

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

**Single Audit Together with
Reports of Independent Public Accountants**

For the Year Ended June 30, 2019



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JUNE 30, 2019

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Director of
Maryland Water Quality Financing Administration

Report on the Financial Statements

We have audited the statement of net position of the Maryland Water Quality Financing Administration (the Administration), an enterprise fund of the State of Maryland, as of June 30, 2019, and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Administration's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Administration as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2019, on our consideration of the Administration's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Administration's internal controls over financial reporting and compliance.

Owings Mills, Maryland
September 20, 2019

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROLS
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Director of
Maryland Water Quality Financing Administration

We have audited the basic financial statements of the Maryland Water Quality Financing Administration (the Administration), an enterprise fund of the State of Maryland, as of and for the year ended June 30, 2019, and have issued our report thereon dated September 20, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Administration's internal controls over financial reporting (internal controls) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Administration's internal controls. Accordingly, we do not express an opinion on the effectiveness of the Administration's internal controls.

A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal controls that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal controls that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Administration's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Administration's internal controls or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Administration's internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Owings Mills, Maryland
September 20, 2019

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROLS OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Director of
Maryland Water Quality Financing Administration

Report on Compliance for Each Major Federal Program

We have audited Maryland Water Quality Financing Administration's (the Administration) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Administration's major Federal programs for the year ended June 30, 2019. The Administration's major Federal program is identified in the summary of independent public accountants' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations and terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Administration's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Administration's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the Administration's compliance.



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Opinion on Each Major Federal Program

In our opinion, the Administration complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2019.

Report on Internal Controls Over Compliance

Management of the Administration is responsible for establishing and maintaining effective internal controls over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Administration's internal controls over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal controls over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal controls over compliance. Accordingly, we do not express an opinion on the effectiveness of the Administration's internal controls over compliance.

A deficiency in internal controls over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal controls over compliance* is a deficiency, or combination of deficiencies, in internal controls over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal controls over compliance* is a deficiency, or a combination of deficiencies, in internal controls over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal controls over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal controls over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal controls over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal controls over compliance is solely to describe the scope of our testing of internal controls over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Owings Mills, Maryland
September 20, 2019

SB & Company, LLC

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2019

Federal Grantor/ Pass- Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Award Amount	Amount Remaining	Amount Passed Through to Subrecipients	Current Year Loan Disbursements	Current Year Federal Expenditures
U.S. Environmental Protection Agency							
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS-240001-17	\$ 32,066,000	\$ -	\$ 32,066,000	\$ 31,965,205	\$ 32,066,000
		CS-240001-18	38,820,000	38,820,000	-	-	-
			<u>70,886,000</u>	<u>38,820,000</u>	<u>32,066,000</u>	<u>31,965,205</u>	<u>32,066,000</u>
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS-993648-16	14,108,000	-	-	-	1,208,972
		FS-993648-17	13,955,575	1,319,642	10,210,510	9,976,867	12,635,933
		FS-993648-18	20,348,000	20,348,000	-	-	-
			<u>48,411,575</u>	<u>21,667,642</u>	<u>10,210,510</u>	<u>9,976,867</u>	<u>13,844,905</u>
Total			<u>\$ 119,297,575</u>	<u>\$ 60,487,642</u>	<u>\$ 42,276,510</u>	<u>\$ 41,942,072</u>	<u>\$ 45,910,905</u>

The accompanying notes are an integral part of this schedule.

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

All Federal grant operations of Maryland Water Quality Financing Administration (the Administration) are included in the scope of Title 2 U.S. Code of Federal Regulations part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Compliance Supplement (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the grant programs noted below. This program represents Federal award programs for fiscal year 2019 with cash and non-cash expenditures to ensure coverage of at least 20% of Federally granted funds. Actual coverage is 70% of total cash and non-cash Federal award program expenditures.

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported in accordance with cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Administration has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

<u>Major Program</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency		
Capitalization Grants for Clean Water - State		
Revolving Fund	66.458	\$ 32,066,000

2. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal award activity of the Administration under programs of the Federal government for the year ended June 30, 2019 and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the Administration, it is not intended to and does not present the net position, changes in net position, or cash flows of the Administration.

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2019

3. LOANS

The Administration has loans outstanding of \$1,173,377,190 and \$219,853,654 as of June 30, 2019, in the Clean Water Revolving Funds and Drinking Water Fund, respectively, which were made with Federal funds and the 20% state match and other sources of funding. Loans made with Federal funds during the fiscal year ended June 30, 2019, are listed below.

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Fiscal Year 2019 Loan Disbursements
State Revolving Funds:		
Capitalization Grants for Clean Water	66.458	\$ 31,965,205
Capitalization Grants for Drinking Water	66.468	9,976,867
Total		\$ 31,965,205

4. FEDERAL EXPENDITURES

Listed below are the Federal programs for the year ended June 30, 2019:

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Administrative/ Set-a-Side Cost	Current Year Federal Expenditures
U.S. Environmental Protection Agency				
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS-240001-17 CS-240001-18	\$ - -	\$ 32,066,000 -
			-	32,066,000
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS-993648-16 FS-993648-17 FS-993648-18	1,208,972 2,425,423 -	1,208,972 12,635,933 -
			3,634,395	13,844,905
Total			\$ 3,634,395	\$ 45,910,905

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

Section I –Summary of Independent Public Accountants’ Results

Financial Statements

Type of Independent Public Accountants’ report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported
- Noncompliance material to financial statements? No

Federal Awards

Type of Independent Public Accountants’ report issued on compliance for major programs: Unmodified

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported
- Audit findings disclosed that are required to be reported in accordance with Section 200.516 of Uniform Guidance? No

Identification of Major Program:

<u>Major Program</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Capitalization Grants for Clean Water - State Revolving Fund	66.458	\$ 32,066,000
Threshold used to distinguish between Type A B programs		\$ 1,377,327
Does the Administration qualify as a low risk auditee?		Yes

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019**

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

None

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

Summary Schedule of Prior Year Audit Findings For the Year Ended June 30, 2019

There were no prior year findings for the year ended June 30, 2018.