



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

OFFICE OF WATER

**MEMORANDUM**

**SUBJECT:** Response to Office of Inspector General Final Report 23-P-0022, *The EPA Could Improve its Review of Drinking Water State Revolving Fund Programs to Help States Assist Disadvantaged Communities*, dated July 11, 2023

**FROM:** Radhika Fox For:  
Assistant Administrator

**TO:** Michael Davis  
Director, Environmental Investment and Infrastructure  
Office of Audit

Thank you for the opportunity to respond to the final report 23-P-0022, *The EPA Could Improve its Review of Drinking Water State Revolving Fund Programs to Help States Assist Disadvantaged Communities*. The project number for this audit was OA-FY22-0020. In the agency response to the draft report dated May 31, 2023, EPA agreed to all three recommendations. In the final report, the OIG indicated that EPA has provided acceptable planned corrective actions and estimated milestone dates for Recommendations 1 and 2 and that these recommendations are resolved. The final report stated that Recommendation 3 remains unresolved. The following is the Office of Water's (OW) revised response and proposed corrective action for Recommendation 3. Additionally, technical comments on the final report provided by Regions 3 and 4 appear in attachment 1.

AGENCY'S POSITION

**OIG Recommendation 3 – Agree**

We recommend that the Assistant Administrator for Water require states to assign executed loans to the appropriate capitalization grant in the EPA Office of Water state revolving fund database for capitalization grants.

**Response:**

OW agrees with Recommendation 3 and notes that EPA already requires the states to enter loan assignment information into the database. As noted in EPA's response to the OIG's draft report, OW began transitioning from a legacy reporting system to the new OWSRF data system in May 2021 (see attachment 2 for a screenshot of the OWSRF home screen). Both the legacy reporting system and the new OWSRF data system require states to assign executed loans to the appropriate capitalization grant. The new OWSRF data system includes enhanced quality assurance/quality control procedures and internal reporting that help states and EPA regions be more aware of the status of their grants and additional subsidy.

**Proposed Corrective Actions:**

OW proposes the following corrective action to satisfy this recommendation:

1. Increase the frequency of EPA QA review of state data from annually to quarterly. Initiate the implementation of the updated QA process in FY24 by December 31, 2023.
2. Offer training to states on how to report in the updated OWSRF database. Training was provided to states (more than 600 participants on file with EPA) on how to report in the updated OWSRF database on August 22, 2023. The training was followed by weekly “office hours” by OWSRF staff, for the trainees, to provide more targeted assistance to help states and EPA regions be more aware of the reporting requirements. These “office hours” began September 7, 2023 and will continue weekly through October 5, 2023.

Thank you again for the opportunity to respond to the recommendations in the final report 23-P-0022. If you have any questions regarding this response, please have your staff contact OW’s Audit Follow-Up Coordinator, Carla Hagerman, at [Hagerman.Carla@epa.gov](mailto:Hagerman.Carla@epa.gov).

Attachments:

1. Region 3 and Region 4 Technical Comments
2. Screenshot of the OWSRF home screen

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## **Attachment 1: Regional Technical Comments**

### **Region 3 Technical Comments**

Thank you for the opportunity to provide comments on the subject audit report before you finalize your response.

#### **Chapter 2**

Region 3 agrees with the Office of Water's (OW) concurrence of the Office of Inspector General's (OIG) recommendation to update the DWSRF annual review guidance. However, the Region has concerns about the factual accuracy and misrepresentation of some statements included in this chapter.

The audit report repeatedly refers to the inclusion of additional subsidy in executed loans within two years as a requirement instead of a goal. The two-year goal was set in a 2013 EPA Question and Answer (Q&A) memo which states "...EPA strongly encourages..." The actual requirement for including additional subsidy in executed loans is established by a term and condition in each DWSRF capitalization grant award. This grant term and condition requires states to meet the additional subsidy requirement before the end of the grant's project period. The OIG's report does not mention the grant term and condition.

Maryland has remained in compliance with its additional subsidy requirements. EPA's Q&A memo says that if the state does not meet the goal, they should include milestones and explanations regarding any delays in its annual report. Maryland has provided milestones and explanations when appropriate.

Any changes to the annual review guidance, per the recommendation, should clearly explain both the two-year goal and the term and condition for additional subsidy.

#### **Chapter 3**

Region 3 agrees with OW's concurrence of the OIG's recommendation to include set aside usage as part of the annual review guidance. However, the Region is concerned that the OIG's analysis did not consider other sources of technical assistance funding that could contribute to a state's ability to meet the additional subsidy two-year goal. While the DWSRF set asides are one source of funding, others may include separate state appropriations, state fee accounts, and state programs that specifically provide technical assistance to water systems.

Any changes to the annual review guidance and checklist questions should incorporate more flexibility and consider other funding sources used to meet the additional subsidy goal.

### **Region 4 Technical Comments**

Chapter 2 of the audit report repeatedly states that Alabama "did not meet their loan subsidy requirements for the four state fiscal years we examined, based on the loan information we retrieved from the OWSRF database on July 7, 2022, as shown in Table 5." However, Table 5 and Table 6 of the report also acknowledge that "Because Alabama's executed loans were not associated with a capitalization grant in the OWSRF database, we [the OIG] were unable to determine which capitalization grant a loan belonged to. Instead, we calculated the amount for Alabama based on date ranges." While Region 4 agrees that it is possible that Alabama may have a deficit in additional subsidy amounts provided for FY17-FY20, we cannot accurately confirm the amount due to the fact that complete data entry that link project subsidy amounts to grant

capitalization years did not occur for all executed loans in the OWSRF database. Furthermore, the report also confirms that Alabama did meet its loan subsidy requirement for FY20. Region 4 has instructed Alabama to review all projects executed for FY17-FY20 and enter any missing data in the OWSRF database by 12/30/23.

Chapter 2 of the audit report repeatedly refers to the 2-year goal of including the additional subsidy in executed loans as a requirement, including in the title of the chapter. The two-year goal was set in an EPA Q&A memo in 2013 which says: "...EPA strongly encourages...". The actual requirement is established in a term and condition in each grant award which was not included in the audit report. The grant term and condition requires states to meet the additional subsidy requirement within the grants' project period. The requirement is for states to include the minimum amount of additional subsidy in executed loan agreements by the end of the grants' project period. Alabama's Intended Use Plans (IUPs) for FY17-FY20 did commit additional loan subsidies for disadvantaged communities in amounts that met the minimum requirements. For various reasons, some of the projects did not get executed or were by-passed due to not being ready to proceed. Alabama does intend to replace those projects with new ones and assign additional subsidy amounts to those capitalization grants from FY17-FY20. FY19-FY20 project periods are still open, and the state is making additional subsidy payments for those projects. The state also has the ability to go back and assign subsidy to prior capitalization grants that have closed without re-opening them.

Chapter 3 of the audit report discusses a correlation between set asides taken and executing loans with additional subsidy. There are many sources of technical assistance funding that could contribute to a state's ability to meet the additional subsidy goal. The DWSRF set asides is just one source. In addition, the report identified the "Underuse of set-asides by the states" as one of the barriers that contributed to state DWSRF programs not consistently meeting the requirements for awarding loan subsidies. However, that barrier is not accurate for Alabama. Alabama has a greater need for capital infrastructure projects, including for disadvantaged communities, than it has funds available and any use of DWSRF set-asides decreases the amount of capitalization grant funds that can go towards projects for communities in need. Alabama elected to limit the use of their set-asides to increase project funding levels. Alabama may choose to utilize the DWSRF set-asides, but it is not a cap grant or program requirement.

Chapter 3 refers to "States' narrow definitions of how communities qualify for disadvantaged community loan subsidies" as a barrier to meet loan subsidies to disadvantaged communities. During FY22, Alabama implemented a DWSRF program change to expand the number of applicants that meet the state's affordability criteria. This change increased the eligible criteria for communities to receive disadvantaged community additional subsidy. The state also modified their disadvantaged community definition in FY22 to include use of the Climate and Economic Justice Screening Tool Justice40 Map.

Chapter 3 cites "Inadequate Oversight by the EPA Regions" more specifically "EPA Region 4 did not discuss loan subsidies in its Program Evaluation Reports (PER) for Alabama, unlike the other regions did in their reports for the states we reviewed." The report also acknowledges that the current Region 4 staff were not involved in the annual review process or oversight for FY17-FY20. Region 4 has since implemented the inclusion of additional subsidy requirements review in capitalization grants annual reviews beginning in FY21, and that includes discussing loan subsidies in all program evaluation reports including Alabama. The FY22 Alabama DWSRF PER listed a recommendation made by the EPA region: "EPA recommends that ADEM makes

timely and complete data entries of executed loan agreements into the PBR database. Data entries must include amounts of additional subsidy provided and Green Project Reserve if applicable. EPA will work with the state and offer assistance if needed.” Region 4 continues to work with Alabama on their data entry requirements and additional subsidy.

## Attachment 2: Screenshot of OWSRF home screen

The screenshot shows the OWSRF home screen in a web browser. The browser's address bar shows the URL `owsrf.epa.gov/ords/owsrf/?p=143:15:12315628329684:...`. The page header includes the EPA logo, the title "Office of Water State Revolving Funds (OWSRF)", and user information: "Drinking Water", "Click for CW", "Administration", "Feedback", "hruhin02", and "Last Login: 09/08/2023 11:01:41AM". A navigation menu below the header lists: Home, Dashboard, Borrowers, Assistance Agreements and Projects, LSL Inventory Set-Aside Funding, SRF Annual Summary, Agencies, Federal Grants, and Reports.

The main content area is divided into two columns. The left column is titled "Drinking Water Home" and contains several paragraphs of text:

- A red warning: "Please save your work often. NCC regulations require this application time-out after a short period of inactivity and log out the user."
- A section titled "Drinking Water Home" with text: "The 2023 DWSRF Annual Summary Reporting (NIMS) will open on 9/5/23. Data is due to EPA by 10/6/23. EPA will hold weekly 'Office Hours' on Thursday between 9/5/23 and 10/6/23 for questions pertaining to Annual Summary Reporting and Assistance Agreement Reporting in general. If you did not receive an invitation to these meetings, please contact Howard Rubin at Rubin.HowardE@epa.gov."
- Text: "Additionally, on 9/5/23, new fields for BIL and related reporting requirements will be added. State should address these fields for all project going back to 7/1/23."
- Text: "A training session for these fields for held on 8/22/23 and is posted on the homepage."
- A horizontal line.
- Text: "This system replaces the legacy Project & Benefits Reporting (PBR) and Drinking Water National Information (DWNIMS) Systems. EPA migrated legacy data from PBR and DWNIMS to this system. Note that for legacy data, PBR project level data may not total to DWNIMS state level data because those were formerly two separate systems."
- Text: "This system was built to run on the Chrome browser, and users of Explorer might run into issues."

The right column contains two sections:

- "Your Favorites" section with a table:

Type	Description
Borrower	

- "Resource Library" section with a list of items: "Static Reports", "Help Videos", and "Static Files".

The Windows taskbar at the bottom shows the date and time as 11:39 AM on 9/8/2023, along with system icons and application shortcuts.