



# At a Glance

## Audit of the EPA's Oversight of State Subrecipient Monitoring in the Clean Water State Revolving Fund Program

### Why We Did This Audit

#### To accomplish this objective:

The U.S. Environmental Protection Agency Office of Inspector General conducted this audit to assess the EPA's oversight of state subrecipient monitoring in the Clean Water State Revolving Fund Program, including the monitoring of subrecipients of Infrastructure Investment and Jobs Act funds.

Since its inception in 1987, the Clean Water State Revolving Fund Program has provided more than \$172 billion to states to help improve water quality. In 2021, as part of the Infrastructure Investment and Jobs Act, Congress provided supplemental appropriations of about \$12.7 billion for the program. These funds have been appropriated for fiscal years 2022 through 2026, and the money is available until expended.

The Clean Water Act authorizes states to design and operate their CWSRF programs to provide assistance for a wide range of water infrastructure projects. States perform subrecipient monitoring in order to fulfill their obligations under the Act.

#### To support this EPA mission-related effort:

- Ensuring clean and safe water.

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### What We Found

The EPA relies on its annual review process to help provide reasonable assurance that states are adequately monitoring subrecipients of funds distributed via the Clean Water State Revolving Fund, or CWSRF, Program, including Infrastructure Investment and Jobs Act funds. While the annual review procedures for nondiscrimination laws, suspension and debarment, and single audit requirements follow statutory requirements, we found opportunities for the EPA to improve its oversight practices in the annual review steps devoted to subrecipient monitoring activities in these areas.

The EPA provided CWSRF Program guidance through various trainings, documents, and ongoing communications that supported the three states that we reviewed—Rhode Island, Kentucky, and Iowa—in monitoring the subrecipients in their state CWSRF programs. The EPA could further support the states in their subrecipient monitoring activities by providing a guide of best practices for subrecipient monitoring and a best practices guide geared specifically toward helping equivalency subrecipients comply with the Clean Water Act, CWSRF Program regulations, and EPA guidelines.

**Improving oversight of state subrecipient monitoring activities could aid in the prevention or detection of fraud, waste, and abuse, as well as noncompliance with federal requirements in the CWSRF Program.**

During our audit, we also made observations outside of our audit objective that identify an opportunity for the EPA. Specifically, the CWSRF capitalization grant terms and conditions could be revised to include a requirement similar to one in the EPA's general terms and conditions for grants that recipients and subrecipients must report violations of federal criminal law involving fraud, bribery, or gratuity violations to the OIG. The EPA could also encourage states to include a provision in their CWSRF loan agreements consistent with 2 C.F.R. § 200.113. For more information on this, see Appendix A.

### Recommendations and Planned Agency Corrective Actions

We recommend that the assistant administrator for Water update the EPA's CWSRF annual review procedures to add a review of state oversight practices specific for the civil rights requirements and determine whether steps to check for excluded entities can be incorporated into the EPA's annual review process, the state capitalization agreements, or both to help ensure that suspended and debarred entities are not receiving CWSRF Program funding. We also recommend implementing the plan to search the Federal Audit Clearinghouse annually to ensure that all CWSRF-related findings in subrecipients' single audit reports are known to the EPA and that states are monitoring subrecipients to ensure that appropriate corrective action has been taken with respect to audit findings.

To further support states in their subrecipient monitoring activities, we recommend that the EPA create and maintain an online guide that describes best practices for state programs to perform subrecipient monitoring, as well as an online guide that describes best practices for compliance with federal equivalency requirements in the CWSRF Program.

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.