements.

Status: The state is working towards a new Standard Operating Procedure (SOP) that includes scanning project documents during the "life cycle" of each project. This system will eliminate the process of scanning project documents after a project is closed.

Short term goal and status:

- Implement an Automatic Repayment Collection System.

Status: The Program made progress on this goal. The new payment requirement will ensure timely receipt of monthly payments and make the repayment process more convenient and appealing to loan recipients. An agreement with "Mississippi Interactive" will create the capability needed to implement the new state-wide financial accounting system.

SECTION IV: PROJECT FILES REVIEWED

Loan Reviewed	Environmental Review Determination	Loan Amount
City of McComb Raw well capacity upgrade Loan Amendment Dated: October 2, 2020	Finding of No Significant Impact issued: April 24, 2017	Loan Amount: \$1,236,000 Loan Term: 20-year Loan Interest Rate: 1.95 percent Principal Forgiveness: \$0
City of Natchez Well improvements and new water main Loan Amendment Dated: February 26, 2021	Finding of No Significant Impact issued: April 18, 2019	Loan Amount: \$1,994,987 Loan Term: 20-year Loan Interest Rate: 1.95 percent Principal Forgiveness: \$0

Both projects were eligible for DWSRF funding and followed the environmental review, Davis Bacon, American Iron and Steel, and procurement requirements.

SECTION V: ENVIRONMENTAL BENEFITS REPORTING

FY21 Loans	Public Benefit	Total Investment
13 New Loans	Improvements to public water systems promoting compliance, ensuring water supply, and protecting public health.	\$40,858,645

MSDH updated the Public Water Supply Benefits Reporting (PBR) database in a timely fashion as required by the grant agreement. All necessary information about projects funded in FY21 was entered in the PBR system.

SECTION VI: ADDITIONAL SUBSIDIZATION AND POPULATION SERVED

	Assistance for Small Systems (<10,000)	Additional Subsidization Disbursed during FY	Number of Projects that received Additional Subsidization	Minimum % of Additional Subsidization Required per Capitalization Grant
FY20 Disbursement Totals	\$6,533,108	\$2,639,318	8	20%
FY21 Disbursement Totals	\$28,832,698	\$3,989,421	16	20%

The terms and conditions of the FY20 grant award allows additional subsidy in the form of principal forgiveness to borrowers for the DWSRF loan program. In addition to the disadvantaged community, additional subsidy assistance must be provided as described in Section 1452(d) of the SDWA in an amount between 6 percent and 35 percent, and an additional 14 percent of the capitalization grant must be provided as additional subsidization under the 2020 Congressional Add-Sub authority. Mississippi's FY20 and FY21 Capitalization Grants were open and making principal forgiveness disbursements at the time of this review. EPA Region 4 will monitor and confirm that the state's additional subsidy requirements were met before closing its grants.

SECTION VII: CASH DRAWS

Draw ID Number	Draw Date	Draw Amount
DT21AS1287274	May 14, 2021	\$44,389.47
DT21AS1287274	May 14, 2021	\$177,790.09
DT21AS1287273	May 14, 2021	\$10,001.84
DT21AS1264308	December 18, 2021	\$2,045,074.89

Four cash draws that occurred in the State's FY were reviewed. All invoices reviewed in the selection were found to be properly made for eligible DWSRF expenditures and were appropriately recorded.

SECTION VIII: PROGRAM HIGHLIGHTS

MSDH is focused on increasing the DWSRF funds committed each year.

The state determined through assessing their loan repayment schedules and interest earnings that their program had adequate funding to provide loans for all the project applications on the comprehensive funding list. In FY21, MSDH made 13 new binding commitments for drinking water projects, which increased their annual program pace from 103 percent to 118 percent and their cumulative program pace from 90 percent to 92 percent. In addition to these efforts, the state is under contract with a third party to refine their program's cash flow modeling procedure.

MSDH's commitment to improve and update program operating procedures.

After MSDH's FY20 Annual Review, the program made comprehensive changes to their financial SOP. This resulted in clear and timely accounting records and accurate disbursements with no errors observed. The state also completed revisions and updates to their Operating Agreement, which was signed by EPA's Regional Administrator on March 21, 2022.

SECTION IX: FINANCIAL INDICATORS

Financial Indicators Activity	2020	2021
Return on Federal Investment	159.6%	154.3%
Assistance Provided as a % of Funds Available	90%	92%
Disbursements as a % of Assistance Provided	66%	64%
Set-Aside Spending Rate	74.6%	72.4%
Uncommitted Balances	\$47.7	\$41.1

Based on EPA's financial review, EPA concluded that MSDH DWSRF is in sound financial condition. Note: The Financial indicators data was provided by the National Information Management System report.

SECTION X: SET ASIDE PERFORMANCE

Section 1452(g)(2) of the SDWA allows the DWSRF program the option of using up to 31 percent of their capitalization grant for activities that protect sources of drinking water, enhance water systems management, and capacity development strategies. MSDH reserved \$2,646,480, or 22.33 percent of the FY20 capitalization grant for set-aside activities. MSDH used their set-asides in the following manner:

Program Administration – 4 percent

The Program Administration set aside may be either 4 percent of the capitalization grant, \$400,000, or 1/5 percent of the current valuation of the fund (whichever the state chooses) to cover the reasonable costs of administration of the DWSRF programs. MSDH reserved \$473,680, or 4 percent, from the administrative set-aside for program administrative expenses.

Small System Technical Assistance – 2 percent

The SDWA allows funds for Technical Assistance (TA) and training to help small systems build the capacity they need to provide safe drinking water. MSDH reserved \$237,060 from the FY20 Cap Grant for activities including board management training for water system officials, on-site technical assistance, operator training, and asset management training. This amount represents 2 percent of capitalization grant funds and is consistent with the SDWA requirement that no more than 2 percent be utilized for this purpose.

State Program Management – 10 percent

For State Program Management, MSDH reserved \$1,185,100 from the FY20 Cap Grant to provide program support for the state's drinking water program activities to implement the state Public Water System Supervision (PWSS) program.

Local Assistance – 15 percent

SDWA allows the local assistance set-aside to provide assistance, including technical and financial assistance, to public water systems as part of a capacity development strategy and for source water protection activities. MSDH reserved \$750,000, or 6.33 percent, from the local assistance set-aside for wellhead protection projects throughout the state. The funds were used to properly abandon inactive wells that pose a risk to existing active public water supply and the environment.

SECTION XI: FOLLOW UP ON PRIOR YEAR PROGRAM EVALUATION REPORT

Section XI: "FINDINGS" of the FY20 PER outlined six areas for immediate action.

EPA identified ineligible payments in the cash draw review totaling \$98,390.26. MSDH was required to repay the ineligible amount with state funds.

The Region required the state to implement sufficient internal controls with reimbursements to eliminate the improper payments in the DWSRF program. A status report was due to EPA Region 4 within three months from the date of the PER.

Status: MSDH's response to the FY20 PER was on time, comprehensive, and addressed the items Region 4 outlined in their Findings. After reviewing MSDH's submittal, the Region was pleased to see that the program updated its internal controls to ensure draws are timely, draws are attributed to specific receipts and invoices, funds are not moved across grants or site projects, and state match is properly coded and tracked. The internal control updates were agreed upon by MSDH Finance & Accounts, and quarterly the Program Director will coordinate with F&A's Financial Management Director and Revenue Accountant to reconcile the MAGIC balances to EPA's Compass balances.

MSDH issued a check for repayment to the U.S. EPA in the amount of \$98,390.26 on October 18, 2021. All draws and disbursements made after the internal control process was updated, were eligible and contained clear backup documentation. Loan recipients were reimbursed in a timely manner, and set-aside accounts were well documented.

SECTION XII: RECOMMENDATIONS

- EPA recommends that the state continue its efforts, through increased assistance agreements, implementation of cash flow modeling, and decreasing the balance of unliquidated obligations in the DWSRF program.

SECTION XIII: FINDINGS

There are no findings.

SECTION XIV: STATEMENT OF COMPLIANCE WITH SRF ANNUAL REVIEW GUIDANCE

We have conducted an annual review of Mississippi's Drinking Water State Revolving Fund Program for FY21 in accordance with EPA's SRF Annual Review Guidance.

