

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

May 13, 2025 | Report No. 25-P-0030



## Report Contributors

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## Abbreviations

C.F.R.	Code of Federal Regulations
CWA	Clean Water Act
CWSRF	Clean Water State Revolving Fund
DWSRF	Drinking Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
IIJA	Infrastructure Investment and Jobs Act
OIG	Office of Inspector General
Pub. L.	Public Law
SRF	State Revolving Fund
U.S.C.	United States Code

## Cover Image

Wastewater clarifiers at the Perryville Wastewater Treatment Plant in Perryville, Missouri. (EPA image)

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# 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.



**OFFICE OF INSPECTOR GENERAL**  
U.S. ENVIRONMENTAL PROTECTION AGENCY

May 13, 2025

**MEMORANDUM**

**SUBJECT:** Audit of the EPA's Oversight of State Subrecipient Monitoring in the Clean Water State Revolving Fund Program  
Report No. 25-P-0030

**FROM:** Nicole N. Murley, Acting Inspector General *Nicole N. Murley*

**TO:** Peggy S. Browne, Acting Assistant Administrator  
Office of Water

This is our report on the subject audit conducted by the U.S. Environmental Protection Agency Office of Inspector General. The project number for this audit was OA-FY24-0057. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The EPA Office of Water develops the policy, guidance, and checklists for the Clean Water State Revolving Fund Program that the EPA regions use to conduct the annual reviews of each of their states. In addition, the Office of Water trains the regions on the laws, regulations, policies, and guidance related to the Clean Water State Revolving Fund annual reviews. The Office of Water collects the annual review checklists, worksheets, and program evaluation reports and follows up with the regions on select findings and recommendations made to the states.

In accordance with EPA Manual 2750, your office provided acceptable planned corrective actions and estimated milestone dates in response to OIG recommendations. Your office also provided additional perspectives from the regions, which we reviewed and addressed in this report as appropriate. All recommendations are resolved, and no final response to this report is required. If you submit a response, however, it will be posted on the OIG's website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the requirements of section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

We will post this report to our website at [www.epaoig.gov](http://www.epaoig.gov).

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# Chapter 1

## Introduction

### Purpose

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

### Background

The CWSRF Program is a federal-state partnership that provides low-cost financing to communities for a wide range of water-quality infrastructure projects. It has provided more than \$172 billion for projects around the country since its inception in 1987. It does so through individual CWSRF programs operating in each of the 50 states and Puerto Rico,<sup>1</sup> which we refer to in this report as **states**, except as indicated. Program funding comes from annually appropriated federal capitalization grants from Congress; required state matches; loan repayments; interest earnings; and optional state contributions, such as from bond proceeds. Additionally, Congress authorized IIJA supplemental appropriations of about \$12.7 billion for fiscal years 2022 through 2026, of which \$11.7 billion is for the traditional CWSRF and \$1 billion is dedicated to addressing emerging contaminants.<sup>2</sup> The states are the recipients of this funding, which they, in turn, provide to subrecipients for selected projects.

<b>Recipient:</b> The state is the recipient of the CWSRF capitalization grant, which the EPA awards. The state then funds projects through its own CWSRF, which includes both federal and nonfederal funds.	<b>Subrecipient:</b> The entity receiving funding for a project from the state CWSRF is a subrecipient. The funding may be federal or nonfederal funds and may be provided as a loan, grant, or other authorized form. “Assistance recipient” is another term for a subrecipient.
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With this mix of funding, the state CWSRF programs function like infrastructure banks by distributing low-interest loans to eligible subrecipients. These programs then recycle loan repayments to fund additional water-quality projects, thereby revolving funds through the state CWSRFs, which are intended to be permanent sources of low-cost financing. States may fund a wide variety of projects and are responsible for selecting projects that are technically feasible and eligible for CWSRF assistance. Eligible projects include publicly-owned treatment works, nonpoint source pollution projects, National Estuary Program projects, decentralized wastewater treatment systems, stormwater projects, water conservation, watershed pilot projects, energy conservation, water reuse, security measures at publicly owned treatment works, and technical assistance. Eligible subrecipient types vary by state and project

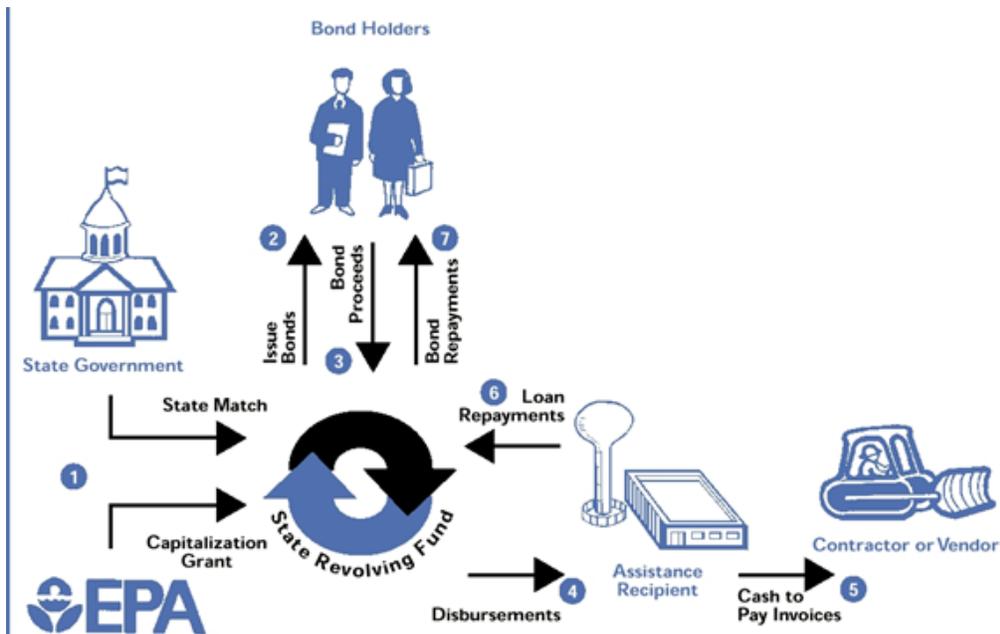
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<sup>1</sup> The EPA also provides direct grant funding for the District of Columbia, U.S. Virgin Islands, American Samoa, Guam, and the Commonwealth of Northern Marianas.

<sup>2</sup> Pub. Law No. 117-58 (2021).

type and may include communities, private entities, nonprofit organizations, and citizen groups. Figure 1 illustrates how the state programs function.

**Figure 1: The state CWSRF programs function like infrastructure banks**



Source: (EPA image)

Under EPA oversight, the states administer their CWSRF programs within the parameters established by the Clean Water Act, or CWA, as well as federal and state regulations, and EPA guidelines. However, each state has wide discretion in shaping its CWSRF program and flexibility in establishing how it administers it.<sup>3</sup> For example, in addition to selecting which projects they will fund, the states may offer other types of financial assistance besides low-interest loans, including grants and loan principal forgiveness. Each state determines the types and amounts of assistance it offers to subrecipients and specifies financing terms, such as interest rates, administrative fees, additional subsidization, and repayment periods. States can establish criteria to customize loan terms for the benefit of borrowers. Loan repayment periods can be up to 30 years or the useful life of the project, whichever is less. States can also leverage their funds and increase their financing capacity by issuing bonds.

### ***Federal Requirements for CWSRF Subrecipients***

Given the discretion and flexibility afforded the states, along with the mix of federal and nonfederal funding, projects funded through the CWSRF are subject to requirements and oversight at both the federal and state levels. Our focus in this audit was on EPA oversight of how states monitor subrecipients for compliance with specific federal requirements, as we discuss below.

Subrecipients of CWSRF assistance must comply with various federal requirements, depending on the type of subrecipient, project, or assistance. For example, a government entity borrowing to fund a

<sup>3</sup> This report uses the term *CWSRF Program* to mean the program that the EPA administers and oversees and the term *state CWSRF programs* to mean the 51 individual CWSRF programs that are administered by the states.

treatment works project would need to meet different federal requirements than a nonprofit organization receiving a grant for a watershed project. Using the flexibility of the CWSRF Program, states may also have distinctive programs with unique requirements. In Appendix C, we highlight two such programs—Rhode Island’s Community Septic System Loan Program and Iowa’s Livestock Water Quality Program.

Many factors may affect which federal requirements apply. Those known as **equivalency requirements** apply only to projects that a state designates in a subset of projects whose total funding is equal to the amount of its federal capitalization grant for a given year. But nonequivalency projects are not subject to those requirements, as they are considered to be funded with nonfederal money from sources such as CWSRF repayments, interest, and state funding. Some federal requirements arise from the CWA, program regulations, or EPA policy and constitute what the EPA calls program-specific requirements. Others known as crosscutting federal authorities, or **crosscutters**, arise from other federal laws or executive orders and apply to a wide range of federal financial assistance programs.

To illustrate how these requirements may vary, Table 1 details key federal requirements relevant to the CWSRF program. Appendix B provides further information on these and other federal requirements. The requirements most relevant to our audit findings are the super crosscutters, suspension and debarment, and the Single Audit Act.

**Table 1: Key federal requirements for the CWSRF Program**

<b>Requirements</b>	<b>All CWSRF projects</b>	<b>CWSRF equivalency projects</b>	<b>Only government borrowers</b>	<b>Treatment works projects</b>
<i>American Iron and Steel Provision</i>	—	—	—	X
<i>Architecture and engineering contract procurement</i>	—	X	—	—
<i>Build America, Buy America Act</i>	—	X	—	—
<i>Project Cost and Effectiveness</i>	—	—	X	—
<i>Crosscutters: Environmental</i>	—	X	—	—
<i>Crosscutters: Social/Economic/Misc.</i>	—	X	—	—
<i>Crosscutters: Super (Civil Rights)</i>	X	—	—	—
<i>Davis-Bacon and Related Acts</i>	—	—	—	X
<i>Participation by Disadvantaged Business Enterprises</i>	—	X	—	—
<i>Environmental Review</i>	—	—	—	X
<i>Equal Employment Opportunity</i>	—	X	—	—
<i>Federal Funding Accountability and Transparency Act</i>	—	X	—	—
<i>Fiscal Sustainability Plans*</i>	—	—	—	X
<i>Generally Accepted Accounting Principles</i>	—	—	X	—
<i>Prohibition on Certain Telecommunications and Video Surveillance Equipment or Services</i>	—	X	—	—
<i>Signage Requirements</i>	—	X	—	—
<i>Single Audit Act</i>	—	X	—	—
<i>Suspension and Debarment</i>	—	X	—	—
<i>Uniform Guidance†</i>	X	—	—	—
<i>Useful Life*</i>	X	—	—	—

Source: EPA Region 1. (EPA OIG table adapted from Region 1 table)

\*Applicable to loans only.

†Applicable to grants only.

## Super Crosscutters

All states, subrecipients, and subrecipients' contractors and subcontractors must comply with a series of nondiscrimination laws, often referred to as super crosscutters in the CWSRF Program, that collectively aim to prevent discrimination based on race, color, national origin, age, sex, or disability. Of these, three are significant federal civil rights laws that apply to all CWSRF recipients and subrecipients: Title VI of the Civil Rights Act of 1964; section 504 of the Rehabilitation Act of 1973; and the Age Discrimination Act of 1975. In addition, section 13 of the Federal Water Pollution Control Act Amendments of 1972, which prohibits sex-based discrimination in CWA programs, is applicable. As discussed in the EPA's civil rights guidance and set forth in the EPA's nondiscrimination regulations at 40 C.F.R. part 7, funding recipients must implement certain procedural safeguards to ensure compliance with these statutes, such as designating a federal civil rights compliance coordinator if the recipient has 15 or more employees, providing initial and continuing notice of nondiscrimination, and adopting grievance procedures that assure the prompt and fair resolution of complaints.<sup>4</sup> Although states and subrecipients implement compliance activities for these requirements, the EPA has the ultimate responsibility for ensuring that recipients of CWSRF funding are complying.

## Suspension and Debarment Requirements

Within the CWSRF Program, suspension and debarment requirements apply to any entity working on an equivalency project. Covered transactions include the loans or grants a state makes to its subrecipients and the contracts the subrecipients have with contractors working on their projects. This is in keeping with Executive Order 12549, *Debarment and Suspension*, dated February 18, 1986, which provides for a governmentwide system to exclude specific individuals and businesses from participating in federal assistance programs to curb fraud, waste, and abuse.<sup>5</sup> A person or business can be barred from federal assistance programs for conviction or civil judgments for offenses such as fraud, antitrust violations, embezzlement, or theft, as well as for serious violations of public agreements or transactions that affect the integrity of a federal program. Suspension can be imposed when adequate evidence exists that a person or business is engaging in activities that would give rise to debarment and that immediate action is deemed necessary to protect the government.

## Single Audit Act Requirements

For CWSRF equivalency projects and all grants, subrecipients are subject to the Single Audit Act of 1984 and Office of Management and Budget implementing regulations, which require a nonfederal entity to undergo an audit if it expends \$1 million or more in federal awards in any fiscal year.<sup>6</sup> The entity may choose to have a single organizationwide audit instead of multiple audits of individual federal programs. Further, because the EPA capitalization grant passes through the CWSRF to subrecipients as loans or grants, the states are passthrough entities under the Single Audit Act and are required to review

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<sup>4</sup> EPA, Civil Rights [Guidance](#) on Procedural Safeguards: Requirements and Best Practices (August 2024).

<sup>5</sup> The Office of Management and Budget issued regulations to federal agencies on governmentwide suspension and debarment at 2 C.F.R. part 180, and the EPA adopted those regulations at 2 C.F.R. part 1532.

<sup>6</sup> Prior to October 1, 2024, the threshold for an audit under the Single Audit Act was \$750,000.

subrecipient audits to determine whether corrective action has been taken with respect to audit findings. In addition, as the EPA provided in a memorandum addressing applicable single audit requirements to the state revolving funds, *Clarification of Single Audit Requirements Under the Clean Water and Drinking Water State Revolving Fund Programs*, issued in July 2023, the SRF programs are responsible for monitoring resolution actions taken to address findings from single audits of subrecipients.

## **Oversight of CWSRF Subrecipients**

To ensure that subrecipients are meeting their responsibilities of complying with federal requirements and repaying loans, the states and the EPA each have oversight responsibilities with respect to subrecipient monitoring. The states perform subrecipient monitoring to fulfill their obligations under the CWA, which requires them to establish their CWSRF programs to accomplish the requirements and objectives of the Act and to maintain their revolving funds “such that the fund balance will be available in perpetuity” for water pollution prevention and control activities.<sup>7</sup> As for the EPA, its implementing regulations require the Agency to conduct an annual review of each state’s CWSRF program to monitor compliance and determine the success of the state program.<sup>8</sup> As part of the annual review, EPA regional staff are tasked with evaluating compliance with key program requirements, including assessing the adequacy of the states’ subrecipient monitoring practices.

## **State Oversight of Subrecipients**

In this audit, we reviewed CWSRF programs in Rhode Island, Kentucky, and Iowa for the measures in place that provide reasonable assurance that each state monitors subrecipients for compliance with federal requirements. The states’ programs are designed so that the states award assistance only to eligible recipients and projects, award assistance only after projects undergo the appropriate type of environmental review, ensure subrecipients are aware of federal requirements, and make payments only for allowable project expenses.

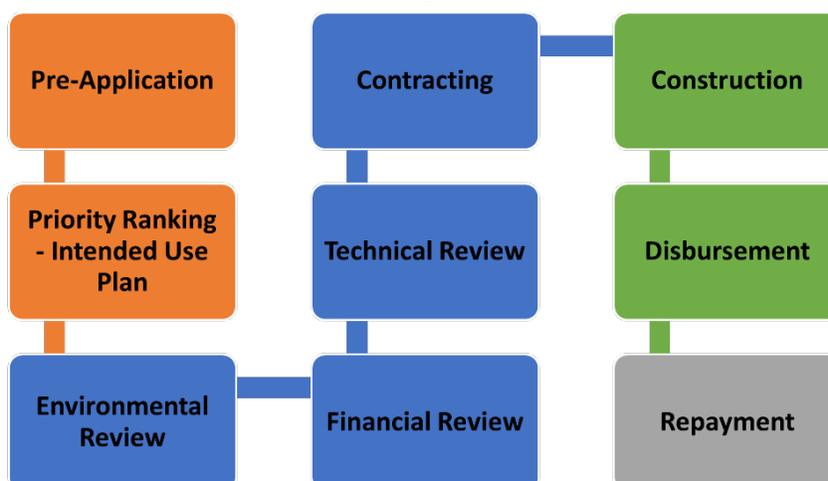
These activities occur throughout the life cycle of a CWSRF project. While policies, procedures, and systems can vary from state to state, the life cycle of a typical CWSRF project includes a series of milestones. The Office of Water describes the general process relating to CWSRF loans in its SRF 101 workshop, a training provided to EPA regions and state program officials, as depicted in Figure 2.

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<sup>7</sup> 33 U.S.C. § 1382(b)(11).

<sup>8</sup> 40 C.F.R. § 35.3165(c).

**Figure 2: Steps for a project in a state CWSRF program**



Source: EPA virtual SRF 101 training workshop June 26–29, 2023. (EPA image)

States determine project eligibility through a pre-application process and place projects eligible for CWSRF program funding on the state’s intended use plan. EPA regulations at 40 C.F.R. § 35.3140 require subrecipients to conduct an environmental review, or National Environmental Policy Act-like review, for treatment works projects and activities funded with CWSRF program funds. An environmental review ensures that a project is environmentally sound and allows for the public to challenge any determinations made in the review. The three states reviewed have environmental review policies and procedures.

The three states reviewed have procedures for ensuring that subrecipients are aware of federal requirements. The subrecipient’s agreement to comply with federal requirements is included in application materials and financial assistance agreements. Additionally, the states have mechanisms to help ensure proper documentation of compliance, when appropriate for the type of requirement. For example, the three states all had methods to review documentation to monitor whether treatment works projects complied with wage requirements under Davis-Bacon and Related Acts, and American Iron and Steel requirements.

Finally, these states have policies, procedures, and systems to check on their borrowers’ ability to repay loans throughout the projects’ life cycles and have various methods for separating duties and incorporating review-and-approval processes in their CWSRF programs. For example, payment requests for project expenses are reviewed by a project officer for accuracy and allowability, then sent to a finance manager for processing and payment. Separation of duties and review-and-approval processes help ensure that the states’ CWSRF programs operate as designed.

### The EPA’s Oversight Activities

The EPA serves a vital role in overseeing the SRFs, which have more than \$100 billion in assets, including both CWSRFs and Drinking Water State Revolving Funds, or DWSRFs. In fact, according to the EPA’s October 2023 *SRF Annual Review Guidance*, the scale of these funds “requires a level of financial literacy

and fiduciary oversight like no other program in the Agency.” As such, the EPA Office of Water relies on annual reviews, which the ten regions conduct, to determine how each state’s CWSRF is achieving the intent, overall goals, and objectives of the CWA. The *SRF Annual Review Guidance* provides detailed instructions to the regions for conducting annual reviews of each of their states’ CWSRFs, including procedures to assess the adequacy of the states’ subrecipient monitoring practices.<sup>9</sup>

The regions perform the annual reviews using guidance documents and training that the Office of Water provides. The Office of Water also provides a checklist of financial and programmatic requirements to assist the regions with annual reviews. In addition to completing the checklists, the annual review includes reviewing project files, testing transactions, and conducting on-site interviews. The regions develop program evaluation reports that detail the results of their reviews, including any recommendations or corrective actions for the state. Documents that help inform these annual reviews include the CWSRF intended use plans and annual reports that the states are responsible for submitting each year to their respective EPA regional administrators.

<b>Intended Use Plan:</b> An annual plan that is prepared by the state prior to the award of the capitalization grant. The plan details the intended uses of the funds and how the funds will be used to achieve the goals of the state revolving fund. Intended use plans are subject to review and public comment prior to being submitted to the EPA.	<b>Annual Report:</b> A mandated report from the state to the EPA describing how the state has met the goals and objectives for the previous fiscal year, as identified in the intended use plan prepared for that year. The annual report includes, among other things, the loan recipients, amounts, and terms. It also identifies equivalency projects.
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## Responsible Offices

The Office of Water is responsible for implementing the CWA and works with the regional offices to provide guidance, perform oversight, and facilitate communication. The CWSRF is one of the programs managed by the Office of Wastewater Management within the Office of Water. The Office of Wastewater Management supports the CWA by promoting effective and responsible water use and wastewater management, as well as by encouraging the protection and restoration of watersheds. The CWSRF Program is implemented by the State Revolving Fund Branch, which is part of the Water Infrastructure Division within the Office of Wastewater Management.

The SRF programs, which include the CWSRF and DWSRF, are the largest programs at the EPA. These programs grew because of the supplemental appropriations from the IIJA. According to the *SRF Annual Review Guidance*, the SRFs accounted for 40 percent of the EPA’s \$28 billion budget in FY 2023. The IIJA has invested about \$43 billion dedicated to the SRFs over five years to strengthen the nation’s drinking water and wastewater systems. A significant portion of those dollars will flow through the CWSRF Program, as shown in Table 2.

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<sup>9</sup> EPA OIG Report No. [24-P-0028](#), *The EPA Should Improve Annual Reviews to Protect Infrastructure Investment and Jobs Act Grants to Clean Water State Revolving Funds*, dated March 14, 2024, discussed in more detail in the Prior Reports section, contains a detailed description of the EPA’s CWSRF annual review process.

**Table 2: Available CWSRF funding in the IIJA**

Appropriation	FY 2022 (\$)	FY 2023 (\$)	FY 2024 (\$)	FY 2025 (\$)	FY 2026 (\$)	Total (\$)
General Supplemental	1,902,000,000	2,202,000,000	2,403,000,000	2,603,000,000	2,603,000,000	<b>11,713,000,000</b>
Emerging Contaminants	100,000,000	225,000,000	225,000,000	225,000,000	225,000,000	<b>1,000,000,000</b>

Source: IIJA. (EPA OIG table)

## Scope and Methodology

We conducted this performance audit from March 2024 to March 2025 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We assessed the internal controls necessary to satisfy our audit objective.<sup>10</sup> In particular, we assessed the internal control components—as outlined in the U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government*—significant to our audit objective. Any internal control deficiencies we found are discussed in this report. Because our audit was limited to the internal control components deemed significant to our audit objective, it may not have disclosed all internal control deficiencies that may have existed at the time of the audit.

We judgmentally selected three states in different regions based on prior audit work, potential for unique programs within the CWSRF, and consideration for how state programs selected equivalency projects. We reviewed state CWSRF programs in Rhode Island, Kentucky, and Iowa. We interviewed state program officials and obtained documentation from them regarding their subrecipient monitoring activities. We reviewed at least eight project files from each state, including some equivalency project files. We also interviewed and obtained documentation from Office of Water officials. Among other documents, we reviewed the 2023 *SRF Annual Review Guidance*, including its associated checklists and checklist user guide, the completed 2022 annual review checklists for the three states, and the slides from the June 2023 SRF 101 workshop training.

During our audit, we made observations that did not directly answer our objective but identify an opportunity for EPA action. These observations are included in Appendix A.

## Prior Reports

In EPA OIG Report No. [24-P-0028](#), *The EPA Should Improve Annual Reviews to Protect Infrastructure Investment and Jobs Act Grants to Clean Water State Revolving Funds*, issued on March 14, 2024, we found that the EPA does not always ensure its regional offices adhere to the CWSRF annual review

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<sup>10</sup> An entity designs, implements, and operates internal controls to achieve its objectives related to operations, reporting, and compliance. The U.S. Government Accountability Office sets internal control standards for federal entities in GAO-14-704G, *Standards for Internal Control in the Federal Government*, issued September 10, 2014.

guidance or consistently monitor annual reviews that the regions perform. The report recommended that the EPA “implement procedures to ensure consistent Office of Water oversight of the annual review process in all regions and states, including reviewing checklists and all program evaluation reports and tracking recommendations made by the regions.” The Office of Water agreed with the recommendation and plans to complete corrective actions by December 31, 2024, and December 31, 2025.

In EPA OIG Report No. [23-N-0028](#), *EPA Guidance Removed States’ Responsibilities for Monitoring State Revolving Fund Borrowers’ Single Audit Reports*, issued on August 15, 2023, we found that the Office of Water issued a policy memorandum, titled *Updated Single Audit Act Borrower Audit Collection Policy*, in September 2021 that incorrectly advised states that they did not have to review single audits of nonfederal entities that borrow money from SRFs, contradicting the Single Audit Act and misinterpreting 2 C.F.R. part 200. On July 19, 2023, in response to our audit findings but before we published our final report for that audit, the EPA issued a memorandum titled *Clarification of Single Audit Requirements Under the Clean Water and Drinking Water State Revolving Fund Programs* that explained the requirements for single audits and federal funds and the responsibilities of SRF assistance and state programs’ recipients. That memorandum addressed our concerns, and we made no recommendations.

In Management Implication [Report](#): *Some States Failed to Conduct Required Financial Audits of Their State Revolving Funds*, issued on September 12, 2024, we notified the EPA that at least nine states provided audit reports for their CWSRF and DWSRF programs that, at a minimum, did not specifically identify the state’s CWSRF and DWSRF financial information. The EPA relies on these SRF audits as part of its annual review of the SRFs and without the benefit of the regulatorily required SRF audits the EPA’s annual reviews could fail to be complete or sufficient.

In Management Implication [Report](#): *Mitigation of Grant Fraud Vulnerabilities*, issued on March 30, 2023, we notified the EPA that grantees and subrecipients may not be fully aware of key fraud prevention and enforcement measures. We advised the EPA to take stronger steps to clearly communicate the criminal, civil, and administrative consequences of fraudulent conduct throughout the life cycle of a grant. We also advised the EPA to add OIG reporting requirements and whistleblower protection provisions to its standard grant terms and conditions. The EPA added these two requirements to the standard grant terms and conditions on August 8, 2023.

## Chapter 2

# The EPA Could Improve Certain Annual Review Steps Devoted to State Subrecipient Monitoring Activities

The EPA's annual review process helps provide reasonable assurance that the states are adequately monitoring subrecipients of funds distributed via the CWSRF Program, including IJJA funds, but the EPA could improve oversight practices in the steps devoted to state subrecipient monitoring procedures. Procedures in the annual review process include determining whether the states are informing subrecipients of their responsibilities and whether the states are performing certain assessments with respect to subrecipients. While the procedures related to super crosscutters, suspension and debarment, and single audit requirements follow statutory requirements, the EPA could better support the states and the regional reviewers by clarifying what actions are required of the states and what regional reviewers should do to confirm that the states have performed those actions.

### The Annual Review Process Could Be Improved

For the states we reviewed, Rhode Island, Kentucky, and Iowa, we determined that the EPA's annual review process helps provide reasonable assurance that the states were adequately monitoring subrecipients for compliance with CWSRF requirements. Even though our audit included three states across three different regions, the EPA's annual review process is applicable to all regions. The CWSRF annual review process evaluates how states are implementing processes, including how they monitor subrecipients' compliance with federal requirements. The EPA provides the regions with annual review checklists to guide conversations with the states, including discussions on the operations of their programs. The discussions, in turn, help annual reviewers develop their understanding of the states' approaches to monitoring subrecipient compliance with federal requirements.

During the annual review, regions examine CWSRF project files to confirm that states are funding only CWSRF-eligible projects and CWSRF-eligible recipients. The project file reviews are also designed to determine whether the state and the subrecipient are following all applicable statutory, regulatory, and policy requirements, as well as capitalization grant terms and conditions, when funding projects. Annual reviewers check to make sure certain federal requirements are included in bid specifications and contract documents.

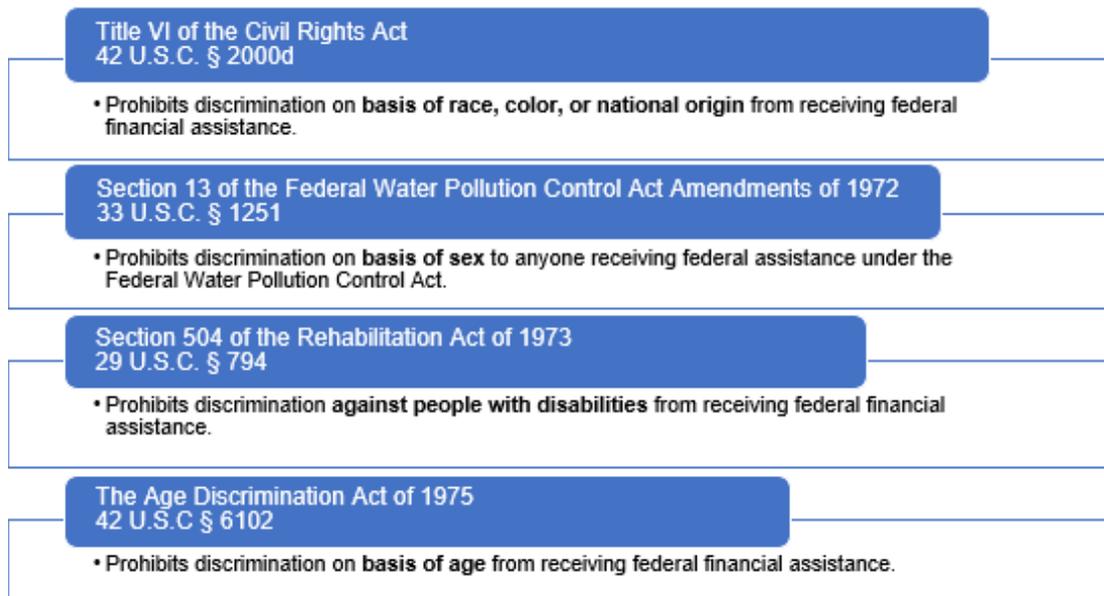
Although we found that the EPA's annual review process helps provide reasonable assurance that states are adequately monitoring subrecipients of funds distributed via the CWSRF Program, we identified three opportunities where the specific steps of the process could be improved for the following requirements: super crosscutters, suspension and debarment, and single audit.

#### *Super Crosscutters*

For the super crosscutters—the four nondiscrimination laws listed in Figure 3—the EPA is responsible for ensuring that states and subrecipients are in compliance. Compliance activities, however, are

implemented by the states and the subrecipients because of the unique nature of the state-managed SRF programs. During the annual review, as part of overseeing the states' subrecipient monitoring of the civil rights requirements, the EPA relies on a discussion with state SRF staff for how the state communicates the requirements to subrecipients and what procedures the state has in place for examining subrecipients' compliance with the requirements. While reviewing select project files, the EPA region also verifies that assistance agreements include terms and conditions addressing two of the four super crosscutter requirements: the Civil Rights Act of 1964 and section 504 of the Rehabilitation Act.

**Figure 3: The Super Crosscutters, 40 C.F.R. part 7**



*Note:* The Federal Water Pollution Control Act is also referred to as the Clean Water Act.

Source: EPA virtual SRF 101 training workshop June 26–29, 2023. (EPA OIG image)

On August 22, 2024, the EPA's Office of External Civil Rights Compliance released the *Civil Rights Guidance on Procedural Safeguards: Requirements and Best Practices*. This document is intended to help EPA financial assistance recipients develop and improve their civil rights compliance efforts. It includes best practices that EPA financial assistance recipients can use to build strong and effective civil rights programs.

The annual review checklists for FY 2022 that we reviewed did not contain evidence that the EPA documents specific indicators of consistent compliance efforts relating to the civil rights requirements. One region provided notes on the state's process, but there was no documented confirmation that the state had procedures in place to address complaints and noncompliance. The checklists that the other two regions completed had documented only the confirmation of nondiscrimination notice that the subrecipient provided.

When completing the annual review checklist to reflect compliance with federal requirements, the region relies on knowledge of a state's process, a discussion with state SRF staff on the state's procedures for ensuring subrecipient compliance, and compliance language in assistance agreements.

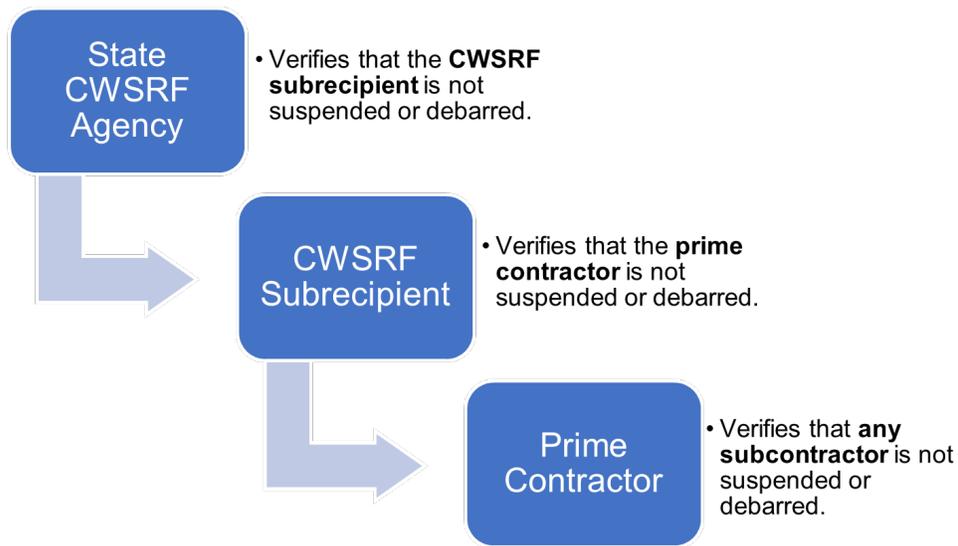
While the civil rights guidance provides for compliance efforts, the annual review process does not entail examining a state’s subrecipient monitoring practices, nor does it establish minimum standards for what practices in place could constitute compliance.

Discussing a state’s practice does not assure that the state is actually performing the practice. Without having an oversight check that reviews the actual practice in place and includes all applicable federal requirements, the EPA cannot adequately assess whether the state is ensuring compliance with those federal requirements.

### **Suspension and Debarment**

A suspended or debarred business or individual is excluded from participating in CWSRF loans, contracts, and subawards awarded with CWSRF equivalency funds, or grants. The U.S. government maintains a list of excluded entities on the System for Award Management website, SAM.gov. To prevent excluded parties from participating in such transactions, Office of Management and Budget regulations at 2 C.F.R. §180.300 require participants who enter into a transaction with another party in the next lower tier to verify that the party is not excluded, a requirement the EPA has expressly adopted via its implementing regulations. Figure 4 illustrates this verification process for the CWSRF Program.

**Figure 4: Verification process for suspension or debarment in the CWSRF Program**



Source: EPA OIG summary. (EPA OIG image)

The annual review procedures rely heavily on signed self-certifications for verifying compliance, which meets the regulatory requirement. As provided in the regulations, verifications can be done in three ways: by checking SAM.gov to see if the party is excluded, by collecting a certification, or by adding a clause or condition to the covered transaction. During the annual review, regions confirm that project files contain signed self-certifications of suspension and debarment prohibitions in which the construction contractors pledge to adhere to debarment and suspension requirements as part of construction contracts. The annual review does not check the exclusions list on SAM.gov for contractor

suspension or debarment and the regulations do not require doing so. However, checking SAM.gov would be significantly more stringent than relying on self-certifications.

Performing only a review of self-certification, while permitted by the regulation, leaves CWSRF funding susceptible to fraud, waste, or abuse with the potential of federal money being paid to those who have been suspended or debarred. Requiring a term and condition in the assistance agreement that recipients or contractors provide a self-certification does not ensure that the recipient or contractor is not suspended or debarred. Checking the exclusions list provides the federal government with stronger protection from fraud, waste, and abuse by identifying suspended or debarred contractors.

### **Single Audit**

For equivalency projects and all grants, the Single Audit Act requires states, as pass-through entities, to follow up on all audit findings pertaining to the state’s CWSRF program and to issue the management decision for single audit findings pertaining to the program. The EPA regions confirm audit findings with the state during the interview portion of the annual review and include any in their program evaluation report for follow up. The EPA does not have a procedure to search the Federal Audit Clearinghouse for subrecipient single audit reports with CWSRF-related findings; nor does it have a requirement that the regions do so during the annual review process.

<b>Single Audit Management Decision:</b> A statement that includes whether an agency or pass-through entity sustains or does not sustain a finding from a single audit report. The decision also includes the reason for the decision and any corrective actions that need to be taken.	<b>Federal Audit Clearinghouse:</b> Designated by the Office of Management and Budget as the central repository for audits of federal awards. Entities that spend \$1 million in federal awards annually must submit an audit to the Federal Audit Clearinghouse.
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States have the obligation to review and monitor audit findings. The Office of Water previously determined that the appropriate level of oversight of the states’ single audit responsibilities was for the regions to rely on the states communicating all CWSRF-related findings during the annual review. We learned during our audit that the Office of Water had revised its determination and was developing procedures for performing an additional step of searching the Federal Audit Clearinghouse as part of the annual review process.

Pending implementation of the new procedures, by relying on states to communicate all CWSRF-related findings in subrecipients’ single audit reports, the EPA may not be aware of all relevant findings or able to ensure that the states are following up on findings. If states are not following up on audit findings, then they are not complying with the requirement for monitoring CWSRF equivalency project and grant subrecipients.

## Recommendations

We recommend that the assistant administrator for Water:

1. Update the EPA's Clean Water State Revolving Fund annual review procedures and associated guidance to add a review of state oversight practices and establish minimum standards for what practices could constitute compliance specific for the civil rights requirements.
2. Determine whether steps can be implemented to incorporate confirmation of the System for Award Management website for excluded entities into either the EPA's annual review process or the state capitalization agreements, or both, to help ensure that suspended and debarred entities, including contractors and subcontractors, are not receiving Clean Water State Revolving Fund Program funding.
3. Implement the Office of Water's plan to search the Federal Audit Clearinghouse annually to ensure that all Clean Water State Revolving Fund-related findings in subrecipients' single audit reports are known to the EPA and that states are monitoring subrecipients to ensure that appropriate corrective actions have been taken with respect to audit findings.

## Agency Response and OIG Assessment

The Office of Water agreed with the three recommendations and provided acceptable planned corrective actions and estimated milestone dates. We consider these recommendations resolved with corrective action pending. Appendix D contains the Agency's response to the draft report.

# Chapter 3

## The EPA Could Better Support States by Providing Best Practices Resources for Subrecipient Monitoring

The EPA provided guidance that supported the three states we reviewed, Rhode Island, Kentucky, and Iowa, with monitoring the subrecipients in their state CWSRF programs, including those receiving IJIA funds. However, the EPA neither provides a guide of best practices for subrecipient monitoring nor a best practices guide geared toward helping equivalency subrecipients comply with federal requirements relevant to the CWSRF Program. According to the EPA, it has not provided these two resources because, under the CWA, the CWSRF Program is a state-managed program. Nevertheless, the EPA could better support all the states by providing these two resources, in addition to the other guidance and resources it already offers.

### EPA-Prepared Best Practice Resources for Subrecipient Monitoring Could Aid States

EPA guidance, provided through various trainings, documents, and ongoing communications, is one way in which the Agency supports state subrecipient monitoring activities. However, the EPA has an opportunity to improve the resources it provides to further support state subrecipient monitoring efforts. The EPA does not provide states with a resource, such as a comprehensive document or website, that describes best practices for subrecipient monitoring. Nor does the EPA provide a resource that explains what subrecipients must do to comply with the federal equivalency requirements relevant to the CWSRF Program. To educate states on those federal requirements, the EPA uses a nonpublic website that is, according to the Office of Water, available to EPA regional staff and, upon request, state officials. Subrecipients and potential applicants do not have access to the nonpublic website.

According to the EPA, it has not provided a resource that describes best practices for subrecipient monitoring to the states because Title VI of the CWA structures the CWSRFs as state-managed programs. The EPA has stated that the CWSRF is a mature program with well-established processes for managing loans and monitoring borrower compliance with financial assistance agreements. That is, the states themselves decide how to best monitor the subrecipients within their programs. Additionally, the EPA has not provided a comprehensive public website that explains federal requirements in the CWSRF Program because EPA officials see their role as supporting the states in their dissemination of information to their subrecipients.

All three states we reviewed performed subrecipient monitoring, but at least one state lacked a manual, although a state official had been working on developing additional job aids for state staff and additional instruction sheets for CWSRF applicants and subrecipients. All three states provided information on federal requirements to potential applicants and subrecipients. However, no state had a comprehensive resource explaining best practices that subrecipients could use to ensure compliance.

Because the EPA does not provide resources outlining best practices for subrecipient monitoring or best practices for compliance, a state would have to develop that resource on its own, without the foundation that a centralized EPA-created resource could provide. Additionally, each state would have to ensure that its best practices resources are kept current. If the EPA created centralized documents or websites describing best practices for subrecipient monitoring and for compliance with federal requirements, that would not limit states' ability to innovate, as we observed in Kentucky and discuss further in Appendix C. But it would make it less likely that states would engage in potentially redundant efforts to create resources covering much of the same material.

EPA-created best practices guides could include templates for processes, forms, and checklists. The guides could also include tips for combating fraud, waste, and abuse from the state's perspective and from the subrecipient's perspective. The centralized best practices guides could serve as a foundation for states' subrecipient monitoring manuals and could support state officials as they train staff. If the compliance best practices guide were located on a website, the EPA could make updates as legal or programmatic changes occur, allowing subrecipients or potential applicants to have access to current information. Finally, if the compliance guide were located on a public website, that would allow members of the public other than subrecipients or potential applicants to learn more about the CWSRF federal requirements. A well-informed public could recognize problems and report them to local, state, or EPA officials, or to the EPA OIG.

## Recommendations

We recommend that the assistant administrator for Water:

4. Create and maintain an online guide that describes best practices for states to perform subrecipient monitoring of their Clean Water State Revolving Fund programs.
5. Create and maintain an online guide that describes for states best practices for compliance with federal equivalency requirements in the Clean Water State Revolving Fund Program.

## Agency Response and OIG Assessment

The Office of Water agreed with the two recommendations and provided acceptable planned corrective actions and estimated milestone dates. We consider these recommendations resolved with corrective action pending. Appendix D contains the Agency's response to the draft report.

# Status of Recommendations

Rec. No.	Page No.	Recommendation	Status*	Action Official	Planned Completion Date
1	14	Update the EPA's Clean Water State Revolving Fund annual review procedures and associated guidance to add a review of state oversight practices and establish minimum standards for what practices could constitute compliance specific for the civil rights requirements.	R	Assistant Administrator for Water	10/1/2025
2	14	Determine whether steps can be implemented to incorporate confirmation of the System for Award Management website for excluded entities into either the EPA's annual review process or the state capitalization agreements, or both, to help ensure that suspended and debarred entities, including contractors and subcontractors, are not receiving Clean Water State Revolving Fund Program funding.	R	Assistant Administrator for Water	10/1/2025
3	14	Implement the Office of Water's plan to search the Federal Audit Clearinghouse annually to ensure that all Clean Water State Revolving Fund-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.	R	Assistant Administrator for Water	10/1/2025
4	16	Create and maintain an online guide that describes best practices for states to perform subrecipient monitoring of their Clean Water State Revolving Fund programs.	R	Assistant Administrator for Water	10/1/2025
5	16	Create and maintain an online guide that describes for states best practices for compliance with federal equivalency requirements in the Clean Water State Revolving Fund Program.	R	Assistant Administrator for Water	10/1/2025

\* C = Corrective action completed.  
 R = Recommendation resolved with corrective action pending.  
 U = Recommendation unresolved with resolution efforts in progress.

## Other Matter

During our audit, we made observations that did not directly address our objective but identified an opportunity for EPA action. The EPA's general terms and conditions for grants, which are updated annually and available on the [EPA's website](#), are applicable to those grants that the EPA makes directly to recipients. Since August 2023, the terms and conditions have required recipients and subrecipients of EPA grants to report in a timely manner to the EPA project officer and the EPA OIG Hotline violations of federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the relevant award. That condition also requires recipients or subrecipients of awards or subawards of \$1 million or more to display EPA OIG Hotline posters where the work of the grant is performed.

The requirements in the general grant terms and conditions are consistent with the mandatory disclosure requirement at 2 C.F.R. § 200.113 in the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, known as the Uniform Guidance. This section of the Uniform Guidance, effective October 1, 2024, states:

An applicant, recipient, or subrecipient of a Federal award must promptly disclose whenever, in connection with the Federal award (including any activities or subawards thereunder), it has credible evidence of the commission of a violation of Federal criminal law involving fraud, conflict of interest, bribery, or gratuity violations found in Title 18 of the United States Code or a violation of the civil False Claims Act.... The disclosure must be made in writing to the Federal agency, the agency's Office of Inspector General, and pass-through entity (if applicable).

As indicated in 2 C.F.R. § 200.101(b)(2), these mandatory disclosure requirements apply to CWSRF subrecipients receiving grants but not to subrecipients receiving loans. As such, a state receiving the capitalization grant from the EPA would be required to report any suspected violations to the OIG but any subrecipients of loans funded by that grant would not. In addition, the EPA advised during this audit that, while the general terms and conditions apply to all CWSRF grant subrecipients, they only apply to CWSRF loan subrecipients in certain limited circumstances. The EPA further advised that the mandatory disclosure requirement in the general terms and conditions does not flow down to CWSRF loan subrecipients.

Of the 51 state CWSRF programs, only six have provided any assistance to their CWSRF recipients as grants since 2022. This leaves most CWSRF subrecipients exempt from this mandatory disclosure requirement as most CWSRF assistance is provided in the form of loans.

The EPA's oversight of the state CWSRF programs could be enhanced if the CWSRF capitalization grant terms and conditions were revised to include a similar requirement for CWSRF loan recipients. The EPA could request that states include a provision in their CWSRF loan agreements consistent with 2 C.F.R. § 200.113. Additionally, the new provision could require recipients to display EPA OIG Hotline posters, providing information on how and where to report suspected fraud, waste, and abuse.

## Agency Response and OIG Assessment

The Office of Water provided the following response addressing the Other Matter in this Appendix:

The EPA does not believe it is appropriate to deviate from the guidance that serves as the standard for all federal loan programs by adding grant terms and conditions placing new requirements on the states and local recipients. The draft report acknowledges that the EPA's annual review process follows statutory requirements and provides reasonable assurances that the states are adequately monitoring subrecipients of funds distributed via the CWSRF program.

The Other Matter is an observation we made outside the scope of our audit. We advised the EPA that it should consider adding a provision in its CWSRF loan agreements consistent with 2 C.F.R. § 200.113 and display EPA OIG Hotline posters to report suspected fraud, waste, and abuse. However, the EPA stated that it will not deviate from its guidance. Appendix D contains the Agency's complete response to the draft report.

## Federal Requirements for Subrecipients in the CWSRF

The information in Tables B-1 through B-7 below represent an OIG summary of statutory, regulatory and other authorities applicable to CWSRF subrecipients. Additional authorities may apply.

**Table B-1: All CWSRF projects**

Requirement	Description	Statute, regulation, and other authority
<b>Title VI of the Civil Rights Act of 1964</b>	Prohibits discrimination based on race, color, or national origin.	42 U.S.C. § 2000d
<b>Section 13 of the Federal Water Pollution Control Act Amendments of 1972</b>	Prohibits discrimination based on sex.	33 U.S.C. § 1251
<b>Section 504 of the Rehabilitation Act of 1973</b>	Prohibits discrimination against persons with disabilities.	29 U.S.C. § 794
<b>The Age Discrimination Act of 1975</b>	Prohibits discrimination against any person based on their age.	42 U.S.C. § 6102
<b>Useful Life</b>	Loan terms or debt purchase terms cannot exceed 30 years but must not exceed the useful life of the project.	33 U.S.C. § 1383(d)(1)(A)

**Table B-2: Government Borrowers**

Requirement	Description	Statute, regulation, and other authority
<b>Generally Accepted Government Accounting Standards</b>	Subrecipient must maintain project accounts in accordance with generally accepted government accounting standards, including standards relating to the reporting of infrastructure assets.	33 U.S.C. § 1382(b)(9)
<b>Project Cost and Effectiveness</b>	Requires that the recipient evaluate the cost and effectiveness for a project and select a project that maximizes the potential for efficient water use, reuse, recapture, and conservation.	33 U.S.C. § 1382(b)(13)

**Table B-3: Treatment Works Projects**

Requirement	Description	Statute, regulation, and other authority
<b>American Iron and Steel Provision</b>	Requires the use of iron and steel products that are produced in the United States.	33 U.S.C. § 1388
<b>Davis-Bacon and Related Acts</b>	Requires that all contractors and subcontractors pay their laborers and mechanics not less than the prevailing wage and fringe benefits for the geographic location.	33 U.S.C. § 1382(b)(6)
<b>Environmental Review</b>	Mandates that states do environmental impact reviews of projects receiving federal assistance.	33 U.S.C. § 1382(b)(6)
<b>Fiscal Sustainability Plans</b>	Requires CWSRF loan recipients to develop and implement a fiscal sustainability plan.	33 U.S.C. § 1383(d)(1)(E)

**Table B-4: Equivalency Projects**

Requirement	Description	Statute, regulation, and other authority
<b>Architecture and engineering contract procurement</b>	Projects for architecture and engineering, or related services, carried out using funds directly made available by a capitalization grant must be negotiated in the same manner as similar contracts under 40 U.S.C. chapter 11.	33 U.S.C. § 1382(b)(14)
<b>Build America, Buy America Act</b>	Requires that federal funds for infrastructure may not be obligated unless all of the project’s iron, steel, manufactured products, and construction materials are manufactured in the U.S.	Pub. L. No. 117-58, §§ 70911–70917
<b>Equal Employment Opportunity</b>	Requires nondiscrimination and affirmative action provisions in all federally assisted construction contracts.	Executive Order No. 11246
<b>Federal Funding Accountability and Transparency Act of 2006</b>	Recipients of federal funding must report certain recipient and subrecipient information into a single searchable website, accessible by the public at no cost.	Pub. L. No. 109-282
<b>Participation by Disadvantaged Business Enterprises in U.S. EPA Programs</b>	Ensures borrowers and their contractors seek out and use disadvantaged business enterprise entities when possible while procuring services, equipment, supplies, and construction on SRF-funded projects by requiring a term and condition in loan agreements.	42 U.S.C. § 4370d 40 C.F.R. part 33
<b>Prohibition on Certain Telecommunications and Video Surveillance Equipment or Services</b>	Prohibits use of telecommunications and video surveillance equipment or services from certain foreign companies.	2 C.F.R. § 200.216
<b>Signage Requirements</b>	EPA policy memorandums provide that SRF capitalization grants must include terms and conditions that require signage to raise public awareness about federal funding for CWSRF projects. Effective November 2022 through December 2024, there was a separate IJA signage requirement that required a physical sign at construction sites displaying the <i>Building a Better America</i> emblem.	<a href="#"><i>Enhancing Public Awareness of SRF Assistance Agreements (2015)</i></a>
<b>Single Audit Act</b>	Requires nonfederal entities, including subrecipients, that expend more than \$1 million in federal funds in a financial reporting period to have an audit.	31 U.S.C. chapter 75 2 C.F.R. part 200 subpart F

**Table B-5: Equivalency Projects—Environmental Crosscutters**

Requirement	Description	Statute, regulation, and other authority
<b>Archaeological and Historic Preservation Act</b>	When archaeological and other discoveries are made during a federal project, the SRF agency must determine the significance of the discovery and identify mitigation measures if necessary.	54 U.S.C. § 312502
<b>Clean Air Act Conformity</b>	Projects must be in conformance with a state implementation plan on attaining, maintaining, and enforcing EPA air quality standards pursuant to the Clean Air Act.	42 U.S.C. § 7506(c)
<b>Coastal Barrier Resources Act</b>	Per EPA, CWSRF recipients must determine whether a proposed project will affect the Coastal Barrier Resources System and adjacent wetlands, marshes, estuaries, inlets, and near-shore waters as well as the shores of the Great Lakes and document any mitigating measures to be taken to not affect the coastal area.	16 U.S.C. § 3504(a)
<b>Coastal Zone Management Act of 1972</b>	A determination must be made for federally supported projects that the project is consistent with any coastal zone management plan.	16 U.S.C. § 1456(c)

<b>Endangered Species Act</b>	CWSRF recipients must consider risks to endangered and threatened species or to the designated critical habitat on which they depend and submit alternative or modified project plans if necessary.	16 U.S.C. § 1536(a)
<b>Farmland Protection Policy Act</b>	CWSRF recipients must determine whether proposed projects will impact farmland and identify mitigation measures to reduce potential adverse effects.	7 U.S.C. § 4202(b)
<b>Floodplain Management</b>	CWSRF recipients must determine whether proposed projects will be located in or affect a flood plain and, if so, prepare an assessment identifying mitigating measures to reduce any threats from the project.	Executive Order No. 11988, as amended by Executive Order No. 13690
<b>Magnuson-Stevens Fishery Conservation and Management Act</b>	Manages and conserves national fishery resources; requires consultations for a CWSRF project that may adversely affect essential fish habitats.	16 U.S.C. § 1801
<b>National Historic Preservation Act</b>	Historic sites that may be impacted by federally funded projects must be identified to determine whether a project might have adverse impacts and, if so, what steps can be taken to avoid, minimize, or mitigate them.	Pub. L. No. 89-665, as amended by Pub. L. No. 96-515
<b>Native American Graves Protection and Repatriation Act</b>	Recognizes the rights of lineal descendants, Indian tribes, and Native Hawaiian organizations to Native American human remains, funerary objects, sacred objects, and objects of cultural patrimony.	25 U.S.C. §§ 3001–3013
<b>Sole Source Aquifer</b>	If a federally funded project could affect ground water supplies from a sole source aquifer, the recipient must select an alternative site or implement adequate mitigating remedies.	42 U.S.C. § 300h–3e
<b>Wetlands Protection</b>	Directs federal agencies to avoid undertaking or providing assistance for new construction located in wetlands unless the agency head finds there is no practicable alternative and there are measures in place to minimize harm.	Executive Order No. 11990, as amended by Executive Order No. 12608
<b>Wild and Scenic Rivers Act</b>	Prohibits federal assistance for water resource projects having direct and adverse impacts on, or unreasonably diminishing, the special values of a designated wild and scenic river.	16 U.S.C. § 1278(a)

**Table B-6: Equivalency Projects—Social, Economic, Misc. Crosscutters**

<b>Requirement</b>	<b>Description</b>	<b>Statute, regulation, and other authority</b>
<b>Prohibition procurement for Clean Water Act and Clean Air Act convictions</b>	Prohibits federal agencies from entering into a contract for materials, goods, or services with those who have been convicted of violating the Clean Water Act or Clean Air Act.	33 U.S.C. § 1368, 42 U.S.C. § 7606, Executive Order No. 11738
<b>Suspension and Debarment</b>	Excludes certain individuals and entities from participation in federal assistance programs.	Executive Order 12549 2 C.F.R. part 180 2 C.F.R. part 1532
<b>Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970</b>	Provides for fair, consistent, and equitable treatment of people displaced from their dwellings as a direct result of federal or federally assisted programs.	42 U.S.C §§ 4601–4655 49 C.F.R. part 24, as applicable by 40 C.F.R. § 4.1

**Table B-7: CWSRF Projects Receiving Grant Assistance**

Requirement	Description	Statute, regulation, and other authority
<b>Uniform Guidance</b>	Establishes uniform administrative requirements, cost principles, and audit requirements for federal awards to nonfederal entities. Entities receiving additional subsidy in the form of grants and state programs providing the grants must comply with the subaward procurement requirements and subaward monitoring requirements.	2 C.F.R. part 200

Source: OIG summary of 2 C.F.R. part 200. (EPA OIG table)

## State Program Highlights

### Rhode Island



The Rhode Island CWSRF is co-administered by the Rhode Island Infrastructure Bank, or [RIIB](#), and Rhode Island Department of Environmental Management, or [RIDEM](#).

The Community Septic System Loan Program in Rhode Island is an example of the flexibilities within the CWSRF program that can help meet local needs. Half of the state's communities do not have public wastewater systems, and the loan program allows communities without wastewater treatment facilities to access CWSRF funds. The loan program is managed by RIIB in cooperation with RIDEM and Rhode Island Housing, the homeowner loan administrator on behalf of the communities. Communities access the loan program after completing a RIDEM-approved onsite wastewater management plan. The plan is placed on RIDEM's project priority list and the community applies for a loan from RIIB to allow homeowners to repair or replace failing or substandard septic systems. The borrowing cost for the homeowner is 1 percent of the outstanding loan balance annually for a term of up to ten years. The program therefore helps make needed water quality improvements more affordable for homeowners, demonstrating the flexibilities the CWSRF Program affords the states and assists in meeting local water infrastructure needs within constraints particular to their communities.

### Iowa



In Iowa, the [CWSRF program](#) is co-administered by the Iowa Department of Natural Resources, or DNR and the Iowa Finance Authority, or IFA.

Iowa is utilizing the flexibilities of the CWSRF Program to help address its water and wastewater challenges by developing various programs to address nonpoint source pollution, which can include runoff from fields, livestock facilities, city streets, lawns, or construction sites. According to state program officials, Iowa's approved Nonpoint Source Management Plan states that most pollution in Iowa's waterways comes from nonpoint sources. The Iowa CWSRF Nonpoint Programs, together with the state's Nonpoint Source Management Plan and the Iowa Nutrient Reduction Strategy, offer nonregulatory programs that provide guidance and incentives for voluntary adoption of Best Management Practices across the Iowa landscape. One example of how Iowa is using the CWSRF Program to address this is the Livestock Water Quality Facilities Program, which is available for projects to address pollution of Iowa's rivers and streams from existing animal feeding operations with a capacity of less than 1,000 animal units. Eligible projects include manure management plans and structures, roofed storage structures, lagoons, and vegetative filters. According to state program officials, not all states address nonpoint source pollution with SRF funding. Iowa's program gives the state's farmers, livestock producers, homeowners, cities, nonprofit organizations, and watershed organizations opportunities to obtain program financing to address nonpoint source pollution.

### Kentucky



The Kentucky Infrastructure Authority, or [KIA](#), is the responsible agency for the CWSRF program in Kentucky. KIA and the Division of Water administer daily program activities via a memorandum of agreement.

Kentucky designed its own Water Resource Information System, or WRIS, and has been improving it since its inception in 1997. According to state program officials, WRIS is the first geographic information system in the nation to inventory water and sewer service providers on a statewide basis. WRIS and the WRIS portal, a web application designed to bring together information from various sources and display it in one easy-to-use format, incorporates an electronic application process for CWSRF borrowers. Kentucky has integrated into WRIS the SRF call for projects, project ranking, and project tracking. And the built-in geographic information system provides fundamental data the WRIS portal needs, including water resources, drinking water systems, wastewater treatment systems, project development, emergency response, regulations, and planning. Three WRIS funding dashboards were added in 2019 and use technology that plots data on a map to help illustrate Kentucky's water and wastewater infrastructure funding needs for the next 20 years. The dashboards are linked directly to project profiles in the WRIS portal and update in real time.

## Agency Response to the Draft Report



### OFFICE OF WATER

WASHINGTON, D.C. 20460

April 18, 2025

#### MEMORANDUM

**SUBJECT:** Response to the Office of Inspector General Draft Report: *Audit of the EPA's Oversight of State Subrecipient Monitoring in the Clean Water State Revolving Fund Program*, Project No. OA-FY24-0057, March 10, 2025

**FROM:** Peggy S. Browne, Acting Assistant Administrator Browne,  
Peggy

**TO:** Nicole N. Murley, Acting Inspector General  
Office of Inspector General

Digitally signed by  
Browne, Peggy  
Date: 2025.04.18  
13:25:00 -04'00'

Thank you for the opportunity to review and respond to the Office of Inspector General's draft report titled, *Audit of the EPA's Oversight of State Subrecipient Monitoring in the Clean Water State Revolving Fund Program*, Project No. OA-FY24-0057, dated March 10, 2025. The following is a summary of the U.S. Environmental Protection Agency's overall position, followed by its position on the draft report's recommendations.

#### **AGENCY'S OVERALL POSITION**

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 Program, including Infrastructure Investment and Jobs Act funds. While the Office of the Inspector General found that the annual review procedures for nondiscrimination laws, suspension and debarment, and single audit requirements follow statutory requirements, they also highlighted opportunities for the EPA to improve its oversight practices in the annual review steps devoted to subrecipient monitoring activities in these areas.

The EPA provides CWSRF Program guidance through various trainings, documents, and ongoing communications that supports the states in monitoring the subrecipients in their state CWSRF programs, including the three reviewed by the Office of Inspector General—Rhode Island, Kentucky, and Iowa. In addition to these actions, the Office of the Inspector General recommends that the EPA 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 towards helping equivalency subrecipients comply with the Clean Water Act, CWSRF Program regulations, and EPA guidelines.

The EPA has no technical comments and agrees with the recommendations provided in the draft report. However, the Office of the Inspector General also included the following suggestion under the Appendix A Other Matter section of the draft report that the EPA wants to address.

*The EPA's oversight of the states CWSRF programs could be enhanced if the CWSRF capitalization grant terms and conditions were revised to include a similar requirement for CWSRF loan recipients. The EPA could request that states include a provision in their CWSRF loan agreements consistent with 2 C.F.R. § 200.113. Additionally, the new provision could require recipients to display EPA OIG Hotline posters, providing information on how and where to report suspected fraud, waste, and abuse.*

The EPA does not believe it is appropriate to deviate from the guidance that serves as the standard for all federal loan programs by adding grant terms and conditions placing new requirements on the states and local recipients. The draft report acknowledges that the EPA's annual review process follows statutory requirements and provides reasonable assurances that the states are adequately monitoring subrecipients of funds distributed via the CWSRF Program.

## **AGENCY RESPONSE TO RECOMMENDATIONS**

OIG Recommendation 1: Update the EPA's Clean Water State Revolving Fund annual review procedures and associated guidance to add a review of state oversight practices and establish minimum standards for what practices could constitute compliance specific for the civil rights requirements.

**EPA Response to Recommendation 1:** Agree

**Proposed Corrective Actions:** The EPA updated the 2024 Annual Review Guidance and checklist to explicitly cover all civil rights requirements. As part of the development of the 2025 Annual Review Guidance, we will work with the regions to review all relevant EPA guidance and executive orders to determine if further modifications should be made. **Estimated Date of Completion:** October 1, 2025.

OIG Recommendation 2: Determine whether steps can be implemented to incorporate confirmation of the System for Award Management website for excluded entities into either the EPA's annual review process or the state capitalization agreements, or both, to help ensure that suspended and debarred entities, including contractors and subcontractors, are not receiving Clean Water State Revolving Fund Program funding.

**EPA Response to Recommendation 2:** Agree

**Proposed Corrective Actions:** The EPA will explore and update the annual review process, as practical, to better incorporate the System for Award Management website for excluded entities to help ensure that suspended and debarred entities are not receiving Clean Water State Revolving Fund Program funding. This will include working with the Office of Grants and Debarment to identify potential ways they can assist the annual review process.

The EPA will also review and update our trainings to further emphasize to the states the importance of the System for Award Management website as an important tool when making CWSRF funding decisions. This will include highlighting resources that can assist the states and regions in ensuring that debarred entities do not receive CWSRF funds. **Estimated Date of Completion:** October 1, 2025.

OIG Recommendation 3: Implement the Office of Water's plan to search the Federal Audit Clearinghouse annually to ensure that all Clean Water State Revolving Fund-related findings in subrecipients' single audit reports are known to the EPA and that states are monitoring subrecipients to ensure that appropriate corrective actions have been taken with respect to audit findings.

**EPA Response to Recommendation 3: Agree**

**Proposed Corrective Actions:** Consistent with the “Clarification of Single Audit Requirements Under the Clean Water and Drinking Water State Revolving Fund Programs” memorandum dated July 13, 2023, we will implement the plan to search the federal audit clearinghouse annually to ensure that all Clean Water State Revolving Fund-related findings in subrecipients’ single audit reports are known to the EPA and are being followed up on by the states. This will be completed by October 1, 2025, and continue as an ongoing practice in the future. **Estimated Date of Completion:** October 1, 2025.

OIG Recommendation 4: Create and maintain an online guide that describes best practices for states to perform subrecipient monitoring of their Clean Water State Revolving Fund programs.

**EPA Response to Recommendation 4: Agree**

**Proposed Corrective Actions:** The EPA currently maintains a detailed SharePoint site that describes best practices for subrecipient monitoring. The EPA will make these resources available through our public website. As needed, we will further update/enhance this website in response to suggestions provided by the states and our Office of General Counsel. **Estimated Date of Completion:** October 1, 2025.

OIG Recommendation 5: Create and maintain an online guide that describes for states best practices for compliance with federal equivalency requirements in the Clean Water State Revolving Fund Program.

**EPA Response to Recommendation 5: Agree**

**Proposed Corrective Actions:** The EPA will post our Equivalency Handbook on our public website. As needed, the EPA will further update this handbook in response to suggestions provided by the states and our Office of General Counsel. **Estimated Date of Completion:** October 1, 2025.

**CONTACT INFORMATION** If you have any questions regarding this response or the technical comments, please have your staff contact the Office of Water’s Audit Follow-Up Coordinator, Carla Hagerman, at Hagerman.Carla@epa.gov.

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