

**Statement of
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before the

**Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
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Introduction

Good morning, Chairman Guthrie, Chairman Palmer, Ranking Members Pallone and Clarke, and members of the subcommittee. I am Nicole Murley, the Acting Inspector General of the U.S. Environmental Protection Agency and the U.S. Chemical Safety and Hazard Investigation Board.

Thank you for the opportunity to testify today and for this committee's commitment to oversight and accountability. We deeply appreciate your longstanding and continued support of the EPA Office of Inspector General as we carry out our important work to prevent and detect waste, fraud, and abuse in EPA programs and operations and to drive improvements in efficiency and effectiveness.

In line with that mission, today I will discuss the pressing need for oversight of the more than \$40 billion that the EPA received under the Inflation Reduction Act, or IRA. While the EPA OIG has not received funding to oversee the Agency's IRA programs, we have observed concerning trends through our ongoing oversight of the EPA's implementation of the Infrastructure Investment and Jobs Act, or IIJA, as well as through our broader work overseeing the Agency's core programs and management of other supplemental appropriations. Our findings highlight challenges that permeate EPA operations, from which we can forecast troubling risks in the Agency's administration of IRA funding.

Oversight Mission

The story of our oversight begins long before the IIJA or IRA. Since the enactment of the Inspector General Act of 1978, as amended, federal offices of inspector general have been charged to prevent and detect fraud, waste, abuse, and mismanagement across federal programs and operations. By design, OIGs serve as independent watchdogs for the American taxpayers and Congress. At the EPA OIG, we carry out this important mission and drive change in the environmental space by fighting fraud, promoting ethical conduct, and recommending improvements to address issues that undermine EPA programs.

Our robust body of mandatory and discretionary oversight work provides Congress with a clearer picture of how EPA programs are functioning, where taxpayer dollars may be at risk, and what targeted improvements can enhance efficiency and effectiveness. Dedicated EPA OIG staff conduct independent, objective, and evidence-based audits, evaluations, and investigations designed to identify not only problems but also solutions. Their deep institutional knowledge of the Agency's programs combined with advanced analytics to identify risks and trends begets oversight that is both data-driven and contextually informed. With this blend of expertise, we provide actionable recommendations that strengthen accountability while supporting the EPA's ability to effectively meet its mission.

Recognizing the value of our review and oversight, EPA Administrator Lee Zeldin has set a "tone at the top" early on that encourages EPA employees to support and enable the critical functions of the OIG in the fight against waste, fraud, abuse, and inefficiency. We are committed to working to promote transparency, accountability, and good governance while striving to ensure that environmental programs deliver their intended benefits to the American people.

Longstanding Challenges

Even with this mutual commitment to improving accountability and efficiency at the EPA, achieving much-needed improvements will not come without challenges. Throughout years of oversight work, the EPA OIG has repeatedly flagged systemic issues regarding the Agency's internal controls—the systems and processes through which the EPA helps ensure the effectiveness and efficiency of its operations, the reliability of its reporting, and its compliance with applicable laws and regulations.

Examples of internal controls include taking steps to ensure the quality of collected information and measuring and reviewing program outcomes. We have consistently highlighted data quality and the management and oversight of federal funding recipients, such as grantees, as persistent weak points in the EPA's operations. From inaccurate data to insufficient verification processes to failure to monitor recipient and subrecipient spending, our findings have stressed time and again that the EPA must enhance its practices and strengthen its oversight mechanisms to ensure the effective administration of federal funds and the integrity of EPA programs.

While these issues are not new, they have shown up in new and costly ways in the EPA's IIJA programs, giving us reason to believe that they will affect the Agency's IRA operations as well.

Infrastructure Investment and Jobs Act

Under the IIJA, the EPA was entrusted with more than \$60 billion in taxpayer funds to tackle pressing issues like water infrastructure, environmental cleanups, and clean air projects, largely through existing federal funding programs and mechanisms. To help the EPA prepare, implement, and oversee programs receiving IIJA appropriations, we provided a series of “lessons learned” reports in the early days following the IIJA's enactment. These reviews identified relevant findings from prior oversight work that could help the Agency avoid repeating previous missteps. We warned the EPA that without learning from the mistakes of the past and taking action to address systemic issues, its ability to manage IIJA programs effectively would be compromised. Unfortunately, the EPA did not always heed our warnings.

As the EPA began reporting on its disbursement of IIJA funding, problems resulting from inadequate internal controls surfaced almost immediately. Two programs, in particular, demonstrate the impact of these issues: the state revolving funds, or SRFs—to which Congress dedicated over 70 percent of the EPA's IIJA appropriations—and the \$5 billion Clean School Bus Program.

State Revolving Funds

The Drinking Water State Revolving Fund, or DWSRF, was created to help states and water systems meet the Safe Drinking Water Act goal of protecting public health. Under the Act, the EPA conducts a Drinking Water Infrastructure Needs Survey and Assessment, or DWINSA, every four years to identify the states' needs and to inform the allocation of DWSRF funds. The survey was last administered in 2021, before the IIJA was enacted, and included a lead service line questionnaire aimed at assessing the overall cost of replacing the country's lead service lines. By the EPA's own account, identifying the locations of lead service lines is a significant challenge due to poor recordkeeping and long histories of repairs.

Furthermore, the Agency has noted challenges that made responses to previous national lead service line surveys difficult to verify. Despite these challenges, after receiving responses to the 2021 DWINSA

questionnaire, the EPA decided to use the data that states provided to allot \$2.8 billion of fiscal year 2023 IIJA funds for lead service line replacement.

We evaluated the design and execution of the DWINSA lead service line questionnaire and whether the questionnaire allowed the EPA to create accurate allotments to the states based on their actual needs. Our findings showed significant gaps in data reliability. As we outlined in an October 2024 [report](#), the EPA instructed states to use their “best professional judgment” when reviewing and submitting lead service line data for the DWINSA questionnaire. However, despite knowing the challenges with identifying lead service lines, and despite our repeated warnings about the real and significant cost of using unreliable data, the Agency did not take reasonable measures to verify the data that the states submitted in the questionnaire. Furthermore, the EPA did not require states to provide documentation to support the data they submitted or to explain how they collected and reviewed it. Perhaps not surprisingly, we found inaccuracies in the data we reviewed. For two states alone, we identified nearly \$1 billion in questioned costs and funds that could be put to better use. While Agency officials initially disagreed with the three recommendations that we provided, they have since accepted the recommendations and proposed corrective actions.

Along with ensuring data quality, effective monitoring of grant or loan recipients and subrecipients is another critical internal control for grant-making agencies like the EPA. One essential tool for this oversight is reviewing single audit reports, which help federal agencies to monitor entities that receive and expend federal funds. However, the EPA has provided inconsistent and incorrect advice to recipients regarding the use of single audits in monitoring subrecipients. In August 2023, we issued a [management alert](#) highlighting a 2021 EPA Office of Water policy memorandum that incorrectly advised states that they do not have to review single audits of nonfederal entities that borrow money from SRFs. This guidance, which applies to all SRF passthrough entities, misinterpreted and contradicted federal law and the Uniform Guidance and created a significant risk that SRFs may fail to identify fraud, waste, or abuse. This was particularly concerning given that states are expected to manage billions of additional dollars for infrastructure projects under the IIJA. While the Office of Water issued updated guidance to the regional SRF branch chiefs, we remain concerned that any state administering SRF programs may not be using single audit reports to evaluate risk and cost-effectively monitor and protect taxpayer dollars.

We also raised concerns about mandatory state audits of SRF programs. The statutes creating the SRFs require financial and compliance audits of the SRFs, and the EPA’s implementing regulations require that the states send these audits to the OIG for review. However, until we requested the audits in April 2023, states were not submitting their audits. At least nine states did not provide audit reports for their SRF programs that, at a minimum, specifically identified the state’s SRF financial information.

It is important to note that our role is to oversee the EPA, not the states. The EPA should be requiring and relying on the states’ financial and compliance audits as part of its annual review of the SRFs, as these audits are an important tool for detecting and preventing fraud, waste, and abuse. These gaps highlight the urgent need for the EPA to ensure consistent monitoring practices that enable oversight and protect federal investments in drinking water infrastructure.

Clean School Bus Program

The IIJA provides the EPA \$5 billion from fiscal year 2022 through fiscal year 2026 for the Clean School Bus Program, which provides grants and rebates to eligible recipients to replace diesel school buses with zero-emission and cleaner alternatives. During the program's first year, the EPA opted to distribute funds using a rebate process, providing funds directly to the recipients' bank accounts once they submitted a payment request form along with a copy of a purchase order. This often occurred before the school buses were manufactured and delivered. According to the EPA's second report to Congress on the program, the Agency approved nearly \$1 billion in rebates to 415 school districts for the purchase of 2,600 vehicles.

Early on, we had concerns about the use of rebates instead of grants, which have stricter controls. Whereas grant recipients are required to document project progress and costs and are subject to audit and improper payment testing, rebates involve less oversight. The use of rebates increases the risk of mismanagement or unauthorized use of rebate money. Additionally, the reduced program monitoring under the rebate system makes it harder to ensure that buses are deployed in a timely manner or to verify that funds achieve program goals.

Given the systemic issues I have highlighted, we warned that the use of rebates could increase program risks. We were right to worry. In a December 2024 [audit](#), we found that the EPA did not adequately monitor the deployment status and use of over \$836 million of the 2022 rebates. Furthermore, although the deadline for completing projects was October 2024, as of February 2025, only 43 percent of the buses funded by the 2022 Clean School Bus Rebate Program have been delivered to schools.

Compounding these issues, the EPA did not provide recipients with clear guidance on how to manage the funds, increasing the potential misuse of rebate funds. Additionally, contrary to multiple OIG briefings to the EPA on strategies to reduce fraud risks, we found that the Agency permitted recipients to commingle Clean School Bus Program funds with other accounts or earn interest on unused rebate funds, increasing the potential for funds to be misused or interest earnings to be diverted for purposes unrelated to the program. In response to our audit work, the EPA updated its guidance for subsequent rebate programs. This guidance provided specific instructions on earning interest, including a requirement to return any interest earned to the U.S. government; a requirement to follow proper financial management practices to ensure that funds are only used for eligible expenses; and a prohibition on commingling rebate funds with other general funds.

Two years ago, we warned of the risks threatening to undermine the EPA's implementation of IIJA funding. Today, those warnings have come to pass. Our lead service line replacement and clean school bus oversight work together yielded nearly \$2 billion in monetary impact. Our reports on those subjects not only illustrate the longstanding issues playing out in the EPA's IIJA programs but also the need for, and the return on investment of, our IIJA oversight. Just three years into our 13-year plan, we have already provided a return of nearly \$40 in monetary impact for every \$1 of IIJA oversight funding we have spent.

We are confident that we could bring this same level of impact and oversight to the Agency's IRA programs. And we have every reason to believe that the issues we have observed in our IIJA oversight are a glaring red flag for problems that could be lurking in the Agency's IRA programs as well.

Inflation Reduction Act

With the passage of the IRA, the EPA was tasked with distributing \$41.5 billion to implement another set of programs aimed at improving public and environmental health. However, the risks are magnified. The magnitude of the funding provided under the IRA and IIJA—more than \$100 billion all together—is many times greater than what the EPA has ever managed and creates potential capacity issues for both the Agency and recipients, particularly with distributing funds and monitoring programs. However, a stark difference between the two laws is that, while the IIJA provided new funding largely through existing, familiar programs and mechanisms, the IRA created a paradigm of new funding, new recipients, new initiatives, and a more complex financial transaction stream.

In addition, whereas most of the EPA's IIJA appropriation is available until it is expended, the bulk of IRA funds have tight expiration dates that require a pace of spending that multiplies the risk of fraud, waste, and abuse. While Congress mandated certain statutory deadlines to obligate portions of the IRA, the rush to meet those statutory deadlines creates concerns regarding whether the Agency employed proper internal controls to vet funding recipients and project proposals and to monitor recipients to prevent the misuse and mismanagement of funds.

The Greenhouse Gas Reduction Fund, or GGRF, is one program that we have been particularly concerned about. Receiving \$27 billion—more than half of the EPA's overall IRA appropriation—the GGRF is a new program intended to mobilize financing and private capital for investment in greenhouse gas- and air pollution-reducing projects. For two GGRF programs, the EPA decided to establish an agreement with a financial agent to distribute \$20 billion to eight selected organizations that will in turn provide financing for clean energy projects. The structure is intended to encourage a public-private financing model, with federal dollars expected to mobilize private investment.

While awarding funds through a financial agent is not new to the federal government, it was new to the EPA. During the EPA's GGRF planning phase, our office raised questions about this approach. Some of the risks are familiar—ensuring adequate recipient and subrecipient monitoring and data reliability, for example. However, the financial agent framework also introduces new risks. Using third-party entities to determine how to distribute billions of dollars to additional passthrough entities reduces the Agency's control over and visibility of how the funds are spent. Furthermore, it complicates efforts to ensure compliance, manage financial risks, prevent fund misuse, and measure the outcomes of funded projects. From the OIG's perspective, this structure makes providing effective oversight challenging. Adding to that and the historical and ongoing EPA management challenges I have discussed today, we are concerned that there will be critical gaps in monitoring, accountability, and compliance in the GGRF, as well as in other IRA programs.

The risks surrounding the IRA are heightened by the fact that, unlike the IIJA, the IRA does not include dedicated funding for EPA OIG oversight. Our concerns have only intensified as we have already received reports of waste, fraud, and abuse related to IRA programs, as well as allegations of retaliation from

whistleblowers coming forward to report these issues. While we are tapping into our core budgetary resources to investigate these allegations, without dedicated resources, we are limited in our ability to provide more robust and effective IRA oversight.

I deeply appreciate the ongoing efforts of both the House and Senate to secure dedicated resources for this critical oversight. In the meantime, my office is working to provide oversight within our existing budget. Early on, we focused on prevention as the EPA ramped up its efforts and began obligating IRA funding, aiming to help the Agency consider safeguards from the outset to ensure that funds are used as intended rather than scrambling to recover mismanaged or misused money after the fact. We took a proactive approach, providing briefings to more than 1,000 EPA employees and external stakeholders to raise awareness of fraud prevention and mitigation strategies, while also highlighting the OIG as a key resource for reporting potential wrongdoing or mismanagement. Additionally, when we met with the Agency to discuss the program design for the GGFR, we raised questions regarding due diligence reviews, monitoring of grantees and subgrantees, and screening for potential conflicts of interest.

With more than 93 percent of the EPA's IRA funds now obligated, our focus is shifting from prevention to detection. In addition to ongoing investigative work, we will be leveraging data analytics to proactively detect potential fraud. Our data analytics team is planning to use machine learning models for predictive fraud detection using red flags. The results can be displayed in dashboards that investigators can review in real time. In January, we initiated an [audit](#) to determine whether an EPA contractor that received roughly \$147 million in IRA- and IJA-funded contracts has complied with federal requirements and contract terms and conditions. Our auditors, evaluators, and investigators are prioritizing additional IRA oversight work focused on grantee and subrecipient capacity and the EPA's vetting process for awards. This work will address reports that our OIG Hotline has received in these areas. We plan to examine both whether the EPA took appropriate care in making awards and whether recipients engaged in any fraud or other misconduct to obtain the awards.

The EPA OIG has the unique authority and expertise to provide objective and independent oversight of the Agency's IRA funding and to track these taxpayer dollars from allocation to final expenditure to ensure that they are used as intended and not thwarted by fraud, waste, abuse, or mismanagement. We will continue to monitor emerging issues to ensure that our IRA oversight work remains strategic and responsive as budgetary constraints and statutory requirements allow.

Conclusion

The examples I have shared today tell a cautionary tale of systemic issues reaching across EPA programs. With a vital mission to protect human health and the environment—and more than \$100 billion taxpayer dollars at stake—it is essential to learn from the past. We are confident that, with the continued support of Congress and the Administrator's commitment to tackling waste, fraud, and abuse, we can help the EPA make meaningful improvements.