



# At a Glance

## Why We Did This Review

The U.S. Environmental Protection Agency (EPA) Office of Inspector General performed this audit as a result of observations made during an audit of Special Appropriations Act Project grants. Based on that review, we assessed EPA's policy that allows states to use revolving fund capitalization grants to fund local reserve accounts.

## Background

The Clean Water Act and the Safe Drinking Water Act authorize EPA to award grants to states that have established Clean Water and Drinking Water State Revolving Fund (SRF) programs. States use these grants to capitalize a revolving fund from which low-cost loans and other types of assistance are provided to finance infrastructure projects.

For further information, contact our Office of Congressional and Public Affairs at (202) 566-2391.

The full report is at:  
[www.epa.gov/oig/reports/2012/20120125-12-P-0231.pdf](http://www.epa.gov/oig/reports/2012/20120125-12-P-0231.pdf)

## ***EPA Policy on Financing Local Reserves Needs Revision***

### What We Found

EPA policy that allows states to use SRF funds to establish local reserve accounts conflicts with other regulations. Office of Water Policy Memorandum SRF 91-08 says: "These local reserve accounts, which are used to secure loan repayments, are eligible costs of the SRF." However, the financing of local reserve accounts does not represent eligible incurred project costs, a requirement for cash draws from the federal capitalization grants per the Code of Federal Regulations. When EPA allows use of funds for local reserves, funding is not available for needed wastewater and drinking water projects.

### What We Recommend

We recommend that the Assistant Administrator for Water rescind guidance allowing federal funds to be used to finance local reserve accounts. The Agency stated that it does not believe that any state SRF programs are currently drawing federal funds to finance local reserves, but would issue a memorandum to the states with instructions that only non-federal SRF funds may be used to finance local reserves.