

Evaluation of the South Carolina Clean Water State Revolving Fund Program's Capacity to Manage Infrastructure Investment and Jobs Act Funding

June 11, 2025 | Report No. 25-E-0035



This Report Is Part of an Oversight Series

The IIJA allocated \$11.7 billion over five years for the CWSRF Program, a federal-state partnership that provides low-cost financing to communities for water infrastructure projects. This represents an unprecedented investment in a program that received an average of \$1.6 billion annually in the five years before the IIJA was passed.

It is important that the EPA understands the capacity of states to administer and manage this significant increase in funds. To that end, the EPA OIG initiated a limited series of three CWSRF capacity reviews of U.S. states and territories, with the goal of identifying both state-specific and overarching risks and challenges. This is the second of three reports in the series.

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Abbreviations

C.F.R.	Code of Federal Regulations
CWA	Clean Water Act
CWSRF	Clean Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
GAO	U.S. Government Accountability Office
IIJA	Infrastructure Investment and Jobs Act
OIG	Office of Inspector General
Pub. L.	Public Law
RIA	Rural Infrastructure Authority
SCDES	South Carolina Department of Environmental Services
SRF	State Revolving Fund
U.S.C.	United States Code

Cover Image

Demolition of drying beds at the Clinton-Joanna Wastewater Treatment Plant in Joanna, South Carolina.
(EPA OIG image)

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At a Glance

Evaluation of the South Carolina Clean Water State Revolving Fund Program's Capacity to Manage Infrastructure Investment and Jobs Act Funding

Why We Did This Evaluation

To accomplish this objective:

The U.S. Environmental Protection Agency Office of Inspector General conducted this evaluation to determine South Carolina's capacity to manage and use Infrastructure Investment and Jobs Act funds for its Clean Water State Revolving Fund program.

The EPA awards federal funds to the State of South Carolina to administer its Clean Water State Revolving Fund for local water-infrastructure improvement projects. Grantees should meet four dimensions of capacity to manage and use funds: financial, organizational, stakeholder, and human capital. Challenges in any of these four dimensions can adversely impact a grantee's capacity to effectively manage and implement federal grants.

South Carolina is part of EPA Region 4.

To support this EPA mission-related effort:

- *Ensuring clean and safe water.*

Address inquiries to our public affairs office at (202) 566-2391 or OIG.PublicAffairs@epa.gov.

[List of OIG reports.](#)

What We Found

South Carolina's Clean Water State Revolving Fund, or CWSRF, program sufficiently meets two of the four dimensions of capacity: financial and organizational. The state has demonstrated that it has the financial resources to sustain and implement its CWSRF program. Also, South Carolina has made organizational changes to improve its capacity to use its CWSRF Infrastructure Investment and Jobs Act funding. For example, it created an outreach coordinator position to help market the state's CWSRF program and educate communities, water systems, and potential program participants on available funding.

However, South Carolina faces challenges related to stakeholder and human capital capacity. In terms of stakeholder capacity, some South Carolina communities may be unable to participate in the CWSRF program because they cannot meet the state's financial audit requirements because of limited resources. Also, increased federal requirements for infrastructure projects, such as the Build America, Buy America Act, and a lack of awareness or understanding of the state CWSRF program may hinder stakeholder participation. In terms of human capital capacity, despite the creation of the outreach coordinator position, South Carolina CWSRF program staff still expressed concerns related to staffing levels. Furthermore, program staff said that their ability to learn more about the federal CWSRF Program is limited, and they expressed a desire for more training.

As a result of these capacity challenges, South Carolina is not using its CWSRF Infrastructure Investment and Jobs Act funding as effectively as it could, and some of its CWSRF financial indicators lag national averages. For example, the number of CWSRF loans the state executed, which is referred to as its pace rate, was 12 percent below the national average in both state fiscal year 2021 and state fiscal year 2022. Also notable is that at the end of state fiscal year 2023, South Carolina had an uncommitted funds balance of \$209 million in its CWSRF. The large influx of CWSRF Infrastructure Investment and Jobs Act funds, which totaled \$62.9 million from fiscal year 2022 through fiscal year 2024, with additional IIJA funding future allotments planned through fiscal year 2026, may exacerbate the South Carolina CWSRF program's financial difficulties.

If South Carolina does not take steps to address its stakeholder and human capital capacity challenges, millions of Infrastructure Investment and Jobs Act dollars intended for water infrastructure improvements may not reach the state's communities.

Recommendations and Planned Agency Corrective Actions

We make four recommendations to the regional administrator for Region 4: (1) encourage the South Carolina CWSRF program to identify potential program participants that are unable to meet financial statement audit requirements; (2) implement a plan to assist the South Carolina CWSRF program in conducting outreach and providing technical assistance to those participants identified as a result of Recommendation 1; (3) assist the South Carolina CWSRF program in increasing its pace rate and decreasing its uncommitted funds balance; and (4) provide annual training to South Carolina CWSRF program staff. The EPA agreed with our recommendations. We consider the first three recommendations resolved with corrective actions pending. The fourth recommendation is unresolved.



OFFICE OF INSPECTOR GENERAL
U.S. ENVIRONMENTAL PROTECTION AGENCY

June 11, 2025

MEMORANDUM

SUBJECT: Evaluation of the South Carolina Clean Water State Revolving Fund Program's Capacity to Manage Infrastructure Investment and Jobs Act Funding
Report No. 25-E-0035

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

TO: Kevin J. McOmber, P.E., Regional Administrator
Region 4

This is our report on the subject evaluation conducted by the U.S. Environmental Protection Agency Office of Inspector General. The project number for this evaluation was OSRE-FY24-0043. 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.

Region 4 is responsible for the issues discussed in this report.

In accordance with EPA Manual 2750, your office provided acceptable planned corrective actions and estimated milestone dates for Recommendations 1, 2, and 3. These recommendations are resolved. A final response pertaining to these recommendations is not required; however, if you submit a response, it will be posted on the OIG's website, along with our memorandum commenting on your response.

Action Required

Recommendation 4 is unresolved. EPA Manual 2750 requires that recommendations be resolved promptly. Therefore, we request that the EPA provide us within 60 days its response concerning specific actions in process or alternative corrective actions proposed on the recommendation. Your response 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.

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Chapter 1

Introduction

Purpose

The U.S. Environmental Protection Agency Office of Inspector General initiated this evaluation to determine South Carolina’s capacity to manage and use its Infrastructure Investment and Jobs Act, or IIJA, funding for its Clean Water State Revolving Fund, or CWSRF, program. The scope of this evaluation includes four dimensions of capacity: financial, organizational, stakeholder, and human capital.

Background

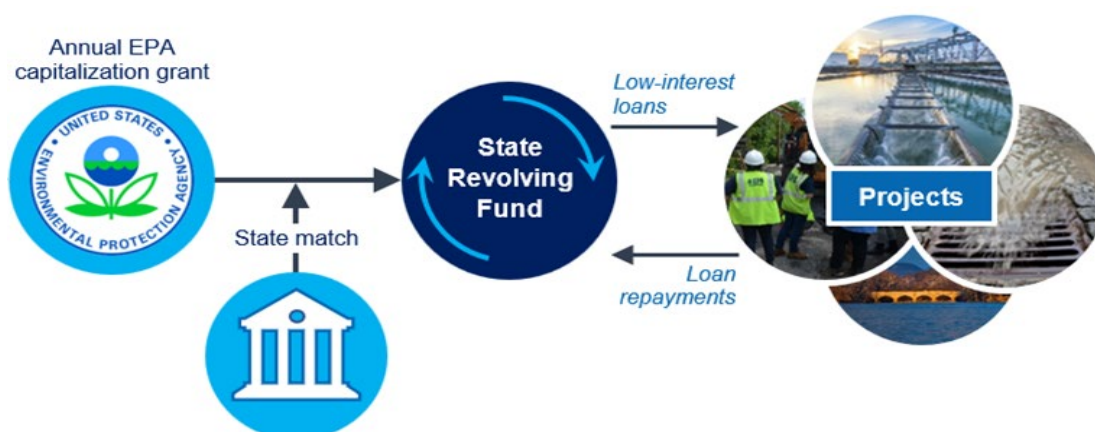
The Clean Water State Revolving Fund Program

The EPA is responsible for administering the CWSRF Program, which is a federal-state partnership that provides low-interest loans and other low-cost financing to communities for a wide range of water infrastructure projects. The CWSRF Program was created by the 1987 amendments to the Clean Water Act, or CWA, as a financial assistance program. The EPA makes CWSRF capitalization grants available to all 50 states and Puerto Rico from funding appropriated by Congress,¹ which includes annual appropriations as well as a significant influx of supplemental appropriations from the IIJA. The CWA mandates that each state also use its own funds to deposit an amount equal to at least 20 percent of the federal grant into the revolving fund. These funds are referred to as the state match.

According to the EPA’s *SRF Fund Management Handbook*, issued March 2018, a state revolving fund, or SRF, has two primary goals: (1) to achieve the greatest environmental and public health results by improving water quality with SRF funds and (2) to ensure that states use their SRF funding efficiently and maintain funding in perpetuity. Each state uses its CWSRF to provide low-interest loans to eligible recipients to fund water infrastructure projects. As funds are repaid, the state makes new loans to other recipients for other high-priority water quality activities; in other words, repayments of loan principal and interest are used to finance new projects, allowing the funds to “revolve” at the state level over time. Each state is responsible for operating its own CWSRF program and providing various types of financial assistance, including offering loans; refinancing, purchasing, or guaranteeing local debt; and purchasing bond insurance. Figure 1 illustrates the flow of funds through the state CWSRF programs.

¹ For simplicity, our use of “states” in this report encompasses Puerto Rico. The CWSRF Program also provides direct grant funding for the District of Columbia and other U.S. territories.

Figure 1: General steps in awarding state capitalization grants



Source: OIG summary of the SRF process. (EPA OIG image)

States have the authority to set specific loan terms, including an interest rate that can be from 0 percent to the market rate and a financing term that can be for the useful life of the project or up to 30 years, whichever is less. As provided in the CWA at 33 U.S.C. § 1383(i), states may provide additional subsidization to assist communities that meet state-established affordability criteria or to incentivize certain types of projects. If the annual CWSRF appropriation to all states combined is greater than \$1 billion, the CWA authorizes CWSRF programs to provide further financial assistance through yet more subsidization. In accordance with the additional subsidization provisions at 33 U.S.C. § 1383(i), states must provide 10 percent, to the extent that there are sufficient applications, but may not exceed 30 percent of their annual capitalization grant as subsidy.² Additional subsidization methods may include grants, principal forgiveness, and negative interest rate loans.

As a part of the annual application process for CWSRF grants, states must prepare an intended use plan, provide opportunity for public comment on the plan, and then submit the plan to the EPA. The intended use plan must include a project priority list, long- and short-term CWSRF program goals, activities the state will support by the proposed projects, assurances, specific proposals for meeting the applicable CWA statutory requirements consistent with 33 U.S.C. § 1386(c)(4),³ and the criteria and method for distributing funds.

There are 11 types of projects eligible to receive CWSRF assistance: (1) construction of publicly owned treatment works; (2) nonpoint source pollution management; (3) national estuary program projects; (4) construction, repair, and replacement of decentralized wastewater treatment systems; (5) stormwater management; (6) water conservation, efficiency, and reuse; (7) watershed pilot projects;

² Recent annual appropriations have included separate subsidy amounts in addition to those provided at 33 U.S.C. § 1383(i).

³ These requirements are at 33 U.S.C. § 1382(b)(3-6) and include providing assistance in the amount equal to 120 percent of capitalization grants one year after receiving a grant payment, expending funds in an expeditious and timely manner, using funds first to assure maintenance of progress toward compliance with enforceable deadlines and requirements, and ensuring that all treatment plants will be constructed in compliance with applicable statutory requirements.

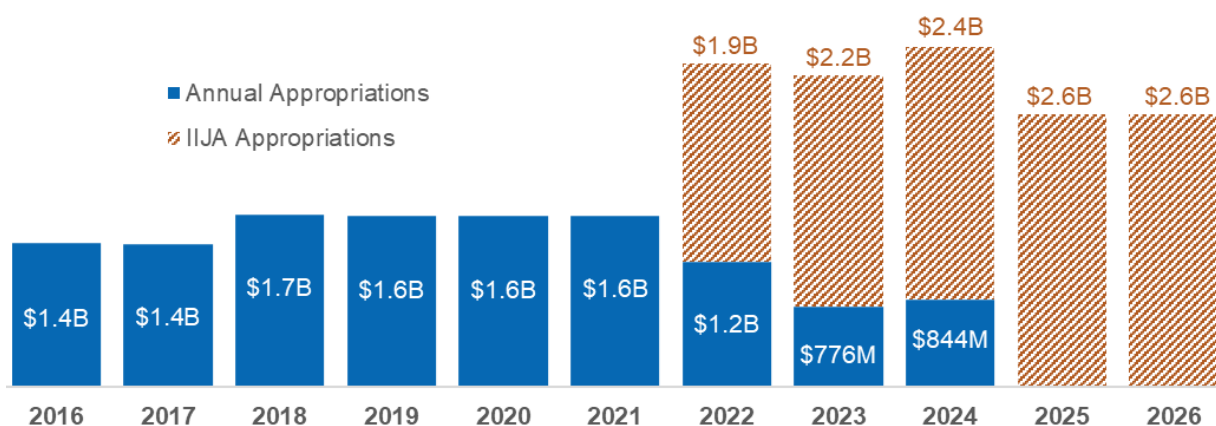
(8) energy efficiency; (9) water reuse projects; (10) security measures at publicly owned treatment works; and (11) technical assistance.

The CWA at 33 U.S.C. § 1386(e) requires the EPA to annually review the state intended use plans and the annual reports that the states submit to the EPA to ensure their compliance with the federal CWSRF Program. Similarly, 40 C.F.R. § 35.3165(c) requires each EPA regional administrator to annually assess the success of state CWSRF programs under their purview and to determine compliance with the terms of the annual capitalization grant agreement.⁴

IIJA Funding to the CWSRF Program

Enacted on November 15, 2021, the IIJA provides the EPA with approximately \$50 billion to strengthen the nation's drinking water and wastewater systems. It is the largest single investment that the federal government has ever made in clean water infrastructure. Of this, the CWSRF Program will receive over \$11.7 billion for water infrastructure projects to administer to the states from fiscal year, or FY, 2022 through 2026; this funding is available until it is expended. This appropriation will be in addition to the CWSRF Program's annual appropriations from Congress, as shown in Figure 2.

Figure 2: Total CWSRF Program appropriations, FY 2016–FY 2026



Notes: All dollar amounts are rounded and expressed in billions, except for the annual appropriations for 2023 and 2024, which are expressed in millions. Funding levels for annual appropriations for FY 2025 through 2026 are not included because they had not been appropriated at the time of our draft report issuance, which was on March 12, 2025. The figure also does not include community project funding or congressionally directed spending items, commonly referred to as earmarks, for FYs 2022 through 2024. In addition, the IIJA appropriations amounts exclude the \$1 billion provided to the CWSRF Program specifically to address emerging contaminants.

Source: OIG summary of CWSRF annual and IIJA appropriations. (EPA OIG image)

The CWA at 33 U.S.C. § 1384 requires the EPA to use an allotment formula to distribute CWSRF funding to state programs. The EPA is distributing IIJA appropriations using the same formula. As seen in Figure 2, Congress has appropriated IIJA funds through FY 2026. The EPA publishes its annual allotments for states each fiscal year, so the funding amounts that South Carolina will receive in FY 2025 and

⁴ The EPA has a regional administrator in each of its [ten regional offices](#). Each regional administrator is responsible for the execution of the EPA's programs within several states and territories.

FY 2026 were not available at the time we issued our draft report. Figure 3 shows South Carolina’s annual allotments from FY 2016 through 2024 and its IIJA allotments for FY 2022 through 2024.

Figure 3: South Carolina’s CWSRF allotments, FY 2016–FY 2024



Notes: All dollar amounts are rounded and expressed in millions. Amounts exclude funding pursuant to 33 U.S.C. § 1384(b) to conduct applicable water quality planning requirements. The IIJA allotment amounts also exclude the CWSRF funding provided specifically to address emerging contaminants.

Source: OIG summary of South Carolina CWSRF annual and IIJA allotments. (EPA OIG image)

The IIJA amended the CWA at 33 U.S.C. § 1383(k) to allow a state to use 2 percent of its annual CWSRF funds to provide technical assistance to rural, small, and tribal publicly owned treatment works. According to the EPA’s March 8, 2022 SRF IIJA implementation memorandum,⁵ this newly available technical assistance will allow states to devote funds to “enhance or build programs that proactively identify, reach out to, and provide assistance to rural, small, and tribal publicly owned treatment works.” The IIJA implementation memorandum also recommended that the states effectively administer their CWSRFs to meet IIJA priorities by simplifying and streamlining their application processes; using set-asides and technical assistance for preconstruction project planning; encouraging projects with integrated, regional approaches; and increasing outreach and communication about SRF programs and IIJA funding.

⁵ EPA, Implementation of the Clean Water and Drinking Water Revolving Fund Provisions of the Bipartisan Infrastructure Law (2022).

CWSRF Grantee Capacity to Manage and Use Funds

As the recipient of federal CWSRF funding, the state CWSRF programs are grantees of the CWSRF Program. And because of the IJIA's historic investment in the CWSRFs, it is essential that these grantees have the capacity to manage and use a significant increase in funds. The U.S. Government Accountability Office, or GAO, has recognized that grantee capacity is a key issue in grants management that affects program success. Capacity impacts a grantee's ability to maintain appropriate resources and to effectively manage those resources. The GAO defines capacity across the following four dimensions:⁶

- Financial capacity: the extent to which an organization has sufficient financial resources to administer or implement the grant.
- Organizational capacity: the degree of preparedness for grants management and implementation, including having appropriate leadership, management, and structure to implement the program efficiently and effectively and to adapt to changing conditions.
- Stakeholder capacity: the extent to which an organization has sufficient support from its stakeholders.
- Human capital capacity: the extent to which an organization has sufficient staff, knowledge, and technical skills to effectively meet its program goals.

The EPA also acknowledges the importance of grantee capacity. The *EPA Regional Capacity Development Coordinator's Handbook*, dated May 2020, recognizes that in the context of Drinking Water SRFs, "[c]apacity development implies a process and not static endpoint." Further, the Safe Drinking Water Act sections 1420(a)(c) and 1452(a)(3) set capacity development requirements for Drinking Water SRF grantees.⁷ It requires each Drinking Water SRF program to ensure that recipients of Drinking Water SRF loans have the technical, managerial, and financial capacity to meet national drinking water regulations. While CWSRF programs do not have capacity development requirements codified like the Drinking Water SRF programs do, the EPA's *SRF Fund Management Handbook* notes that many CWSRF programs conduct technical, managerial, and financial capacity reviews.

Additional federal regulations also set requirements for grantees, including requirements that help ensure grantee capacity. "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," or 2 C.F.R. part 200, establishes the governmentwide framework for grants management. These regulations reduce administrative burdens, guard against the risk of waste or misuse, and require recipients to comply with all requirements of the federal award.

⁶ In [GAO-15-295](#), *Race to the Top: Education Could Better Support Grantees and Help Them Address Capacity Challenges*, issued April 13, 2015, the GAO defines capacity as the ability to successfully support, oversee, and implement reform efforts across financial, organizational, human capital, and stakeholder capacity dimensions.

⁷ The capacity development requirements of the Safe Drinking Water Act are codified at 42 U.S.C. § 300g-9.

South Carolina CWSRF Program Administration

The South Carolina Department of Health and Environmental Control and the South Carolina Rural Infrastructure Authority, or RIA, collaboratively managed the state CWSRF program through June 30, 2024. The Department of Health and Environmental Control managed the technical and programmatic functions, while the RIA managed the financial functions.

On July 1, 2024, the Department of Health and Environmental Control became two separate agencies: the South Carolina Department of Environmental Services, or SCDES, and the South Carolina Department of Public Health. While the RIA continues supporting the financial functions of the South Carolina CWSRF program, the SCDES has assumed the environmental-related functions of the former Department of Health and Environmental Control, as well as the functions of the Water Resources Division formerly assigned to the South Carolina Department of Natural Resources. The SCDES is thus now responsible for implementing the state CWSRF program in collaboration with the RIA.⁸ As such, SCDES staff are responsible for conducting research, marketing to potential loan applicants, reviewing CWSRF applications, ensuring that loans and grants are appropriately disbursed to recipients, and performing technical reviews and oversight of the CWSRF projects.

South Carolina Is Below the National Averages for CWSRF Financial Indicators

The EPA monitors SRF financial indicators to assess the overall health of the funds for each state, spotlight risks, and help states develop strategies to mitigate risks. For an optimal approach, states must constantly balance their fund management activities against state-specific factors such as water quality and public health priorities, demand for financial assistance and competition programs, demographics and affordability, market conditions, and legislative support. As shown in Table 1, the EPA reported that, as of state FY 2022 and FY 2023, South Carolina was below the national average for two CWSRF financial indicators. For example, the number of loans the state executed, or its pace rate, was 10 percent below the national average in state FY 2023 and 12 percent below the national average in both state FY 2021 and state FY 2022. Also notable is that at the end of state FY 2023, South Carolina had an uncommitted funds balance of \$209 million in its CWSRF. Although the balance in state FY 2023 decreased by \$32 million from state FY 2022, the uncommitted balance is still large. The supplemental CWSRF IJIA funds will likely put South Carolina further behind the national average if the state does not increase the number or dollar amount of loans that it awards.

⁸ Throughout this report, we refer to staff from both the SCDES and the RIA cumulatively as “South Carolina CWSRF program staff.”

Table 1: South Carolina CWSRF financial indicators, state FYs 2023, 2022, and 2021

Financial Indicator	National average	State FY 2023	State FY 2022	State FY 2021	Difference, by year
Federal Return on Investment <i>This measures cumulative assistance as a percentage of cumulative federal outlays.</i>	300%	289%	280%	270%	(11%), (20%), (30%)
Pace Rate <i>This calculates the executed loans issued as a percentage of all funds available in the CWSRF.</i>	99%	89%	87%	87%	(10%), (12%), (12%)
Disbursement as a Percentage of Executed Loans <i>This measures the rate at which the program is disbursing funds to active CWSRF projects.</i>	88%	88%	91%	88%	0%, 3%, 0%
Uncommitted Balances <i>This is the amount of funds not allocated to projects.</i>	—	\$209 million	\$241 million	\$235 million	(\$32 million), \$6 million

Notes: Parenthetical red font indicates negative numbers. As of October 2024, the most recent national average data was from 2022, except for the pace rate, which remained the same for both 2022 and 2023. Also, there is no available national average for uncommitted balances, so the differences listed are year to year.

Sources: EPA Region 4 South Carolina CWSRF Program Evaluation Report for State FY 2023 and EPA Region 4 South Carolina CWSRF Program Evaluation Report for State FY 2022. (EPA OIG table)

Responsible Offices

The EPA Office of Water implements the CWA. Within the Office of Water, the Office of Wastewater Management is responsible for supporting the CWA by promoting effective and responsible water use, as well as wastewater treatment, disposal, and management, and by encouraging the protection and restoration of watersheds. It is also responsible for providing regulatory standards, voluntary management approaches, and financial and technical assistance to states, tribes, communities, and regulated entities to protect human health and aquatic ecosystems, reduce flooding, and protect the nation's infrastructure investment. The FY 2024 enacted budget for the Office of Wastewater Management was \$184.2 million.

The Office of Water works with the EPA's ten regional offices. Regional water divisions are responsible for performing oversight and facilitating communication with grantees while helping to build capacity to administer their CWSRF programs. The EPA Region 4 Water Division supports South Carolina's CWSRF program.

Scope and Methodology

We conducted this evaluation from January 2024 to March 2025 in accordance with the *Quality Standards for Inspection and Evaluation* published in December 2020 by the Council of the Inspectors General on Integrity and Efficiency. Those standards require that we perform the evaluation to obtain sufficient and appropriate evidence to support our findings.

The scope for this evaluation included the four dimensions of capacity: financial, organizational stakeholder, and human capital. Our scope also included South Carolina’s CWSRF IIJA funding since the enactment of the Act in November 2021. We conducted 26 interviews, including three with Region 4 staff and 23 with South Carolina CWSRF program staff. We conducted interviews virtually and in person during our site visit to the SCDES and the RIA offices in Columbia, South Carolina.

To obtain an understanding of the South Carolina CWSRF program and of the SCDES’s and the RIA’s operations, we reviewed:

- Federal and South Carolina laws and regulations.
- EPA memorandums and CWSRF guidance.
- South Carolina’s CWSRF program guidance and procedures.
- South Carolina’s oversight reports prepared by the EPA and independent public accountants, as well as South Carolina’s state FYs 2022, 2023, and 2024 CWSRF intended use plans.

During our site visit, we toured sites for three IIJA-funded projects: the Clinton-Joanna Wastewater Treatment Plant in Joanna, South Carolina; a gravity lift station in Liberty, South Carolina; and a pump lift station also in Liberty. These three projects are using South Carolina CWSRF IIJA funds to finance clean water infrastructure improvements. We toured the sites with South Carolina CWSRF program staff and with staff representing each of the projects. During the tours, we learned about the projects and photographed the sites.

Prior Reports

The first report in our series of capacity evaluations, EPA OIG Report No. [24-E-0042](#),⁹ *New Mexico’s Capacity to Effectively Manage Clean Water Infrastructure Funds Faces Challenges*, issued June 5, 2024, detailed how New Mexico has sufficient financial and organizational capacity but faces challenges regarding its stakeholder and human capital capacity, which limit its ability to effectively manage and use its CWSRF IIJA funding. The report recommended that the EPA increase grantee monitoring and provide annual training to grantee staff. The EPA agreed with our recommendations.

EPA OIG Report No. [23-N-0004](#), *American Recovery and Reinvestment Act Findings for Consideration In the Implementation of the Infrastructure Investment and Jobs Act*, issued December 7, 2022, addressed

⁹ See the inside front cover for more information on this report series.

how entities used American Recovery and Reinvestment Act funding. CWSRF programs could use the considerations outlined in this report as a guide for managing IIJA funds. The report noted that project inspections varied in frequency and that this poor oversight increased the risk of fraud, waste, abuse, and noncompliance with the Act's economic recovery goals. The report outlined that states underused available funds because of contracting delays and difficulty in implementing American Recovery and Reinvestment Act requirements.

EPA OIG Report No. [11-R-0519](#), *EPA and States Should Strengthen Oversight of Clean Water State Revolving Fund Recovery Act Projects*, issued August 24, 2011, noted the \$4 billion in funds that the CWSRF received through the American Recovery and Reinvestment Act and expressed concerns that the EPA's oversight guidance was too vague to ensure state compliance with the Act. The report recommended that the EPA supplement state inspections and provide standardized checklists on a semiannual basis. The EPA concurred with six of our recommendations but did not concur with two.

Chapter 2

South Carolina Has Sufficient Financial and Organizational Capacity to Effectively Manage and Use CWSRF IIJA Funding

South Carolina's CWSRF program sufficiently meets two of the four dimensions of capacity: financial and organizational. While some of South Carolina's CWSRF financial indicators are behind the national averages, it is not due to concerns with the state's financial or organizational capacity. Rather, South Carolina has demonstrated that it can meet state match requirements and that it has the financial resources to sustain and implement its CWSRF program by consistently meeting its state match. Employees at the SCDES and the RIA articulated that they did not anticipate any legislative barriers to making its state match in the future. Moreover, South Carolina has made organizational changes to improve its capacity to use its CWSRF IIJA funding. For example, the state created an outreach coordinator position to market the CWSRF program and educate communities, water systems, and potential program participants on available funding. These actions reinforce South Carolina's sufficient organizational capacity and should increase participation in South Carolina's CWSRF program over time.

South Carolina's Financial Capacity Is Sufficient to Effectively Manage and Use CWSRF IIJA Funding

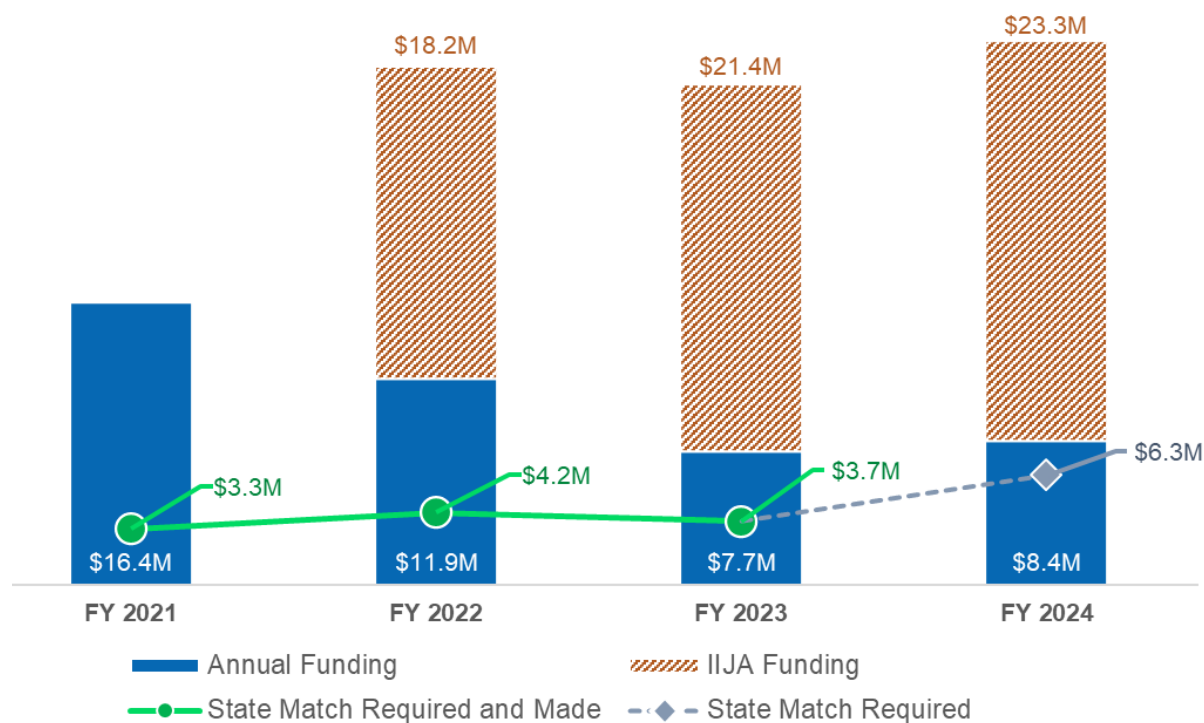
The South Carolina CWSRF program has sufficient financial resources and processes to manage and use its CWSRF IIJA funding. As discussed earlier, the GAO defines financial capacity as the extent to which an organization has sufficient financial resources to administer or implement the grant that it is receiving. In the context of the South Carolina CWSRF program, we consider this to be the state's ability to meet its financial requirements relating to the grant. This includes funding the state match and paying for administrative expenses, such as payroll and office equipment, so that core program staff and systems can perform designated tasks.

The CWA at 33 U.S.C. § 1382(b)(2) requires that the EPA enter into a capitalization agreement with a state for CWSRF funding only if the state can establish, to the EPA's satisfaction, that it will be able to deposit an amount equal to at least 20 percent of the total amount of all its CWSRF capitalization grants. The IIJA reduced the state match requirement for CWSRF IIJA funds to 10 percent for FYs 2022 and 2023. For FY 2024 through FY 2026, the state match requirement for CWSRF IIJA funds is 20 percent. The return to the 20 percent match requirement will increase the state match amount significantly. To successfully manage and use CWSRF IIJA funds, South Carolina must have the financial capacity to meet these requirements.

South Carolina has consistently met its state match requirements for both its annual and IIJA capitalization grant allotments. In FY 2022, South Carolina received approximately \$18.2 million in CWSRF IIJA funding and \$11.9 million in annual funding, which required state matches of approximately \$1.8 million and \$2.4 million respectively. In FY 2023, South Carolina received approximately

\$21.4 million in CWSRF IIJA funding and approximately \$7.7 million in annual funding, which required a state match of approximately \$2.1 million and \$1.5 million respectively. South Carolina met these required state matches for the CWSRF program using state-appropriated funds, and in both fiscal years, the RIA deposited the full state match amount in the CWSRF before South Carolina received the actual allotments. Furthermore, in the *South Carolina CWSRF Program Evaluation Report for State FY 2022*, Region 4 reported that South Carolina complied with state match requirements. Figure 4 shows South Carolina’s annual and IIJA allotments from FY 2021 through FY 2024 and the corresponding state match payments, except for FY 2024. The RIA anticipated depositing the FY 2024 state match amount into the state CWSRF upon receipt of the FY 2024 allotments at the end of federal FY 2024.

Figure 4: South Carolina CWSRF federal allotments and state match



Notes: All funding amounts are rounded and expressed in millions. Amounts exclude funding pursuant to 33 U.S.C. § 1384(b) to carry out applicable water quality planning requirements.

Source: OIG analysis of South Carolina federal awards and state match. (EPA OIG image).

CWSRF allotments for states are based on a statutory formula, so the amount of funds that South Carolina receives in its capitalization grants depends on congressional appropriations. As such, the EPA cannot alter a state’s allotment based on need or performance. As shown in Figure 4, South Carolina’s CWSRF IIJA allotment increased from \$21.4 million in FY 2023 to \$23.3 million in FY 2024. The increased allotment, combined with the increased state match requirement for CWSRF IIJA funding from 10 percent to 20 percent described earlier, resulted in a state match requirement that nearly doubled in size from FY 2021. Despite this increase, South Carolina CWSRF program staff told us that they do not anticipate any issues or concerns regarding the state’s ability to make the state match. Moreover, CWSRF program staff expressed confidence in South Carolina’s continued ability to obtain the required match funds from state appropriations over time.

In the *South Carolina CWSRF Program Evaluation Report for State FY 2022*, Region 4 said that South Carolina met the CWSRF program requirements for committing and expending funds in a timely and expeditious manner. However, both SCDES staff and Region 4 staff expressed concern over the “revolving” of the funds in the state CWSRF. SCDES staff indicated that RIA staff seem hesitant to allow repaid funds to “revolve.” However, RIA staff indicated that it was difficult to revolve funds because of its recent experience with unexpected events, such as an economic recession and the coronavirus pandemic, which led to an increase of available funds. Not revolving the funds allows the RIA to maintain a cushion of supplemental funds to mitigate any negative impact from such unexpected events. According to SCDES staff and Region 4, this strategy has contributed to a low pace of project fund distribution. The CWSRF financial indicators outlined previously in Table 1 demonstrate the effect of this perspective: South Carolina has a below average pace rate and a large balance of uncommitted funds. SCDES staff said that if funds are available, they should be allocated to projects faster to increase the pace rate. SCDES staff did not indicate concern over South Carolina’s ability to use the allotments provided annually, however.

According to the CWA at 33 U.S.C. § 1383(d)(7), states may use money from their CWSRFs for reasonable administrative costs. States have the option to use whichever of the two amounts is greatest: (1) 4 percent of all CWSRF-awarded funds or (2) \$400,000 per year for every grant or one-fifth percent of the value of the CWSRF, plus any amount of program fees collected to administer the CWSRF program. South Carolina opted to use 4 percent of its expected capitalization grants for program management, including paying staff and operational expenses, as well as providing technical assistance to potential program participants. Although South Carolina does not receive state appropriations to manage its CWSRF program, South Carolina CWSRF program staff indicated that the 4-percent option has been effective to operate the program at current staffing levels. Region 4 affirmed this by concluding in its *South Carolina CWSRF Program Evaluation Report for State FY 2022* that the South Carolina CWSRF program is in “sound financial condition.”

Both 33 U.S.C. § 1386(b) of the CWA and 40 C.F.R. § 35.3165(d) require annual audits of SRF programs. An independent public accounting firm and the South Carolina state auditor jointly issued unmodified opinions on the State of South Carolina’s basic financial statements for state fiscal years ending June 30, 2022 and 2021, which means that the financial statements were fairly presented and complied with generally accepted accounting principles. Both the former South Carolina Department of Health and Environmental Control and the RIA are included in the state’s financial statements. Further, 33 U.S.C. § 1386(e) requires the EPA to annually review all CWSRF programs, and the EPA instructs regions to prepare an annual program evaluation report to document the review. Following its state FY 2022 annual review of the South Carolina CWSRF program, Region 4 said in its *South Carolina CWSRF Program Evaluation Report for State FY 2022* that South Carolina is administering the CWSRF program in accordance with the CWA, as amended. Region 4 further reported that the South Carolina CWSRF program is following all terms, schedules, provisions, and assurances of its CWSRF intended use plans and the conditions of its CWSRF capitalization grant.

South Carolina's Organizational Capacity Is Sufficient to Effectively Manage and Use CWSRF IIJA Funding

South Carolina has the management, policies, and structure to successfully manage and use its CWSRF IIJA funding. As discussed earlier, the GAO defines organizational capacity as the degree of preparedness for grants management and implementation, including having appropriate leadership, management, and structure to implement the program and adapt it efficiently and effectively. In the context of the South Carolina CWSRF program, we considered the leadership, management, policies, and structure of the organization administering the state CWSRF program and other water infrastructure financing programs. For South Carolina, as outlined in Chapter 1, these organizations are the SCDES and the RIA.

In the *South Carolina CWSRF Program Evaluation Report for State FY 2022*, Region 4 said that South Carolina's CWSRF program as a whole operates as required by the CWA but recommended that South Carolina continue efforts to increase the program's pace rate. In response to that recommendation, the South Carolina CWSRF program has made organizational changes to improve its capacity to use its CWSRF IIJA funding. These organizational changes include establishing a contract with an external entity to offer technical assistance to potential CWSRF program participants and adjusting interest rates to attract potential CWSRF program participants. Another notable organizational change is South Carolina's creation of an outreach coordinator position that is responsible for marketing the CWSRF program; educating communities, water systems, and potential program participants on available funding; and providing technical assistance to potential program participants to help them meet South Carolina's eligibility criteria for obtaining a CWSRF loan. First staffed in 2023, this outreach coordinator works closely with South Carolina's CWSRF program managers to attract new potential program participants through direct contact and by presenting at conferences. The position also is intended to address other organizational capacity areas, such as connecting communities to the technical assistance contractor. South Carolina CWSRF program staff indicated that the outreach coordinator position aims not only to increase the state's capacity to engage communities and increase their knowledge of the CWSRF program, but it is also consistent with the state's goals to provide support for technical assistance—goals that South Carolina expressly included in its FY 2024 CWSRF intended use plan. Moreover, the position helps the state meet the EPA's expectations for technical assistance, which we described in Chapter 1 and further explain in the next paragraph.

The IIJA amended the CWA at 33 U.S.C. § 1383(k) to allow a state to use 2 percent of CWSRF funds to provide technical assistance to rural, small, and tribal publicly owned treatment works. As discussed in Chapter 1, the EPA's March 8, 2022 SRF IIJA implementation memorandum recommended that state SRF programs use these newly available technical assistance funds for outreach and assistance to rural, small, and tribal publicly owned treatment works. South Carolina CWSRF program staff said that there is an effort to speed up financing projects by increasing technical assistance to potential program participants. To do so, South Carolina's CWSRF program uses some of the CWSRF technical assistance funds to contract with the South Carolina Rural Water Association. Under this contract, the association provides direct technical assistance to rural, small, and tribal programs to increase CWSRF program participation; conducts rate studies; and provides other technical support as needed. The outreach coordinator

monitors the work the association performs under the contract. As a result of this contract, potential program participants are more likely to be eligible for the state CWSRF program, and the state CWSRF program will be more likely to successfully expend its CWSRF IJA funds balance.

Finally, the RIA's management, policies, and structure support its organizational capacity to perform financial functions for the South Carolina CWSRF program, which gives the RIA the organizational leadership and control to distribute funding for CWSRF projects. To facilitate effective use of CWSRF funding, the RIA adjusts interest rates to make the CWSRF program more attractive to potential CWSRF program participants. The RIA adjusts the CWSRF interest rates for potential loan recipients annually by discounting the prior six-month average of a bond market index rate by 40–45 percent to remain competitive with other infrastructure grant and loan programs. Accordingly, in 2022,¹⁰ the RIA lowered its interest rates based on a downward trending market. Thereafter, in 2023,¹¹ the RIA further lowered CWSRF interest rates to remain competitive amongst an influx of competing available infrastructure funds from the American Rescue Plan Act of 2021, Pub. L. No. 117-2 section 9901. Existing borrowers may have also benefited because lower bond market interest rates allowed them to refinance existing loans. However, in FY 2024,¹² the RIA raised its interest rates because of the increased interest rates in the bond market, but it still maintained competitively low rates by discounting the rate offered for the CWSRF program.

¹⁰ For FY 2022, the RIA reduced the interest rate for standard borrowers from 1.6 percent to 1.5 percent and for small system borrowers from 1.3 percent to 1.2 percent.

¹¹ For FY 2023, the RIA reduced the interest rate for standard borrowers from 1.5 percent to 1.4 percent and maintained the interest rate at 1.2 percent for small system borrowers.

¹² For FY 2024, the RIA increased interest rates for standard borrowers from 1.4 percent to 2.1 percent. The higher rate still represents a discount from the bond market rate of 3.9 percent.

Chapter 3

Several Challenges Limit South Carolina's Stakeholder and Human Capital Capacity to Manage and Use CWSRF IIJA Funding

South Carolina faces challenges related to stakeholder and human capital capacity, which limit the effectiveness of the state CWSRF program. South Carolina has financial audit requirements for CWSRF program participation that its counties and municipalities may be unable to meet because of limited resources. Increased federal requirements for infrastructure projects, such as the Build America, Buy America Act, and a lack of awareness or understanding of the state CWSRF program may also limit stakeholder participation. If South Carolina does not take steps to address these challenges, millions of IIJA dollars intended for water infrastructure improvements may not reach all potential communities in need.

Stakeholder-Related Challenges Limit South Carolina's Capacity to Effectively Use CWSRF IIJA Funding

Stakeholder-related challenges, which are mostly outside of the South Carolina CWSRF program's control, limit South Carolina's capacity to use its CWSRF IIJA funding. As discussed earlier, the GAO defines stakeholder capacity as the extent to which an organization has sufficient support from its stakeholders. In the context of the South Carolina CWSRF program, we considered stakeholders to be existing CWSRF program participants or potential program participants within the state. Existing and potential CWSRF program participants include the various entities responsible for maintaining the water infrastructure for their localities. In South Carolina, this includes municipalities, counties, and special purpose districts.

Stakeholders are a vital component of the CWSRF annual application process. To create the required project priority list for its annual intended use plan, the South Carolina CWSRF program issues an open call for applications from potential program participants. Before entering into a loan agreement with a potential participant, the South Carolina CWSRF program reviews the applications that it receives and ranks the projects based on several criteria, including estimated project cost, availability of funds, and the potential participant's indicated readiness to proceed with a project and ability to meet the state's affordability criteria. To fully distribute the CWSRF funds to communities, the state must have eligible stakeholders with eligible projects.

Several factors negatively impact South Carolina stakeholder capacity. First, many small and rural communities and those communities meeting the state-established affordability criteria requirements either have difficulty fully participating in or are ineligible to participate in the state CWSRF program because of financial statement audit requirements. South Carolina state law requires municipalities and counties to have an independent auditor perform annual financial statement audits. If a municipality or county fails to submit its annual financial statement audit within the required time frame, the state may withhold certain funding until the audit is properly submitted. South Carolina's FY 2024 intended use plan

also states that projects will not be considered for principal forgiveness if the municipality or county is delinquent with its financial statement audits. Moreover, according to South Carolina CWSRF program staff, a municipality or county must have at least two years of completed and unmodified audited financial statements to even be eligible to receive a CWSRF loan. According to South Carolina CWSRF program staff, small and rural communities and those meeting the state-established affordability criteria requirements are often unable to produce two years of financial statement audits because of limited staffing and competing priorities. In some cases, these communities require external assistance to complete these financial audits. As a result, these communities may be ineligible to participate. This limits South Carolina's pool of potential program participants that can use the state's CWSRF IJA funding.

Second, the requirements for using federal funds may dissuade stakeholders from participating in the state CWSRF program. It is important to note that the CWSRFs are funded by both federal and state dollars. Certain federal requirements are applicable to CWSRF projects regardless of the funding source. For example, the CWA's American Iron and Steel provision, which is codified at 33 U.S.C. § 1388, is a federal requirement that all CWSRF treatment works projects must comply with. Moreover, the SRF programs will also select projects that must comply with additional federal requirements; these projects are referred to as "equivalency" projects. For example, program participants that are identified as having equivalency projects must also comply with the Build America, Buy America Act during the planning and execution of their infrastructure projects as a condition of accepting CWSRF funding. CWSRF program staff have cited higher domestic material costs associated with complying with this Act unless the recipient qualifies for a waiver.

To avoid these challenges, potential program participants may choose to not participate in the CWSRF program. In addition, some potential program participants have concerns regarding the scope of waivers related to the Build America, Buy America Act. In November 2023, the EPA issued amended guidance addressing SRF program waivers for design planning for projects whose proposals were written before the Build America, Buy America Act's implementation. This amended adjustment period waiver allowed certain projects to proceed with nondomestic manufactured products and construction materials to reflect the practical realities of ongoing SRF projects. As stated in the amended guidance, the applicability of this waiver is only for projects that initiated design planning prior to May 2022 and for which funding was appropriated in either FY 2022 or 2023. South Carolina CWSRF program staff stated that this waiver ending may impact the ability of communities to finish ongoing infrastructure projects within their planned budgets.

The federal requirements—both for general projects and for equivalency projects—associated with participation in the state CWSRF program often cause potential program participants to apply to other funding sources with fewer requirements. For example, potential participants may instead apply to the South Carolina Infrastructure Investment Program, which provides grants that do not require repayment. These grants are paid for using funds from the South Carolina General Assembly through the RIA. Private bonds also allow communities to bypass federal requirements like the Build America, Buy America Act or the American Iron and Steel provision of the CWA.

Third, potential program participants may have limited awareness of South Carolina’s CWSRF program. Water systems located in small and rural communities that meet the state-established affordability criteria are often operated by limited staff. Also, many water infrastructure projects in these communities are led by mayors or other nontechnical staff who do not have engineering backgrounds and who need additional support to complete loan applications. According to South Carolina CWSRF program staff, some communities are unaware of the program and may not seek support, regardless of the technical support that is available to them. Furthermore, the individuals responsible for implementing projects in these communities may be tasked with a myriad of different roles and may lack the necessary background or time to research or apply for potential support to complete CWSRF loan applications.

As a result of its stakeholder challenges, South Carolina is not using its CWSRF IIJA funding as effectively as it could, and its CWSRF financial indicators lag national averages. Funding more projects would improve South Carolina’s pace rate, but first more stakeholders must apply and use the available CWSRF funds. As discussed in Chapter 2, the South Carolina CWSRF program hired an outreach coordinator in 2023 to help increase the program pace rate via marketing and other efforts. However, it will take time for these outreach efforts to mature and their benefits to be realized.

Training-Related Challenges Limit South Carolina’s Human Capital Capacity to Effectively Manage and Use CWSRF IIJA Funding

South Carolina faces human capital-related challenges that limit its capacity to manage and use CWSRF IIJA funding. The GAO defines human capital capacity as the extent to which an organization has sufficient staff, knowledge, and technical skills to effectively meet its program goals. In the context of the South Carolina CWSRF program, we considered human capital resources to be the number of staff with CWSRF responsibilities and their technical knowledge to administer the CWSRF program. According to the EPA’s *SRF Fund Management Handbook*, the first objective for successful implementation of an SRF program is related to human capital capacity. It states that “appropriate staffing is essential for successful administration of an SRF program.”

The EPA’s *SRF Annual Review Guidance*, dated October 2023, indicates areas that are vital to the success of the SRF. Regarding human capital capacity, sufficient staffing and funding capability are essential to successfully administer the program. The EPA identifies inexperienced staff replacing key leaders in the program, insufficient or poorly focused training, and the lack of succession planning for program continuity as possible risks to program success.

Region 4 has historically flagged issues with the staffing levels of the South Carolina CWSRF program. For example, Region 4 recommended in its *South Carolina CWSRF Program Evaluation Report for State FY 2022* that South Carolina’s CWSRF program hire additional managerial staff to assist senior management with the increased workload from the IIJA. While the South Carolina CWSRF program created and filled one specialized staffing position in 2023, the outreach coordinator position discussed in Chapter 2, program staff still expressed staffing-related concerns. For example, one employee expressed the belief that South Carolina should ideally have two more staff members to help manage the program.

Other human capital-related challenges persist. The EPA's *SRF Fund Management Handbook* emphasizes the importance of having knowledgeable staff. It says that "if the objective of having sufficient well-informed staff is not met in the long term, we may see other objectives of the programs not being met, potentially resulting in an overall decline in the success of the SRF." Region 4 told us that South Carolina CWSRF program staff have the technical skills to implement the state CWSRF program; however, South Carolina CWSRF program staff told us that their ability to learn about and expand their knowledge of the federal CWSRF Program is limited. They expressed a desire for more training on the CWSRF Program, including how to implement certain provisions of the IIJA applicable to the state CWSRF program, such as the Build America, Buy America Act.

The EPA offers SRF-related trainings that cover the following topics: IIJA implementation requirements, best practices related to eligibility, scenarios from various states, outreach activities, and application processes. The EPA's SRF 101 training course explains the CWSRF Program's creation, structure, key features, financial assistance options, and project eligibilities. The EPA's SRF 201 training course is newer and provides more information about the general SRF programs, such as how to manage SRF programs and adhere to domestic preference requirements. These SRF trainings are available to all states. In 2023, the EPA SRF 101 training course was offered twice virtually, while the EPA SRF 201 training was offered five times, all in person and only in the following cities: Atlanta; Boston; Chicago; Denver; and Albany, New York. In 2024, the EPA SRF 101 training was offered once virtually, while the EPA SRF 201 training course was offered twice in person:¹³ once in Philadelphia and once in Sacramento. In addition, according to the EPA's *SRF Fund Management Handbook*, the "EPA tries to reach each state and region at least every two years" to host a two- to three-day SRF workshop. The handbook cites the workshops as "the most effective way to educate staff about the program, introduce issues and share best practices."

Although the opportunity to take the SRF 101 training virtually makes it more accessible to state CWSRF programs nationwide, the training is offered infrequently. In the two-year span of FY 2023 through FY 2024, it was offered only three times. Although the SRF 201 training was offered more frequently, it is not offered virtually, and South Carolina CWSRF program staff said that they did not receive the dates and details for the 2023 Atlanta EPA SRF 201 training in time to plan and budget for attendance. Given the locations and infrequency of these EPA-provided trainings, newer South Carolina CWSRF program staff may have to wait a year or more to attend. Additionally, more experienced staff who would benefit from the EPA's SRF 201 training may have to wait an extended period for the next available and geographically appropriate training. As a result, as of June 2024, of the 20 South Carolina CWSRF program staff, 15, or 75 percent, had taken the SRF 101 training, and only one, or 5 percent, had attended the SRF 201 training.

There are also knowledge transfer opportunities external to the EPA that could benefit the South Carolina CWSRF program's human capital capacity. For example, multiple conferences are routinely held throughout the country that allow attendees to discuss and learn about SRF programs.

¹³ Beginning in FY 2025, the EPA said that it is planning to modify its SRF 201 training by developing a set of advanced trainings that are more specific to certain program areas, such as financial literacy.

Conclusion

South Carolina is behind the national average on two of the CWSRF financial indicators that are tracked by the EPA, and the large influx of CWSRF IIJA funds may exacerbate existing shortfalls. The South Carolina CWSRF program's pace rate demonstrates its need to address existing challenges related to its stakeholder and human capital capacity. Although South Carolina has made changes designed to increase program participation, the impact of these actions is yet to be realized, and additional opportunities exist to continue improving the program. Region 4's implementation of our recommendations should enable the South Carolina CWSRF program to decrease its excess of uncommitted funds, which as of June 30, 2023, totaled \$209 million. Additionally, implementation of our recommendations should enable the South Carolina CWSRF program to more efficiently use its CWSRF IIJA allotments, which totaled \$62.9 million from FY 2022 through FY 2024, with future CWSRF IIJA allotments planned through FY 2026. Until existing challenges are fully addressed, the South Carolina CWSRF program may continue to underperform.

Recommendations

We recommend that the regional administrator for Region 4:

1. Encourage the South Carolina Clean Water State Revolving Fund program to identify potential program participants that are unable to meet financial statement audit requirements as of June 30, 2025. Doing so will enable the South Carolina Clean Water State Revolving Fund program to target those potential program participants that need technical assistance, thereby increasing overall program participation.
2. Implement a plan to assist the South Carolina Clean Water State Revolving Fund program in conducting outreach and providing technical assistance to the potential program participants that were identified as a result of Recommendation 1.
3. Provide technical assistance to the South Carolina Clean Water State Revolving Fund program to increase its pace rate and decrease its uncommitted funds balance.
4. Provide annual training on the Clean Water State Revolving Fund Program through fiscal year 2026 to South Carolina Clean Water State Revolving Fund program staff to enhance their knowledge of the program and requirements applicable to the use of program funding, such as the Build America, Buy America Act. Doing so will improve the South Carolina Clean Water State Revolving Fund program's human capital capacity to implement the program effectively.

Agency Response and OIG Assessment

Appendix A includes the Agency's response to our draft report. Region 4 agreed with our recommendations and provided corrective actions with estimated completion dates. Since issuing our draft report, we have adjusted the language in Recommendations 1 and 4 to offer additional context

about the recommendations' intended benefits, once implemented. While we have offered additional context for these recommendations, the substance of the recommendations has not changed since the issuance of our draft report.

For Recommendation 1, Region 4 stated that it obtained a list of potential program participants that are unable to meet financial statement audit requirements from South Carolina's State Treasurer's website as of March 18, 2025. Region 4 said that it provided this list to the South Carolina CWSRF program staff. By June 15, 2025, Region 4 will encourage the program to use this list to help identify a final list of potential program participants. These actions meet the intent of our recommendation, and we consider Recommendation 1 resolved with corrective actions pending. We look forward to Region 4 obtaining an updated list from the state closer to the end of state FY 2025, which is the June 30, 2025 date specified in Recommendation 1.

For Recommendation 2, Region 4 stated that, by September 15, 2025, it will provide the list of potential program participants that it obtains from the state in response to Recommendation 1 to the Region 4 water technical assistance coordinator. Region 4 said that its water technical assistance coordinator will work with South Carolina's outreach coordinator to identify potential program participants from within that list and provide them with technical assistance to help meet financial statement audit requirements. Region 4 also stated that it will include the topic of identifying program participants in need of technical assistance on the agenda for the 2025 All States SRF meeting that it plans to host in July. The proposed corrective actions and estimated completion date for Recommendation 2 meet the intent of our recommendation. Therefore, Recommendation 2 is resolved with corrective actions pending.

For Recommendation 3, Region 4 said that it held a meeting with South Carolina CWSRF program staff on January 7, 2025, to discuss the financial health of the program, noting that the state's uncommitted balance had already decreased and that its pace rate had improved. Region 4 also stated that, by December 15, 2026, it will monitor the financial health of the program via monthly calls and during the FY 2026 SRF annual review. The proposed corrective actions and estimated completion date for Recommendation 3 meet the intent of our recommendation. Therefore, Recommendation 3 is resolved with corrective actions pending.

For Recommendation 4, Region 4 stated that South Carolina CWSRF program staff attended an EPA-hosted training on the Build America, Buy America Act in June 2024 and that, in January 2025, Region 4 shared additional upcoming EPA-hosted training opportunities on the SRF programs with the state. Region 4 said that South Carolina will send its staff to attend some of these trainings. Region 4 added that the 2025 All States SRF meeting in July will also offer relevant training. However, in its response to this recommendation, Region 4 did not detail its plans to provide training to the South Carolina CWSRF program in FY 2026. We acknowledge the efforts Region 4 is taking to address this recommendation for FY 2025. However, to meet the intent of our recommendation, Region 4 must demonstrate that the training will recur in FY 2026. Therefore, Recommendation 4 is unresolved.

Status of Recommendations

Rec. No.	Page No.	Recommendation	Status*	Action Official	Planned Completion Date
1	19	Encourage the South Carolina Clean Water State Revolving Fund program to identify potential program participants that are unable to meet financial statement audit requirements as of June 30, 2025. Doing so will enable the South Carolina Clean Water State Revolving Fund program to target those potential program participants that need technical assistance, thereby increasing overall program participation.	R	Regional Administrator for Region 4	6/15/25
2	19	Implement a plan to assist the South Carolina's Clean Water State Revolving Fund program in conducting outreach and providing technical assistance to the potential program participants that were identified as a result of Recommendation 1.	R	Regional Administrator for Region 4	9/15/25
3	19	Provide technical assistance to the South Carolina Clean Water State Revolving Fund program to increase its pace rate and decrease its uncommitted funds balance.	R	Regional Administrator for Region 4	12/15/26
4	19	Provide annual training on the Clean Water State Revolving Fund Program through fiscal year 2026 to South Carolina Clean Water State Revolving Fund program staff to enhance their knowledge of the program and requirements applicable to the use of program funding, such as the Build America, Buy America Act. Doing so will improve the South Carolina Clean Water State Revolving Fund program's human capital capacity to implement the program effectively.	U	Regional Administrator for Region 4	—

* C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

Agency Response to Draft Report



REGION 4 ADMINISTRATOR

ATLANTA, GA 30303

March 31, 2025

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Report No. OSRE-FY24-0043 *Evaluation of the South Carolina Clean Water State Revolving Fund Program's Capacity to Manage Infrastructure Investment and Jobs Act Funding*, Dated March 12, 2025

FROM: Kevin J. McOmber
Regional Administrator

TO: Lindsay K. Clarke Brubaker, Director
Environmental Infrastructure Oversight
Office of Special Review and Evaluation

Kevin J. McOmber
Digitally signed by Kevin J. McOmber
Date: 2025.03.31 15:07:26 -04'00'

Thank you for the opportunity to respond to the recommendations and issues raised in the subject Office of Inspector General (OIG) draft audit report. Following is a summary of the agency's overall position, along with its position on each of the report recommendations.

Region 4 appreciates the OIG input on improving support for the State Revolving Fund (SRF) Program. Region 4 is aware of the need for improvements for the Clean Water State Revolving Fund (CWSRF) Program: our fiscal year 2023 South Carolina SRF review, which we conducted in 2024, identified similar challenges, and we have been working with the state to address the financial health of the program.

Region 4 agrees with the recommendations in the draft OIG report and has provided high-level intended corrective actions and estimated completion dates. Please see the Region's response to the OIG's recommendations below, including actions we have already taken related to these recommendations, actions we plan to take, and estimated completion dates. We are committed

to implementing recommendations over the next fiscal year. Region 4 will encourage the EPA Water Technical Assistance Coordinator (Water TA) to work with South Carolina's outreach coordinator to provide technical assistance to potential program participants.

Region 4 does not have any technical comments for this draft report.

No.	Recommendation	Agreements: High-Level Intended Corrective Action(s)	Estimated Completion Date
#1	Encourage the South Carolina Clean Water State Revolving Fund program to identify potential program participants that are unable to meet financial statement audit requirements as of June 30, 2025.	<ul style="list-style-type: none"> • EPA Region 4 concurs with this recommendation. • On March 18, 2025, EPA obtained a list of potential program participants that are unable to meet financial statement audits requirements from State Treasurer of South Carolina's website: https://treasurer.sc.gov/what-we-do/for-governments/audit-information/municipal-delinquent-audits/. • EPA Region 4 has provided the list to South Carolina's State Revolving Fund Program and will encourage them to utilize the above list to identify potential program participants. 	June 15, 2025
#2	Implement a plan to assist South Carolina's Clean Water State Revolving Fund program in conducting outreach and providing technical assistance to the potential program participants that were identified as a result of Recommendation 1.	<ul style="list-style-type: none"> • EPA concurs with this recommendation. • EPA Region 4 will provide the list we received on March 18, 2025, noted in our response to recommendation 1, to the EPA Water TA coordinator. • EPA Region 4 will encourage the EPA Water TA coordinator to work with South Carolina's outreach coordinator to identify potential SRF program participants from within the list and provide technical assistance to help them meet financial statement audit requirements. • EPA Region 4 will include this topic on the agenda for the open discussion portion of the 2025 All States SRF meeting to discuss and gather best practices from other Region 4 states. 	September 15, 2025
#3	Provide technical assistance to the South Carolina Clean Water State Revolving Fund	<ul style="list-style-type: none"> • EPA concurs with this recommendation. • EPA Region 4 and EPA Headquarters held discussions surrounding the financial health of the CWSRF program with South Carolina during their FY23 SRF Annual Review onsite meeting on 	December 15, 2026

	program to increase its pace rate and decrease its uncommitted funds balance.	<p>January 17, 2024.</p> <ul style="list-style-type: none"> ○ Discussions included how the state could increase the pace rate and decrease uncommitted balances for the CWSRF program. ○ EPA comments were documented in South Carolina's FY23 Program Evaluation Report, dated October 8, 2024, under Section XII: Recommendations: <ul style="list-style-type: none"> ▪ <i>EPA R4 recommends that South Carolina's Department of Health and Environmental Control (DHEC) and Rural Infrastructure Authority (RIA) continue their efforts to minimize uncommitted balances, increase the pace and binding commitments of the program by executing binding commitments within one year of award and evaluating different options such as the utilization of cash flow modeling.</i> ● EPA Region 4 conducted an onsite meeting with South Carolina for their FY24 SRF Annual Review on January 7, 2025, to discuss the FY23 recommendations and financial health of the CWSRF program. <ul style="list-style-type: none"> ○ The state has improved their financial indicators for the CWSRF program. The following will be documented in their FY25 Program Evaluation Report: <ul style="list-style-type: none"> ▪ The uncommitted balances have decreased from \$209M in FY23 to \$167M in FY24. ▪ Their PACE has improved from 89% in FY23 to 92% in FY24. ● EPA Region 4 will continue to monitor the financial health of the program via monthly calls and during the FY26 State Revolving Fund Annual Review. 	
#4	Provide annual training on the Clean Water State Revolving Fund	<ul style="list-style-type: none"> ● EPA concurs with this recommendation. ● EPA Region 4 hosted an in-person and virtual Build America, Buy American (BABA) training by EPA 	September 15, 2025

	<p>program through Fiscal Year 2026 to South Carolina's Clean Water State Revolving Fund Program staff to enhance their knowledge of the program and requirements applicable to the grant, such as the Build America, Buy America Act.</p>	<p>headquarters on June 12, 2024, in Atlanta, GA.</p> <ul style="list-style-type: none"> ○ South Carolina's director and staff attended in person and virtually. ● EPA Headquarters offers states a wide range of training opportunities in 2025, including a virtual SRF Training, Equivalency Virtual Mini Training, SRF Project Management, SRF Financial Literacy, and Council of Infrastructure Financing Authority Summit on Water Infrastructure, as well as the National SRF Infrastructure Financing and Training Workshop. <ul style="list-style-type: none"> ○ On January 22, 2025, EPA Region 4 provided South Carolina with a list of upcoming training opportunities and registration links for the SRF FY25 EPA Headquarters Training sessions. ○ On January 23, 2025, South Carolina's Division Director indicated that they would like to send 4-5 of their project managers to the SRF Project Management Training in Boston, MA from April 1 – 3, 2025 and 2-3 staff members to the Financial Literacy Training which is offered from May 6 – 8, 2025 in Kansas City, MO and in Chicago, IL from June 3 – 6, 2025. <ul style="list-style-type: none"> ▪ The state has indicated that two employees have been given verbal confirmation to attend the SRF Project Management Training in Boston, MA from April 1 – 3, 2025. ● EPA Region 4 will host the 2025 Region 4 All-States Meeting from July 21 – 25, 2025 in Tennessee; EPA Region 4 will solicit topics of interest from the South Carolina CWSRF program and provide training during the meeting. 	
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If you or your staff have any questions regarding this response, please contact the Region 4 Audit Follow-Up Coordinator, Alicia Sterk, at sterk.alicia@epa.gov.

cc: Matthew Jacobs, OIG
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