NEW JERSEY CLEAN WATER
AND DRINKING WATER
STATE REVOLVING FUND PROGRAM

Schedule of Expenditures of
Federal Awards

June 30, 2011
NEW JERSEY CLEAN WATER AND DRINKING WATER
STATE REVOLVING FUND PROGRAM

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June 30, 2011

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INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the New Jersey Clean Water and Drinking Water State Revolving Fund Program's Management and the U.S. Environmental Protection Agency

We have audited the accompanying schedule of expenditures of federal awards (the "Schedule") of the New Jersey Clean Water and Drinking Water State Revolving Fund Program (the "Program") for the year ended June 30, 2011. This Schedule is the responsibility of the Program's management. Our responsibility is to express an opinion on this Schedule 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 Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the expenditures of federal awards of the Program, as described above, for the year ended June 30, 2011, on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the Program's management and the U.S. Environmental Protection Agency and is not intended to be and should not be used by anyone other than these specified parties.

June 7, 2012
INDEPENDENT AUDITORS’ REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND NEW JERSEY CIRCULAR LETTER 04-04-OMB

To the New Jersey Clean Water and Drinking Water State Revolving Fund Program’s Management and the U.S. Environmental Protection Agency

Compliance

We have audited the compliance of New Jersey Clean Water and Drinking Water State Revolving Fund Program (the “Program”) with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133, Compliance Supplement and State of New Jersey’s State Grant Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Program’s major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Program’s management. Our responsibility is to express an opinion on the Program’s compliance based on our audit.

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; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and State of New Jersey Circular Letter 04-04-OMB. Those standards, OMB Circular A-133 and New Jersey Circular Letter 04-04-OMB 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 Program’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. Our audit does not provide a legal determination of the Program’s compliance with those requirements.

In our opinion, the Program complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-01 and 2011-02.
Internal Control Over Compliance

The management of the Program is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Program’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and New Jersey Circular Letter 04-04-0MB, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Program’s internal control over compliance.

A deficiency in internal control 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 control over compliance is a deficiency, or combination of deficiencies, in internal control 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.

Our consideration of internal control 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 control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Program's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Program's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Program's management and the U.S. Environmental Protection Agency and is not intended to be and should not be used by anyone other than these specified parties.

June 7, 2012
## NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

<table>
<thead>
<tr>
<th>Federal Grantor/Program Title</th>
<th>Federal CFDA Number</th>
<th>Program or Award Amount</th>
<th>Grant Period</th>
<th>Current Year's Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>*U.S. Environmental Protection Agency - Clean Water State Revolving Fund Program</td>
<td>66.458</td>
<td>$762,883,288</td>
<td>6/30/2036</td>
<td>$48,050,760</td>
</tr>
<tr>
<td>U.S. Environmental Protection Agency - Drinking Water State Revolving Fund Program</td>
<td>66.468</td>
<td>250,030,700</td>
<td>8/30/2021</td>
<td>33,101,808</td>
</tr>
<tr>
<td>U.S. Environmental Protection Agency - Drinking Water State Revolving Fund Program - ARRA</td>
<td>66.468</td>
<td>43,154,000</td>
<td>12/31/2013</td>
<td>24,860,761</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$1,216,214,888</td>
<td></td>
<td>$205,333,641</td>
</tr>
</tbody>
</table>

*Denotes major program
NEW JERSEY CLEAN WATER AND DRINKING WATER
STATE REVOLVING FUND PROGRAM

NOTE TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS

Year Ended June 30, 2011

Note 1. Basis of Presentation

The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? _____ yes __X__ no
- Significant deficiencies identified that are not considered to be material weaknesses? __X__ yes ______ none reported

Noncompliance material to financial statements noted? _____ yes __X__ no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____ yes __X__ no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes __X__ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? __X__ yes ______ no

Identification of major programs:

<table>
<thead>
<tr>
<th>Federal CFDA Number</th>
<th>Name of Federal Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>66.458</td>
<td>Clean Water State Revolving Fund Program - ARRA</td>
</tr>
<tr>
<td>66.458</td>
<td>Clean Water State Revolving Fund Program</td>
</tr>
</tbody>
</table>

Dollar threshold used to distinguish between type A and type B programs: $ 6,160,009

Auditee qualified as low-risk auditee? __X__ yes ______ no

Section II - Financial Statement Findings

None Noted
Finding 2011-01

Criteria

Under the Clean Water State Revolving Fund - ARRA grant agreement, the Program is required to communicate the CFDA title and number, award name and name of federal agency to its sub-recipients.

Condition

Grant contracts awarded to municipalities and agencies did not include required federal award information.

Cause

In the past, the source of funding and the associated account information was not assigned at the time of escrow closing and therefore was not incorporated in the documents at the time of award. Procedurally a project would close in escrow, exact loan amounts determined and then the appropriate accounts were selected in order to finance the awarded amounts.

Effect

This results in noncompliance with the grant agreement.

Recommendation

We recommend that procedures be established to communicate all required federal award information to the sub-recipients at the time of the award.

Management Response

The Department of Environmental Protection has put into place procedures whereby the ARRA award recipients are notified of the CFDA name/number and other federal award information on the letters approving each payment involving ARRA projects. In addition, prior year loan recipients assigned federal funds were notified of the CFDA and federal award information through individual emails. The Department has now established a process whereby the funding recipients are made aware of their CFDA name/number and related federal award information prior to award (i.e. loan closing) to comply with Federal requirements.
Finding 2011-02

Criteria

Under the Clean Water State Revolving Fund - ARRA grant requirements, the Program is required to monitor sub-recipients compliance with the Davis Bacon Act.

Condition

In certain instances the Program's compliance officer did not confirm that sub-recipients were in compliance with the Davis Bacon Act.

Cause

The Department position is that the EPA guidance for ARRA requirements was not clear until a Memorandum and associated detailed Guidance was issued May 20, 2011. This Guidance, if provided for the ARRA Program in a more timely manner, would have prevented the Department's deficiencies with respect to the Davis-Bacon requirements.

Effect

In these instances the Program was not in compliance with the sub-recipient compliance requirement.

Recommendation

We recommend that procedures be followed in all instances to ensure compliance with this requirement.

Management Response

The Department with assistance from EPA implemented a strategy to ensure compliance with the Davis-Bacon requirements. The strategy included ensuring that the Davis-Bacon requirements were either met by either documenting that proper wages were in place or requiring a Change Order to the Contracts to ensure such. On October 25, 2011 and October 26, 2011 letters were sent to ARRA recipients requesting that they examine their contract documents and amend them by change order as required to achieve compliance with Davis Bacon. The Department also asked them to certify that the appropriate Davis Bacon wages have been paid by the contractors for the life of the project. Bi-weekly reports were submitted to EPA reflecting responses received for contracts where the recipient has indicated and the NJDEP has verified the Davis-Bacon wage rates were included in the contract documents. This process was completed for all ARRA recipients on May 4, 2012.