



At a Glance

The EPA Should Improve Annual Reviews to Protect Infrastructure Investment and Jobs Act Grants to Clean Water State Revolving Funds

Why We Did This Audit

To accomplish this objective:

The U.S. Environmental Protection Agency Office of Inspector General conducted this audit to determine whether the EPA is prepared to oversee, through its annual review process, the Infrastructure Investment and Jobs Act funds invested in the Clean Water State Revolving Fund Program.

Since its inception in 1987, this program has provided more than \$172 billion to states to help improve water quality. And in 2021, as part of the Infrastructure Investment and Jobs Act, Congress provided supplemental appropriations of about \$12.7 billion for the program. Congress appropriated these funds from fiscal year 2022 through 2026, and the money is available until expended.

The Clean Water Act, as amended, requires the EPA to conduct an annual oversight review of each state's Clean Water State Revolving Fund. EPA regional offices perform these reviews under the guidance of the Office of Water.

To support this EPA mission-related effort:

- *Ensuring clean and safe water.*

To address this top EPA management challenge:

- *Managing grants, contracts, and data systems.*

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What We Found

The EPA's Office of Water has not always ensured the EPA regional offices adhered to the Clean Water State Revolving Fund, or CWSRF, annual review guidance. For example, EPA regions did not always answer review checklist questions completely or support their recommendations in their checklists. The Office of Water also does not consistently monitor annual reviews performed by the regional offices. Region 6, for example, identified a growing \$98.7 million balance of loan origination fees in the Texas CWSRF in state fiscal year 2021. While the region recommended that the state spend the fees annually, the Office of Water did not follow up or provide additional guidance regarding the funds.

Additionally, the Office of Water's annual review guidance on CWSRF audit requirements is inconsistent with program regulations at 40 C.F.R. § 35.3165(d), which implement the Clean Water Act audit requirements, codified at 33 U.S.C. § 1386(b). Those regulations require an annual audit of the CWSRF's financial statements and its compliance with state revolving fund program requirements. The Office of Water's existing annual review guidance advises regional staff that a state can substitute a statewide audit for an audit of the CWSRF; however, a statewide audit does not always include testing of or reporting on the CWSRF's financial statements or compliance with CWSRF program requirements.

During fiscal year 2022 through 2026, the EPA will receive about \$12.7 billion in Infrastructure Investment and Jobs Act funds for CWSRF grants, in addition to an estimated \$4.2 billion in regular annual appropriations. Without proper oversight of the annual review process, these funds will be more susceptible to fraud, waste, and abuse, and the success of the CWSRF Program may be at risk.

Recommendations and Planned Agency Corrective Actions

To improve annual reviews, we recommend that the Office of Water implement procedures to ensure consistent oversight, including creating a system for tracking the resultant recommendations. We recommend that the Office of Water update the annual review guidance regarding fees and audits. We also recommend that the assistant administrator for Water, in coordination with the associate administrator for Policy, update the EPA's regulations implementing the CWSRF audit requirement at 33 U.S.C. § 1386(b) to ensure that they clearly articulate the requirements and the EPA's expectations regarding audits of state revolving funds. The Office of Water agreed with our recommendations and provided acceptable corrective actions and estimated completion dates. We consider the recommendations resolved with corrective actions pending.

Noteworthy Achievements

As a result of our audit, the Office of Water took immediate action to implement processes for improving oversight, including reviewing all program evaluation reports and tracking and monitoring required action items year to year. The Office of Water also informed us that it is in the process of updating the CWSRF regulations to ensure that they are reflective of oversight needs.