EPA’s Water Infrastructure Finance and Innovation Act Program Needs Additional Internal Controls

Report No. 19-P-0045

December 14, 2018
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Abbreviations

CBI    Confidential Business Information
CFR    Code of Federal Regulations
EPA    U.S. Environmental Protection Agency
FISMA  Federal Information Security Modernization Act of 2014
GAO    U.S. Government Accountability Office
GPRA  Government Performance and Results Act of 1993
IT     Information Technology
NIST   National Institute of Standards and Technology
OEI    Office of Environmental Information
OIG    Office of Inspector General
OMB   Office of Management and Budget
OW    Office of Water
OWM   Office of Wastewater Management
WIFIA  Water Infrastructure Finance and Innovation Act

Cover Image: Map showing WIFIA projects the EPA selected in fiscal year 2017. (WIFIA website)

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Why We Did This Project

The Office of Inspector General (OIG) conducted an audit of the U.S. Environmental Protection Agency’s (EPA’s) Water Infrastructure Finance and Innovation Act (WIFIA) program. The objective of this audit was to determine whether the EPA has established effective internal controls for the WIFIA program.

Congress enacted the WIFIA program as part of the Water Resources Reform and Development Act of 2014. A federal credit program administered by the EPA, the WIFIA program accelerates investment in water and wastewater infrastructure of national and regional significance by offering creditworthy borrowers secured (direct) loans and loan guarantees for up to 49 percent of eligible project costs.

This report addresses the following:

- Operating efficiently and effectively.

EPA’s Water Infrastructure Finance and Innovation Act Program Needs Additional Internal Controls

What We Found

The EPA did not prepare a comprehensive program risk assessment prior to establishing the WIFIA program. Further, the EPA did not develop program performance measures to fully identify and capture financial data and public health benefits to affected communities. Lastly, we found that the EPA needs to strengthen its SharePoint access controls for the WIFIA program.

The EPA did not follow the guidance set forth in Office of Management and Budget Circular A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control, and the U.S. Government Accountability Office’s Standards for Internal Control in the Federal Government. These documents state that a comprehensive program risk assessment should be done when initially establishing a program to examine all possible risks to program success. By not performing a formal risk assessment at the outset, Office of Water management cannot be assured that it has identified the overall risks to the program. Consequently, the necessary internal controls to address such risks may not be in place, and unnecessary procedures might be implemented for risks that do not exist, resulting in an ineffective and inefficient program.

By only identifying performance measures for specific projects, the EPA may not be fully identifying and capturing programmatic financial and public health data. These data may, in turn, support continuing or expanding the WIFIA program. In addition, not having a formal process to monitor user accounts puts the WIFIA SharePoint—as well as other EPA information technology systems that are also hosted on the EPA intranet—at increased risk for unauthorized access and disclosure, loss of data, and other hacking activities.

Recommendations and Planned Agency Corrective Actions

We recommend that the Assistant Administrator for Water (1) finalize a comprehensive program risk assessment that addresses all areas of risk, (2) develop program performance measures to identify and capture financial data and public health benefits to affected communities, and (3) develop SharePoint access controls. We also recommend that the Assistant Administrator for Mission Support test and assess the WIFIA SharePoint system access controls to determine whether they function as intended. The EPA provided acceptable planned corrective actions and estimated completion dates. All recommendations are resolved with corrective actions pending.

Noteworthy Achievements

We found no issues with three of the five internal control components we examined: control environment, information and communications, and monitoring.

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December 14, 2018

MEMORANDUM

SUBJECT: EPA’s Water Infrastructure Finance and Innovation Act Program Needs Additional Internal Controls Report No. 19-P-0045

FROM: Charles J. Sheehan, Acting Inspector General

TO: David P. Ross, Assistant Administrator Office of Water

Donna J. Vizian, Principal Deputy Assistant Administrator Office of Mission Support

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). The project number for this audit was OA-FY18-0023. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position.

The offices with primary responsibilities for the issues discussed in this report are the Office of Wastewater Management within the Office of Water and the Office of Environmental Information within the Office of Mission Support.

In accordance with EPA Manual 2750, your office provided acceptable corrective actions and milestone dates in response to OIG recommendations. All recommendations are resolved, and no final response to this report is required. However, if you submit a response, 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 accessibility 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.epa.gov/oig.
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Chapter 1
Introduction

Purpose

The Office of Inspector General (OIG) conducted an audit of the U.S. Environmental Protection Agency’s (EPA’s) Water Infrastructure Finance and Innovation Act (WIFIA) program. The objective of this audit was to determine whether the EPA has established effective internal controls for the WIFIA program in accordance with the U.S. Government Accountability Office’s (GAO’s) five internal control standards: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

Background

In 2014, WIFIA established a federal credit program (hereafter referred to as the WIFIA program) administered by the EPA. The WIFIA program, a 5-year pilot program, accelerates investment in water and wastewater infrastructure of national and regional significance by offering creditworthy borrowers loans for up to 49 percent of eligible project costs. In addition to existing State Revolving Fund programs, WIFIA provides another source of low-cost capital to help meet the United States’ water infrastructure needs and address key priorities.

Congress enacted the WIFIA program as part of the Water Resources Reform and Development Act of 2014. WIFIA was subsequently amended by the Fixing America’s Surface Transportation Act of 2015 and the Water Infrastructure Improvements for the Nation Act of 2016. Chapter 52 of Title 33 of the United States Code codifies WIFIA, with supporting regulations appearing in 40 CFR Part 35, Subpart Q.

The EPA is authorized under WIFIA to provide direct secured loans to borrowers, such as municipalities and state entities, for eligible water infrastructure projects. Under WIFIA, the EPA publishes Notices of Funding Availability, and

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1 WIFIA authorizes the EPA to provide loans or loan guarantees. For the purposes of this report, the term loans will hereafter refer to both loans or loan guarantees.
2 The Clean Water State Revolving Fund and Drinking Water State Revolving Fund programs are federal-state partnerships that provide communities with permanent, independent sources of low-cost financing for a wide range of water quality infrastructure projects.
3 Public Law 113-121, §§ 5021–5035.
4 Public Law 114-94.
5 Public Law 114-322.
prospective borrowers submit letters of interest that demonstrate their projects’ eligibility, financial creditworthiness, engineering feasibility and alignment with the EPA’s policy priorities. Using the basic information provided by the prospective borrowers, the EPA evaluates and selects which projects may be eligible for funding based on the weighted criteria established in the Notice of Funding Availability. Following project selection, the EPA invites the appropriate prospective borrowers to complete applications for loans. The EPA uses the application materials to underwrite the proposed WIFIA loans and to develop individual credit agreements with the prospective borrowers.

In July 2017, after the agency received responses to its first Notice of Funding Availability published in January 2017, the EPA selected 12 prospective borrowers to apply for loans ranging from $22 million to $625 million and totaling $2.3 billion (Figure 1). As of November 13, 2017, two of the 12 borrowers had submitted complete applications, and as of August 1, 2018, four of the 12 loans had been issued by the EPA.

**Figure 1: EPA WIFIA loan selections**

![EPA’s 2017 WIFIA Loans Are Helping to Rebuild America’s Water Infrastructure](image)

Source: WIFIA Fiscal Year 2017 Selected Projects–Summary Factsheets [website](#).

**WIFIA Program Project Examples**

The following three WIFIA program projects exemplify those that have been selected by the EPA:

- A $135 million loan was issued to King County, Washington, on April 20, 2018, to finance the construction of a new Wet Weather Treatment Station to treat and convey combined sewer overflows during storm events. The new station, which will serve 1.7 million people, will be able to treat up to 70 million gallons of combined rain and wastewater per day that would otherwise have discharged directly to the
Lower Duwamish Waterway without treatment. This project is expected to create 1,400 jobs and will also redevelop a Brownfields site.

- On August 1, 2018, a $135 million loan was issued to the Orange County Water District, Fountain Valley, California. The loan will enable the Orange County Water District to produce an additional 30 million gallons per day of drought-proof drinking water supply for its service area, replenishing the Orange County Groundwater Basin and reducing the need for imported water. The project is expected to create 700 jobs and serve a community of 2.5 million people. The project will include expanding the existing treatment facility, constructing a pump station, rehabilitating pipelines and reconfiguring the treatment process.

- The Indiana Finance Authority has applied for a $436 million loan that has not yet been issued. The loan will enable the Indiana Finance Authority to expand the reach of its Clean Water and Drinking Water State Revolving Fund programs and fund dozens of additional projects in communities across the state. The project will serve 6.4 million people.

Program Risk Assessment and Performance Measures

The GPRA Modernization Act of 2010\(^7\) states that an agency’s strategic plans shall identify key factors external to the agency that could significantly affect the achievement of the agency’s general goals and objectives. Further, agencies are required to prepare annual performance plans that establish performance goals to be achieved during the year. The performance plans must describe how the performance goals contribute to the general goals and objectives established in the agency’s strategic plan. The law also requires agencies to “establish a balanced set of performance indicators to be used in measuring or assessing progress toward each performance goal, including, as appropriate, customer service, efficiency, output and outcome indicators.”


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\(^7\) Public Law 111-352. GPRA stands for Government Performance and Results Act.
and goals for the program, as well as implement practices that identify, assess, respond to and report on risks.

Furthermore, the GAO’s *Standards for Internal Control* defines internal control as the following:

> a process effected by an entity’s oversight body, management and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies and procedures used to fulfill the mission, strategic plan, goals and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of public resources.

There are five components and 17 principles of internal control, as outlined in Table 1.

**Table 1: Internal control components and principles**

<table>
<thead>
<tr>
<th>Components</th>
<th>Principles</th>
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<tbody>
<tr>
<td>Control Environment</td>
<td>1. Demonstrate Commitment to Integrity and Ethical Values.</td>
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<td></td>
<td>2. Exercise Oversight Responsibility.</td>
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<td></td>
<td>3. Establish Structure, Responsibility and Authority.</td>
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<td></td>
<td>4. Demonstrate Commitment to Competence.</td>
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<td>5. Enforce Accountability.</td>
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<td>7. Identify, Analyze and Respond to Risks.</td>
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<td>8. Assess Fraud Risk.</td>
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<td></td>
<td>9. Identify, Analyze and Respond to Change.</td>
</tr>
<tr>
<td>Control Activities</td>
<td>10. Design Control Activities.</td>
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<td></td>
<td>11. Design Activities for Information Systems.</td>
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<td></td>
<td>12. Implement Control Activities.</td>
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<tr>
<td>Information and Communication</td>
<td>13. Use Quality Information.</td>
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<td></td>
<td>15. Communicate Externally.</td>
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<td></td>
<td>17. Remediate Deficiency.</td>
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**WIFIA SharePoint Access Controls**

The WIFIA SharePoint is an EPA website designed to allow sharing of documents and information. It is used by WIFIA staff, prospective applicants and contractors to place and store applicant data, such as letters of interest and financial information. The WIFIA SharePoint site administrator manages access
to the WIFIA SharePoint for EPA staff, contractor personnel and applicant personnel. We provide more details about the WIFIA SharePoint in Chapter 4.

**Responsible Offices**

Two EPA offices have primary responsibility for the issues discussed in this report:

- The **Office of Water (OW)** ensures that drinking water is safe. The OW also restores and maintains oceans, watersheds and their aquatic ecosystems to protect human health; support economic and recreational activities; and provide healthy habitat for fish, plants and wildlife. The OW is responsible for implementing the Federal Water Pollution Control Act, commonly known as the Clean Water Act; the Safe Drinking Water Act; and other water-related statutes. Within the OW, the Office of Wastewater Management (OWM) supports the Clean Water Act by promoting effective and responsible water use, treatment, disposal and management; and by encouraging the protection and restoration of watersheds. The OWM also manages the WIFIA program.

- The **Office of Environmental Information (OEI)** within the Office of Mission Support leads the EPA’s information management and information technology (IT) programs to provide the information, technology and services necessary to advance the protection of human health and the environment. Within the OEI, the EPA’s Chief Information Security Officer is responsible for the EPA’s information security program. Additionally, the Chief Information Security Officer is responsible for developing an agencywide information security program that complies with related information security laws, regulations, directives, policies and guidelines.

**Scope and Methodology**

We conducted our audit from October 2017 to September 2018 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 examined the WIFIA program’s establishment of internal controls and other applicable activities from October 2014 to March 2018. Our audit focused on the GAO’s five internal control standards outlined in Table 1: control environment,

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8 Effective November 26, 2018, the OEI and the Office of Administration and Resources Management were merged into the new Office of Mission Support. We will continue to refer to the OEI in this report because the OEI remains an office within the new Office of Mission Support. However, recommendations for action are made to the Assistant Administrator for Mission Support.
risk assessment, control activities, information and communication, and monitoring. Specifically, we reviewed whether:

- The EPA complied with OMB Circular A-123 and the GAO’s *Standards for Internal Control* when establishing the program.
- Loan applicants and WIFIA staff complied with WIFIA federal guidelines.

Appendix A contains more details on activities we conducted.

**Noteworthy Achievements**

The EPA’s OWM management has established a solid and positive control environment of support for the WIFIA program. WIFIA staff and managers have received strong support from upper-level management as well as from OW staff, other EPA offices, EPA Administrators (former and current) and other federal agencies. Using the U.S. Department of Transportation’s existing Transportation Infrastructure Finance and Innovation Act program as a model, the OWM recruited highly experienced personnel from that program and other OW offices to staff the WIFIA program. As a result, the EPA was able to expeditiously establish the WIFIA program. In December 2014, Congress provided funding to establish the WIFIA program, and the OWM began recruiting staff and setting up support contracts. In January 2017, the EPA announced the first Notice of Funding Availability. In July 2017, the EPA selected 12 of 43 prospective borrowers to apply for loans. In April 2018, the EPA issued the first WIFIA loan.

Since the program is new and just issued its first loan in April 2018, there has been limited activity. Based on our review of these limited activities, we found no issues with three of the five GAO internal control components outlined in Table 1: control environment, information and communication, and monitoring.
Chapter 2  
EPA Did Not Perform a Formal Risk Assessment for the WIFIA Program

The WIFIA management team did not conduct a formal risk assessment in accordance with OMB Circular A-123 and the GAO’s Standards for Internal Control prior to establishing the WIFIA program. According to WIFIA managers, the EPA established the WIFIA program based on the framework required by OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables, dated January 2013, which sets out key requirements for federal credit programs. However, OMB Circular A-129, Section I(D)(6), also requires that departments and agencies “[e]stablish appropriate internal controls over programmatic functions and operations, in accordance with … OMB Circular A-123.” While WIFIA management did prepare “risk appetite” statements for the program in accordance with OMB Circular A-129, management did not prepare a risk assessment in accordance with OMB Circular A-123 as required. Without a formal and comprehensive risk assessment based on OMB Circular A-123 requirements, OW management cannot provide reasonable assurance that it has identified the internal and external risks to the program. Consequently, the necessary internal controls to address existing risks may not be in place, and unnecessary procedures might be implemented for risks that do not exist, resulting in an ineffective and inefficient program.

Federal Requirements and Guidance on Risk Assessment

OMB Circular A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control, is one of the central federal requirements to improve accountability in federal programs and operations. It defines management’s responsibilities for overall risk management and internal control, and it establishes an assessment process that management must implement to properly assess and improve internal controls over operations, reporting and compliance based on the GAO’s Standards for Internal Control. OMB Circular A-123 also emphasizes management’s responsibility, when establishing a new program, to integrate risk management and internal control functions into the governance structure of a program or entity; identify and achieve objectives and goals for the program; and implement practices that identify, assess, respond to and report on risks.

OMB Circular A-123 states that, after the control environment for a program is established, identifying and assessing risk is the next critical step in building the program’s risk profile. Assessing risk includes three important principles:
1. Ensuring that there is a clearly structured process in which both likelihood and impact are considered for each risk.
2. Recording the assessment of risk in a way that facilitates monitoring and the identification of risk priorities.
3. Being clear about the difference between inherent and residual risks.

The GAO’s Standards for Internal Control states that “Having established an effective control environment, management assesses the risks facing the entity as it seeks to achieve its objectives” (see inset box). According to the GAO, management should follow the following key risk assessment principles:

- Defining objectives clearly to enable the identification of risks and define risk tolerances.
- Identifying, analyzing and responding to risks related to achieving the defined objectives.
- Considering the potential for fraud when identifying, analyzing and responding to risks.
- Identifying, analyzing and responding to significant changes that could impact the internal control system.

OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables, addresses financial internal controls for federal credit programs. Section III(B) lists the internal controls for credit programs as separation of duties, establishing a communications policy and outsourcing programmatic functions to contractors. Section I(D)(6) states that for agencies and management to achieve these objectives, agencies shall “[e]stablish appropriate internal controls over programmatic functions and operations, in accordance with the standards established in this Circular, and OMB Circular A-123, Management’s Responsibility for Internal Control.”

**WIFIA Program Details Established Before Identifying Risks**

When establishing the WIFIA program, WIFIA management did not complete a formal and comprehensive risk assessment as required by OMB Circular A-123. The WIFIA Program Director said that an OMB Circular A-123 risk assessment was not done but that WIFIA staff planned to prepare one in the future. In the interim, the program staff prepared risk appetite statements for the WIFIA program’s mission risk, credit risk and project risk. These statements concluded that the WIFIA program’s mission risk was low and that its credit and project risk were moderate. However, a risk appetite analysis is only one part of risk management. According to OMB Circular A-123, Section II, risk appetite “is the broad-based amount of risk an organization is willing to accept in pursuit of its
mission/vision. It is established by the organization’s most senior level leadership and serves as the guidepost to set strategy and select objectives.”

WIFIA management and staff initially focused on financial risks in accordance with OMB Circular A-129 and did not recognize the immediate need for a formal OMB Circular A-123 risk assessment in determining what control activities should be established. OWM management told us that it recognizes that it must complete an OMB Circular A-123 assessment and implement detailed internal controls for the WIFIA program. However, these managers also said that “it is not possible to do that until detailed processes and procedures are identified.”

After several discussions among the OIG, the OWM and WIFIA management, WIFIA staff provided us in March 2018 their draft programmatic risk assessment. The assessment focused on project selection, application and approval processes.

According to OMB Circular A-123, after establishing operational objectives, a risk assessment is the critical next step when setting up a new program and building its risk profile. A risk assessment identifies and assesses all of the potential risks facing an entity as it seeks to achieve its objectives. A comprehensive risk assessment should address, for example, areas of risk that may exist within policies (or the lack thereof), staffing, processes, training, communications, records and reporting, data, and IT. By not performing a risk assessment when the WIFIA program was established, management cannot be certain that it has identified the overall risks to the program.

**Conclusion**

WIFIA and EPA managers need to complete a risk assessment of the WIFIA program to fully identify and analyze the possible risks to the program, to determine the program’s risk exposure, and to plan risk response strategies. The risk assessment should consider what policies and procedures might be needed to protect the program from possible risks, such as funding, fraud, creditworthiness and legal risks, as well as risks related to areas such as staffing, communications, records and data.

In establishing the WIFIA program, EPA management initially focused on the possible financial risks as set forth in OMB Circular A-129, but it did not prepare a formal risk assessment for the program, as required by OMB Circular A-123. In March 2018, WIFIA provided a draft OMB Circular A-123 risk assessment that did not provide sufficient coverage. Without a complete OMB Circular A-123 risk assessment, OW

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**Why Perform a Risk Assessment?**

A risk assessment fully identifies and analyzes the possible risks to the program, determines the program’s risk exposure, and plans risk response strategies. The risk assessment should consider what policies and procedures might be needed to protect the program from possible risks.
management cannot be certain that it has identified the overall internal and external risks to the program in achieving its objectives.

Consequently, the necessary internal controls to address existing risks may not be in place, and unnecessary procedures might be implemented for risks that do not exist, thereby resulting in an ineffective and inefficient program. Based on OMB Circulars A-129 and A-123 requirements, WIFIA management should identify and try to mitigate all possible areas of risks that might impact the WIFIA program, not just those related to the loan process.

**Recommendation**

We recommend that the Assistant Administrator for Water:


**Agency Response and OIG Evaluation**

The OW concurred with Recommendation 1 and provided an acceptable corrective action and estimated completion date that meet the intent of the recommendation. Recommendation 1 is resolved with corrective actions pending.

To address Recommendation 1, the OW agreed to update and complete an OMB Circular A-123 risk assessment for the WIFIA program by December 31, 2018. In its response, the OW reiteratated that WIFIA complied with OMB Circular A-129, which addresses key risks to credit programs, and that it had prepared a risk appetite report. While the OW’s efforts were positive initial steps, OMB Circular A-123 also contains critical federal requirements for improving accountability in federal programs and operations. OMB Circular A-123 establishes an assessment process that management must implement to properly assess and improve internal controls over operations, reporting and compliance based on the GAO’s *Standards for Internal Control*. OMB Circular A-123 also defines management’s responsibilities for overall risk management and internal control.

The agency’s detailed response is in Appendix B.
Chapter 3
WIFIA Program Has Project-Specific Measures
but No Long-Term Program Measures

The EPA has developed project-specific performance measures for the WIFIA program but still needs to develop long-term program performance measures to facilitate reporting of the program’s status in the agency’s Annual Performance Report. As of March 2018, the performance measures that had been identified by WIFIA management were limited to individual projects. Although the Draft OW Agency Priority Goal Action Plan addresses a few short-term programmatic milestones in calendar years 2017–2018 that are related to loan issuance and interactions with the water infrastructure community, all other proposed performance measures we identified look at the short-term financial, scientific and engineering aspects of specific projects. According to the WIFIA Director, WIFIA staff intend to rely on performance measures included in the respective loan agreements and the State Revolving Fund agreements to track individual projects. However, these short-term measures do not comply with the GPRA of 1993 or the GPRA Modernization Act of 2010, which require agencies to develop performance plans to track overall annual goals and measures and to report annually to Congress on program performance. In addition, performance-based metrics are crucial both to understanding the impact of agency programs and to proactively identifying areas of risk. As a result, WIFIA staff may not be able to satisfactorily answer Congress’ concerns about the success or failure of this pilot program.

Federal Requirements and Guidance on Performance Measures

The GPRA of 1993 requires that each agency evaluate and report to Congress the results of its activities each fiscal year. The act requires agencies to develop strategic plans with outcome-related goals, performance plans with annual goals and measures, and performance reports on prior-year performance.

The GPRA Modernization Act of 2010 states that an agency’s strategic plans shall contain “an identification of key factors external to the agency and beyond its control that could significantly affect the achievement of its general goals and objectives.” The law also requires agencies to establish a balanced set of performance indicators within their performance plans to measure or assess

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9 Public Law 103-62.
10 Public Law 111-352.
progress toward each performance goal, including customer service, efficiency, output and outcome indicators, as appropriate.

As discussed earlier in this report, OMB Circular A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control, defines management’s responsibilities and includes a risk assessment process, based on the GAO’s Standards for Internal Control, that management must implement. In establishing a new program, it is management’s responsibility to identify and achieve objectives and goals for the program and to implement practices that identify, assess, respond to and report on risks. As part of efforts to manage risk, OMB Circular A-123, Section II states that management should consider “the relative importance of the related objectives and align risk tolerance with risk appetite.” Further, managers should evaluate and monitor “performance to determine whether the implemented risk management options actually achieved the stated goals and objectives.” For those risks it identifies, management must establish “a formal system of internal control to provide reasonable assurance that objectives are achieved.” As part of that formal system, managers must include a process for monitoring the organization’s performance in relation to various measures.

Pursuant to the GPRA Modernization Act of 2010 and Section 200 of OMB Circular A-11, Preparation, Submission, and Execution of the Budget, dated July 26, 2013, the EPA must document its assessment of internal control and may use a variety of information sources, including annual performance plans, reports, strategic reviews and program evaluations.

The GAO’s Standards for Internal Control states that “management assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.” In addition, Risk Assessment Principle 6.07 includes the following statement:

Management determines whether performance measures for the defined objectives are appropriate for evaluating the entity’s performance in achieving those objectives. For quantitative objectives, performance measures may be a targeted percentage or numerical value. For qualitative objectives, management may need to design performance measures that indicate a level or degree of performance, such as milestones.

Management Relied Only on Short-Term, Limited Performance Measures in Loan Agreements and from Other EPA Programs

WIFIA management and staff did not consider it crucial when initially establishing the WIFIA program to create short- and long-term program
performance measures; rather, they concentrated on developing project-specific performance measures to track each project. When we reviewed the proposed performance measures provided to us by WIFIA staff, we determined that they are project-specific and do not address the program’s long-term performance. The following are examples of project-specific measures we identified:

- The number of jobs created by the project on an annual basis for the period between the effective date and substantial completion.
- The amount by which the project will increase the volume of potable water produced.
- The amount by which the project will increase the volume of water recycled, recharged or redirected as of substantial completion.

During the application process, applicants were required to provide a project description, including an assessment of the current condition of all water facilities relating to the project and a summary of what the project would accomplish. According to the WIFIA Director, in the project selection phase, WIFIA staff used this information to evaluate loan applicants based on the extent to which they met statutory and regulatory selection criteria, many of which address environmental and public health benefits. This information was also used to create project-specific performance measures.

In the course of our audit, the WIFIA Director said that the information provided by WIFIA applicants will be used to develop long-term performance measures for each project. In addition, information reported to the agency for other programs will be used to measure WIFIA project results. For example, WIFIA loan applicants and recipients may also receive funds from the State Revolving Fund programs, and data from these programs may be used to develop WIFIA performance measures. However, these performance measures would still be limited in scope, tracking the suitability and success of each proposed project. They would not measure the WIFIA program’s overall performance.

By only identifying performance measures that are limited in scope, WIFIA staff may not fully identify and capture data about finances and public health benefits to affected communities. These data would, in turn, support continuing or expanding the program. We understand that many of the project-specific performance measures are unique, which is useful for internal purposes and to track each project’s accomplishment toward its stated goals. However, much of this information may be too detailed and project-specific to be included in the EPA’s Annual Performance Report for Congress. WIFIA management needs to consider what information should be included in the Annual Performance Report and should develop

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Why Are Overall Performance Measures Needed?

By only identifying performance measures that are limited in scope, the EPA may not fully identify and capture data about finances and public health benefits to affected communities. These data would, in turn, support continuing or expanding the program. We understand that many of the project-specific performance measures are unique, which is useful for internal purposes and to track each project’s accomplishment toward its stated goals. However, much of this information may be too detailed and project-specific to be included in the EPA’s Annual Performance Report for Congress. WIFIA management needs to consider what information should be included in the Annual Performance Report and should develop
quantitative and qualitative performance measures that will track the program’s overall, long-term performance.

Conclusion

More quantitative and qualitative long-term measures would benefit the WIFIA program. These measures could include improvements in water quality, reductions in the number of impaired water bodies, or improvements in the public health of those served by a water system that is part of a WIFIA project. Without such measures, WIFIA managers may not be able to fully identify and capture financial and public health benefit information that would, in turn, support continuing or expanding the program.

Recommendation

We recommend that the Assistant Administrator for Water:

2. Develop program performance measures to assess the effectiveness of the Water Infrastructure Finance and Innovation Act program and finalize the measures for each Water Infrastructure Finance and Innovation Act loan.

Agency Response and OIG Evaluation

To address Recommendation 2, the OW stated that it would develop future program performance measures to assess the effectiveness of the WIFIA program. The OW noted that the OWM is currently reviewing existing measures and proposing new measures as part of the EPA’s ongoing effort to implement its “Lean” program.13 While the OW initially did not provide an estimated completion date for developing such measures in its formal response, the office subsequently provided an acceptable completion date of September 30, 2019. Recommendation 2 is resolved with corrective actions pending.

The OW’s formal response also noted that, in April 2018, it finalized the measures to be included in each specific WIFIA loan. As a result, we consider corrective action for that portion of Recommendation 2 to be completed.

The agency’s detailed response is in Appendix B.

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13 Per the EPA’s “About Lean Government” webpage, “Lean is a set of principles and methods used to identify and eliminate waste in any process. Lean helps organizations improve the speed and quality of their processes by getting rid of unnecessary activity such as document errors, extra process steps, and waiting time.”
Chapter 4
WIFIA Program Needs Stronger SharePoint Access Controls

WIFIA managers were unable to identify external users who no longer needed access to the WIFIA SharePoint and to disable the accounts of such users in a timely manner. In addition, WIFIA program procedures allowed staff to maintain accounts for internal EPA users for up to 2 weeks beyond their need for access, instead of disabling their accounts immediately. These conditions occurred because WIFIA managers did not have formal processes in place to monitor user accounts, identify when users no longer needed access, and immediately disable those accounts. Instead of establishing required access controls, WIFIA managers primarily focused on establishing the new WIFIA program and reviewing a greater-than-anticipated number of initial letters of interest with limited staff. However, without these access controls in place, the WIFIA program could be exposed to credibility problems if applicant data are obtained by unauthorized entities. These security deficiencies also put both the WIFIA SharePoint and other EPA IT systems hosted on the EPA intranet at increased risk for unauthorized access and disclosure, loss of data, and other hacking activities.

Federal Law and Standards, Agency Procedures Require Information Security Access Controls

Under the Federal Information Security Modernization Act of 2014 (FISMA)^14 agency heads are responsible for “providing information security protections commensurate with the risk and magnitude of the harm resulting from the unauthorized access, use, disclosure, disruption, modification, or destruction” of information and information systems. FISMA requires that agencies comply with security control standards issued by the National Institute of Standards and Technology (NIST).

NIST Special Publication 800-53, Revision 4,^15 provides detailed information on security control standards, their function and their purpose. Security controls are safeguards or countermeasures employed within an organizational information system to protect the confidentiality, integrity and availability of the system and its information. The NIST access controls provide for account managers to create

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^14 Public Law 113-283.
^15 NIST Special Publication 800-53, Revision 4, Security and Privacy Controls for Federal Information Systems and Organizations, was issued in April 2013 and updated through January 22, 2015.
information system accounts for users, monitor the use of these accounts, and remove user access when it is no longer needed.

The *EPA Information Security – Access Control Procedure*, CIO 2150-P-01.2, provides detailed requirements for implementing the NIST access controls. These requirements include that account managers review, at least monthly, system accounts to provide proper access levels to appropriate personnel. This procedure also specifies that when a user’s official association with the EPA or a user’s authorization to access EPA information systems is terminated, all accounts associated with that user be disabled immediately.

**Background on WIFIA SharePoint, Users and User Access**

The WIFIA SharePoint allows the placement and storage of documents and financial information that are used throughout the WIFIA process. WIFIA SharePoint internal EPA users include WIFIA program staff, agency staff from other EPA offices who support the WIFIA program, WIFIA mission support contractors and WIFIA contractors supporting specific loans. SharePoint external users include employees and contractors of prospective borrowers who submit letters of interest and loan applications. WIFIA staff, mission support contractors and external applicants inform the SharePoint site administrator of those individuals who need SharePoint access. When we began our audit in October 2017, one WIFIA staff member performed the daily management of SharePoint user access in a collateral-duty capacity as the site administrator.

When applicant data contain confidential business information (CBI), the applicant is to inform WIFIA staff so that the CBI can be appropriately marked and protected, per EPA procedures. Before receiving SharePoint access, potential users must read the *Protecting Confidential Business Information (CBI) in the WIFIA Program—Procedures and Rules* and sign the *WIFIA CBI Confidentiality Agreement*. Upon receiving a signed confidentiality agreement, the site administrator activates the user’s account and grants access to only those SharePoint folders applicable to the user’s position or role. For example, an external user employed by a local government that applied for WIFIA funding would be granted access to that entity’s folders and data but no others. Some internal EPA users, such as WIFIA team members and mission support contractors, are granted access to add and update documents in any site folder.
EPA Needs Controls to Remove User Access to WIFIA SharePoint in a Timely Manner

WIFIA managers were unable to identify external users who no longer needed SharePoint access and to disable the accounts of such users in a timely manner. Further, while the EPA has access controls in place to remove system access for internal EPA users who are leaving the agency on their final day of employment, WIFIA managers have no access controls in place to immediately disable the accounts of internal EPA users who remain employed by the EPA but who no longer work on the WIFIA program. According to WIFIA program procedures, accounts of these EPA users were allowed to remain active for up to 2 weeks past their need for access instead of their access being removed immediately.

Although the WIFIA SharePoint site administrator said that EPA employees or external applicant staff who no longer needed SharePoint access were discussed during meetings, these discussions occurred on an ad hoc basis. Further, the site administrator relied on other parties, such as external applicants, to self-report when individuals left their organization or no longer needed access to the WIFIA SharePoint.

These conditions occurred because WIFIA managers did not have formal processes in place to monitor user accounts, identify when users no longer needed access, and immediately disable the accounts for those users. These required access controls were not established because WIFIA managers were focused on setting up the new WIFIA program and reviewing a greater-than-anticipated number of initial letters of interest with limited staff. As discussed in Chapter 2, had WIFIA managers conducted a formal programmatic risk assessment at the outset of the program, they should have next identified what types of data would be needed to manage the program and what types of IT controls would be needed to safeguard such data. Lastly, the WIFIA employee serving as the SharePoint site administrator was the only person managing access requests and was performing the function as a collateral duty.

Actions Taken During Our Audit

In February 2018, the WIFIA program migrated its SharePoint to a new website to have more space for the anticipated increase in applicants and associated documents. WIFIA managers developed a standard operating procedure for managing the SharePoint website, including user access controls. One control established was to disable the access of external users as the phases of the WIFIA process are completed. Another control was to disable the access of internal EPA users within 5 days to 2 weeks of when they stop working on the WIFIA program (i.e., when they return to other EPA projects or work). This standard operating procedure was approved by the WIFIA Director in March 2018.
In addition, WIFIA managers assigned an EPA staff member on detail to the WIFIA program to be a second site administrator so that there are two employees serving in that role: a primary and an alternate. The staff member on detail was permanently reassigned to the WIFIA program as of April 15, 2018.

These actions, in part, correct the site administrator management and access control conditions identified above. However, the WIFIA program still lacks a formal process to identify external SharePoint users who no longer require access and to disable their access in a timely manner. In addition, the EPA still needs a formal process to immediately remove the access of internal EPA users who no longer work on the WIFIA program.

**Conclusion**

If a user leaves employment or no longer needs access to the WIFIA SharePoint, the applicable entity’s management should notify WIFIA team members or contractors so that the site administrator can immediately disable the user’s account. Not having a formal process in place to monitor user accounts and routinely identify whose access should be disabled creates an IT security risk and could expose the WIFIA program to credibility problems if CBI is obtained by unauthorized entities. These security control deficiencies do not comply with FISMA, NIST and EPA IT access control requirements. In addition, these deficiencies put the WIFIA SharePoint and other EPA IT systems linked on the EPA intranet at an increased risk for unauthorized access and disclosure, loss of data, and other hacking activities.

**Recommendations**

We recommend that the Assistant Administrator for Water:

3. Develop and implement Water Infrastructure Finance and Innovation Act SharePoint system access controls for monitoring user accounts and access that comply with the Federal Information Security Modernization Act of 2014, National Institute of Standards and Technology, and EPA requirements.

We recommend that the Assistant Administrator for Mission Support:

4. Test and assess the implemented Water Infrastructure Finance and Innovation Act SharePoint system access controls to determine whether the controls are functioning as intended and comply with federal requirements and the EPA’s information technology security program.
Agency Response and OIG Evaluation

The OW agreed with Recommendation 3, and the OEI agreed with Recommendation 4. Both offices provided acceptable planned corrective actions and estimated completion dates. Recommendations 3 and 4 are resolved with corrective actions pending.

For Recommendation 3, the OW agreed that the WIFIA program will share the SharePoint system access controls it develops and implements with the OEI by December 31, 2018. As a part of updating its OMB Circular A-123 risk assessment, the WIFIA program will also identify what types of data are needed to manage the program and what types of IT controls are needed to safeguard such data.

For Recommendation 4, the OEI agreed to test and assess the implemented WIFIA SharePoint system access controls by March 30, 2019, to determine whether the controls are functioning as intended and comply with federal requirements and the EPA’s IT security program.

The agency’s detailed response is in Appendix B.
### Status of Recommendations and Potential Monetary Benefits

<table>
<thead>
<tr>
<th>Rec. No.</th>
<th>Page No.</th>
<th>Subject</th>
<th>Status</th>
<th>Action Official</th>
<th>Planned Completion Date</th>
<th>Potential Monetary Benefits (in $000s)</th>
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<tr>
<td>1</td>
<td>10</td>
<td>Finalize a formal and comprehensive risk assessment for the Water Infrastructure Finance and Innovation Act program in accordance with Office of Management and Budget Circular A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control.</td>
<td>R</td>
<td>Assistant Administrator for Water</td>
<td>12/31/18</td>
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<td>2</td>
<td>14</td>
<td>Develop program performance measures to assess the effectiveness of the Water Infrastructure Finance and Innovation Act program and finalize the measures for each Water Infrastructure Finance and Innovation Act loan.</td>
<td>R</td>
<td>Assistant Administrator for Water</td>
<td>9/30/19</td>
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<td>3</td>
<td>18</td>
<td>Develop and implement Water Infrastructure Finance and Innovation Act SharePoint system access controls for monitoring user accounts and access that comply with the Federal Information Security Modernization Act of 2014, National Institute of Standards and Technology, and EPA requirements.</td>
<td>R</td>
<td>Assistant Administrator for Water</td>
<td>12/31/18</td>
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<tr>
<td>4</td>
<td>18</td>
<td>Test and assess the implemented Water Infrastructure Finance and Innovation Act SharePoint system access controls to determine whether the controls are functioning as intended and comply with federal requirements and the EPA’s information technology security program.</td>
<td>R</td>
<td>Assistant Administrator for Mission Support</td>
<td>3/30/19</td>
<td></td>
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1 C = Corrective action completed.
R = Recommendation resolved with corrective action pending.
U = Recommendation unresolved with resolution efforts in progress.
Appendix A

Details on Scope and Methodology

We reviewed the following relevant laws, policies and procedures:

- Fixing America’s Surface Transportation Act, Public Law 114-94, § 1445.
- Water Infrastructure Improvements for the Nation Act, Public Law 114-322, § 5008.
- EPA, WIFIA website.
To determine whether the EPA has established effective internal controls for the WIFIA program in accordance with the GAO’s five internal control components, we performed the following actions:

- Identified, collected and analyzed all applicable criteria related to the five internal control standards required by the GAO’s *Standards for Internal Control*.

- Performed a site visit and interviewed all WIFIA staff members as of November 2017 to gain an understanding of the program and how it works, as well as to determine whether the program complies with the GAO’s *Standards for Internal Control*.

- Interviewed EPA personnel who assisted in establishing the WIFIA program or who are currently involved in developing performance measures.

- Interviewed OEI personnel about the EPA’s IT security measures and requirements.

- Judgementally selected and reviewed documents submitted by the two loan applicants as of January 31, 2018, to determine the following:
  - Whether the applicants and the WIFIA team complied with federal guidelines.
  - Whether the WIFIA program was compliant with the milestones set forth in the *WIFIA Deliverables – FY 2018* workbook and with the WIFIA program’s stated review process.
  - Whether WIFIA staff used any of its checklists for reviewing project loan applications.
Appendix B

OW and OEI Response to Draft Report

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft No. OA-FY18-0023 EPA’s Water Infrastructure Finance and Innovation Act Program Needs Additional Internal Controls dated September 12, 2018

FROM: David P. Ross, Assistant Administrator
Office of Water

Vaughn Noga, Principal Deputy Assistant Administrator
Office of Environmental Information

TO: Michael D. Davis, Director, Efficiency Directorate
Office of Audit and Evaluation

Thank you for the opportunity to respond to the issues and recommendations in the Office of Inspector General’s (OIG) draft report EPA’s Water Infrastructure Finance and Innovation Act Program Needs Additional Internal Controls. The following is a summary of the U.S. Environmental Protection Agency’s (EPA) overall position, along with its position on each of the report recommendations. For the report recommendations with which the EPA agrees, the Agency has provided high-level intended actions and estimated completion dates. For the report recommendation with which the EPA does not agree, we have explained our position and proposed alternatives to the recommendations.

AGENCY’S OVERALL POSITION

The EPA appreciates the Office of the Inspector General (OIG) acknowledgment that the Agency established a solid and positive control environment and found no issues with three of the five Government Accountability Office (GAO) control components: control environment, information and communications, and monitoring. The OIG makes four recommendations related to the two other GAO control components: risk assessment and control activities. Three recommendations are for the Assistant Administrator for Water and one is for the Principal Deputy Assistant Administrator for Environmental Information. The EPA and the Water Infrastructure Finance and Innovation Act (WIFIA) program have done significant work to
establish this new program with extensive internal controls. The EPA will continue to build upon program success by incorporating many of the OIG’s recommendations. However, the EPA disagrees that the measures included in the WIFIA credit agreements cannot track the program’s overall, long-term performance. The EPA values receiving the OIG’s input early in the WIFIA program’s development and the opportunity to proactively address these recommendations so that the Agency can continue the program’s positive track record of achieving results.

**AGENCY’S RESPONSE TO REPORT RECOMMENDATIONS**

<table>
<thead>
<tr>
<th>No.</th>
<th>Recommendation</th>
<th>High-Level Intended Action(s)</th>
<th>Estimated Completion Date</th>
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</table>
| 1   | Finalize a formal and comprehensive risk assessment for the Water Infrastructure Finance and Innovation Act program in accordance with Office of Management and Budget Circular A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control. | Prior to establishing the WIFIA program, the EPA complied with Office of Management and Budget (OMB) Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables, dated January 2013, which addresses key risks to credit programs, including separation of duties, communications policy, outsourcing of programmatic functions, and risk thresholds. The WIFIA program also completed a Risk Appetite Assessment and Report in 2017. The Risk Appetite Report addresses risks and mitigants/controls in the following areas: public health risk, environmental risk, strategic risk, branding risk, litigation risk, default risk, loss given default risk, legal risk, funding risk, loan tenor risk, interest rate risk, regulatory risk, development risk, innovation risk, completion risk, performance risk. While risk to the program has been comprehensively assessed and addressed with mitigants and controls, the December 31, 2018.
EPA recognizes that it must also complete an A-123 risk assessment and implement detailed internal controls for the program. In March 2018, the WIFIA program established internal controls for the project selection, application review, and loan approval processes. The OIG has identified several additional areas for the EPA to address including staffing, records, and data. The EPA will update that programmatic A-123 risk assessment to consider policies and procedures needed to protect the program risks in these areas.

| 2 | Develop program performance measures to assess the effectiveness of the Water Infrastructure Finance and Innovation Act program and finalize the measures for each Water Infrastructure Finance and Innovation Act loan. | The EPA disagrees that the measures included in the WIFIA credit agreements cannot track the program’s overall, long-term performance.

The WIFIA program finalized the following measures to be included in each WIFIA loan in April 2018 and included them in its first four credit agreements:

(i) the estimated interest savings the borrower is realizing through the use of the WIFIA loan compared to comparable market rate financing;

(ii) the number of jobs created by the project on an annual basis during the period between the effective date and substantial completion;

(iii) whether the project will assist the borrower in   | WIFIA loan measures: The WIFIA program will continue its current approach for future loans.

Program performance measures: In time for the next budget formulation exercise. |
|   |   | complying with applicable regulatory requirements, and if so, a narrative description describing such enhancements. Additional environmental measures are consistent across projects of the same type (i.e., drinking water treatment, wastewater management, combined sewer overflow control). Since three measures are consistent across credit agreements and others are consistent across project types, the WIFIA program can aggregate individual borrower responses to demonstrate program impact. As part of the EPA’s effort to implement LEAN, the Office of Wastewater Management is reviewing current measures and proposing new measures. WIFIA management will propose quantitative and qualitative performance measures to be included. Develop and implement Water Infrastructure Finance and Innovation Act SharePoint system access controls for monitoring user accounts and access that comply with the Federal Information Security Modernization Act of 2014, National Institute of Standards and Technology, and EPA requirements. As the OIG notes, the WIFIA program has developed and implemented SharePoint system access controls. The WIFIA program will share these controls with the Office of Environmental Information (OEI) to ensure access controls function as intended and comply with federal requirements and the EPA’s information technology security program. |   | December 31, 2018 |
The WIFIA program will identify what types of data are needed to manage the program and what types of information technology controls are needed to safeguard such data as a part of updating its A-123 risk assessment.

<table>
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<th>Test and assess the implemented Water Infrastructure Finance and Innovation Act SharePoint system access controls to determine whether the controls are functioning as intended and comply with federal requirements and the EPA’s information technology security program.</th>
<th>OEI, in conjunction with the Office of Water’s (OW) testing schedule, will test and assess the implemented WIFIA SharePoint system access controls to determine whether the controls are functioning as intended and comply with federal requirements and the EPA’s information technology security program.</th>
<th>March 30, 2019</th>
</tr>
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</table>

**CONTACT INFORMATION**

If you have any questions regarding this response, please contact Jorianne Jernberg, WIFIA Program Director at (202) 566-1831, Karen Fligger at (202) 564-2992 or Robert McKinney, Chief Information Security Officer, Office of Environmental Information, at (202) 564-0921.

cc: Benita Best-Wong, OW  
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Raffael Stein, OW  
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Appendix C

**Distribution**

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Special Advisor, Office of the Administrator
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Chief of Operations
Assistant Administrator for Water
Assistant Administrator for Mission Support
Agency Follow-Up Official (the CFO)
Agency Follow-Up Coordinator
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Deputy Assistant Administrator for Environmental Information, Office of Mission Support
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Principal Deputy Assistant Administrator for Water
Director, Office of Continuous Improvement, Office of the Administrator
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Audit Follow-Up Coordinator, Office of the Administrator
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Audit Follow-Up Coordinator, Office of Mission Support
Audit Follow-Up Coordinators, Regions 1–10