



# At a Glance

## Why We Did This Audit

The U.S. Environmental Protection Agency (EPA), Office of Inspector General (OIG), received a hotline complaint from the EPA regarding financial irregularities with Puerto Rico's Clean Water and Drinking Water State Revolving Funds. The complaint reported that the revolving funds had a combined balance of approximately \$188 million at the Puerto Rico Government Development Bank, but the complaint also alleged that the bank did not have the funds to honor the balance. The EPA was concerned about recovering the balance and the potential commingling and/or misuse of the funds. The OIG conducted an audit to address the EPA's concerns.

### This report addresses the following EPA goals or cross-agency strategies:

- *Protecting America's waters.*
- *Launching a new era of state, tribal, local and international partnerships.*

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## Over \$744 Million of Puerto Rico State Revolving Funds at Risk

The OIG confirmed that over \$188 million of state revolving funds is not available because the Puerto Rico Government Development Bank does not have the assets (cash) to honor the balance. This situation resulted from the severe, ongoing financial crisis faced by the government of Puerto Rico and the Puerto Rico Government Development Bank.

**Over \$774 million of state revolving funds is at risk due to Puerto Rico's ongoing financial crisis. Restoration of the revolving funds in the near future is highly unlikely.**

We saw no indication that the managing agencies—the Puerto Rico Department of Health, Department of Environmental Quality, and Infrastructure Financing Authority—commingled or misused the funds. The revolving fund balance in question—which had grown to \$194.5 million by November 7, 2016—consisted of loan repayments and associated interest earnings, not any EPA capitalization grant funds. The government of Puerto Rico recognizes its obligations and has included restoration of the revolving funds in its 10-year plan; nonetheless, withdrawals of any significance in the near future are highly unlikely. In addition, our audit determined that approximately \$580 million in repayments owed by the revolving funds' largest loan recipient is at risk of nonpayment for at least 2 to 3 years, perhaps longer. As a result, over \$774 million of funds may not be available for an extended period of time. Without access to the revolving fund balance and a steady stream of loan repayments, Puerto Rico's Clean Water and Drinking Water State Revolving Funds cannot plan for or meet project needs.

Our audit found that the EPA could not have predicted or prevented this situation. Prior to 2016, neither the EPA nor the managing agencies received any indications that the revolving funds were at risk. We did not identify any actions that could have been taken to safeguard the balance and/or secure the loan repayments. Furthermore, as soon as the irregularities were discovered, the EPA provided adequate oversight to address the issues and worked with the managing agencies to safeguard future revolving fund transactions.

## Recommendation and Recipient's Response

We recommend that the Regional Administrator, Region 2, evaluate options to restore the viability of Puerto Rico's Clean Water and Drinking Water State Revolving Funds or implement strategies better suited to the financial, programmatic, public health and environmental needs of the government of Puerto Rico. On March 2, 2017, we discussed our audit results with Region 2, which concurred with our findings and recommendation.