

# The EPA Could Improve Its Review of Drinking Water State Revolving Fund Programs to Help States Assist Disadvantaged Communities

July 11, 2023 | Report No. 23-P-0022



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**Abbreviations:**

DWSRF	Drinking Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
IJA	Infrastructure Investment and Jobs Act
IUP	Intended Use Plan
OIG	Office of Inspector General
OWSRF	Office of Water State Revolving Fund Database
SDWA	Safe Drinking Water Act

**Key Definitions:** *Please see Appendix A for key definitions.*

**Cover Image:** Drinking water supply tower. (EPA photo)

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# Office of Inspector General U.S. Environmental Protection Agency **At a Glance**

23-P-0022  
July 11, 2023

## Why We Did This Audit

The U.S. Environmental Protection Agency Office of Inspector General conducted this audit to determine to what extent states have met their drinking water state revolving fund loan subsidy goals for disadvantaged communities as identified in their intended use plans and whether the EPA identified and addressed barriers, if any, that hindered states from spending the maximum allowed on loan subsidies for disadvantaged communities.

Annually, the EPA awards capitalization grants to the states that then provide low interest rate loans for drinking water infrastructure projects. For federal fiscal years 2017 through 2021, these grants totaled \$5.1 billion. The grants contain minimum loan subsidy requirements. The EPA also set a goal for the states to provide the subsidies timely. The states can use up to approximately 31 percent of their grants to fund set-asides to, among other things, assist disadvantaged communities in qualifying for loans.

### **This audit supports an EPA mission-related effort:**

- *Ensuring clean and safe water.*

### **This audit addresses top EPA management challenges:**

- *Integrating and leading environmental justice, including communicating risks.*
- *Managing increased investment in infrastructure.*

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## ***The EPA Could Improve Its Review of Drinking Water State Revolving Fund Programs to Help States Assist Disadvantaged Communities***

### **What We Found**

We found that two of the seven states we reviewed, Alabama and Maryland, did not consistently meet their requirements to award loan subsidies to disadvantaged communities and other eligible recipients for state fiscal years 2017 through 2020. By 2019, Maryland completed corrective actions to address this issue.

Furthermore, of the seven states we reviewed, Idaho was the only one to consistently meet the EPA's timeliness goal. We calculated that the other six states did not timely award \$46.7 million in loan subsidies, nearly a third of the required minimum subsidies.

We identified barriers to meeting the loan subsidies requirements, including:

- Inadequate oversight by the EPA regions.
- Underuse of set-asides by the states.

For the states we reviewed, the level of set-aside statistically correlated with the level of loan subsidy. Alabama, which fell \$7.2 million, or 38.4 percent, short of its loan subsidy requirements, took less than a quarter of its available set-asides. If Alabama increased its set-aside award to the national average, we estimated that it would have \$30.7 million for federal fiscal years 2023 through 2026 that it could put to better use by assisting disadvantaged communities in qualifying for loans.

Lastly, Alabama did not consistently assign its loan subsidies with a capitalization grant in the EPA's database. We found this problem with ten additional states nationwide. This problem prevents the EPA from performing consistent oversight.

**When states do not provide loan subsidies, or do not provide them timely, infrastructure improvements may not occur, negatively affecting disadvantaged communities' ability to provide safe drinking water.**

### **Recommendations and Planned Agency Corrective Actions**

To improve the EPA's oversight of states' efforts to provide loan subsidies to disadvantaged communities, we recommend that the EPA update regional review guidance, work more closely with states to clarify set-aside requirements and to assess set-aside use to assist disadvantaged communities, and ensure that states assign loan subsidies with a capitalization grant in the EPA's database. The Agency agreed to all three recommendations and proposed acceptable corrective actions for two. We will work with the Office of Water to resolve the third recommendation.



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

July 11, 2023

**MEMORANDUM**

**SUBJECT:** The EPA Could Improve its Review of Drinking Water State Revolving Fund Programs to Help States Assist Disadvantaged Communities  
Report No. 23-P-0022

**FROM:** Sean W. O'Donnell, Inspector General

**TO:** Radhika Fox, Assistant Administrator  
Office of Water

This is our report on the subject audit conducted by the U.S. Environmental Protection Agency Office of Inspector General. The project number for this audit was [OA-FY22-0020](#). 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.

You are designated as the action official for the three recommendations made in this report.

In accordance with EPA Manual 2750, your office provided acceptable planned corrective actions and estimated milestone dates for Recommendations 1 and 2. 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 3 is unresolved. EPA Manual 2750 requires that recommendations be resolved promptly. Therefore, we request that the EPA provide us within 60 days its responses 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 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. The Inspector General Act of 1978, as amended, requires that we report in our semiannual reports to Congress on each audit or evaluation report for which we receive no Agency response within 60 calendar days.

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

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# Chapter 1

## Introduction

### Purpose

The U.S. Environmental Protection Agency Office of Inspector General [initiated](#) this audit to determine to what extent:

- States have met their drinking water state revolving fund, or DWSRF, loan-subsidy goals for disadvantaged communities, as identified in their intended-use plans.
- The EPA has identified and addressed barriers, if any, that hindered states from spending the maximum allowed on loan subsidies for disadvantaged communities in their DWSRF.

#### Top Management Challenges Addressed

This audit addresses the following top management challenges for the Agency, as identified in the [OIG report, EPA's Fiscal Year 2023 Top Management Challenges](#), issued October 28, 2022:

- Integrating and leading environmental justice, including communicating risks.
- Managing increased investment in infrastructure.

### Background

According to the EPA, over 148,000 public water systems provide drinking water to 90 percent of Americans through an estimated 2.2 million miles of transmission lines and distribution mains. In 2023, the EPA estimated that \$625 billion is needed to maintain and improve the nation's drinking water infrastructure over the next 20 years. This infrastructure investment is needed to ensure the public health, security, and economic well-being of our communities.

#### Drinking Water State Revolving Fund

The DWSRF is a financial assistance program that helps water systems and states achieve the human health protection objectives of the Safe Drinking Water Act, or SDWA. Congress established the DWSRF in the 1996 amendments to SDWA. Congress annually appropriates funding for the DWSRF. The EPA then awards annual capitalization grants to each state and Puerto Rico to fund the 51 state DWSRF programs.<sup>1</sup> In this report, we use "states" in relation to the DWSRF to refer to the 50 states and Puerto Rico. For federal fiscal years 2017 through 2021, these grants totaled over \$5.1 billion, as shown in Table 1.

**Table 1: Amount of capitalization grants for the 51 drinking water state revolving funds.**

Federal fiscal year	Amount allocated (\$)
2017	803,531,000
2018	1,082,966,000
2019	1,072,857,000
2020	1,073,539,000
2021	1,072,564,000
<b>Total over five years</b>	<b>5,105,457,000</b>

Source: OIG analysis of EPA data. (EPA OIG table)

<sup>1</sup> The DWSRF program also provides direct grant funding for the District of Columbia and U.S. territories. This grant funding was outside the scope of this audit.

SDWA requires each state to provide at least a 20 percent match to the federal funds. The state DWSRF programs function like infrastructure banks by providing low-interest loans to eligible recipients for drinking water infrastructure projects. These loans are considered subsidized because they offer below-market interest rates. As the recipients repay their loans to the state DWSRF, the state makes new loans to other recipients. These repayments of loan principal and interest earnings allow the state’s DWSRF to revolve over time.

### **DWSRF Loan Subsidies**

SDWA, as amended, allows states to provide subsidies, including forgiveness of principal, to a disadvantaged community or a community that the state expects to become disadvantaged as a result of taking on a loan for a proposed project. SDWA refers to these subsidies as “additional subsidies” because the loans provided through the DWSRF are already subsidized through below-market interest rates. In this report, we refer to them more simply as “subsidies.”

Since federal fiscal year 2019, SDWA has required states to provide these subsidies if there are sufficient applications for loans from those communities. SDWA also requires each state to establish affordability criteria for the purpose of determining what constitutes a disadvantaged community. As shown in Table 2, requirements related to the DWSRF loan subsidies varied over time. For the years we examined, the minimum subsidy to disadvantaged communities required by SDWA was either zero, meaning subsidies were optional, or 6 percent of the capitalization grant. The maximum subsidy allowed by SDWA was 30 or 35 percent.

**Table 2: DWSRF loan subsidy requirements by percent of capitalization grant**

Federal fiscal year*	SDWA subsidy requirement minimum (%)	SDWA subsidy requirement maximum (%)	Annual appropriation subsidy requirement minimum (%)	Annual appropriation subsidy requirement maximum† (%)	Total minimum subsidy requirement (%)
2015	0	30	20	30	20
2016	0	30	20	—	20
2017	0	30	20	—	20
2018	0	30	20	—	20
2019	6	35	20	—	26
2020	6	35	14	—	20

Source: OIG analysis of EPA data. (EPA OIG table)

\* We examined intended use plans from 2017 through 2020 and noted that states varied in which capitalization grant federal fiscal year corresponded to a state’s intended use plan. This meant that the capitalization grants we examined ranged from federal fiscal years 2015 to 2020.

† Since federal fiscal year 2017, states were authorized to provide greater subsidies if the funds were used to address a public health threat from heightened exposure to lead in drinking water.

In addition, Congress included in relevant annual appropriations laws minimum subsidy requirements of 14 or 20 percent of the capitalization grant for the years we examined, as shown in Table 2. These subsidies were available to eligible DWSRF recipients, including disadvantaged communities. While most states we reviewed awarded these subsidies only to disadvantaged communities, two states also awarded the subsidies to nondisadvantaged communities, such as those recovering from an emergency or being served by a very small system.

The subsidy requirements together resulted in a total minimum subsidy of 20 or 26 percent of the capitalization grant for the years we examined, as shown in Table 2. For the period we reviewed, the EPA required that a capitalization grant remain open until the state met the minimum subsidy requirements in executed loans.<sup>2</sup>

In 2013, the EPA established a timeliness goal that the state DWSRF programs provide the required minimum loan subsidies in executed loan agreements by the end of the federal fiscal year after the EPA awarded the capitalization grant. The EPA created this timeliness goal to address concerns related to unliquidated obligations, where funds were not being moved into projects in a timely manner.

### DWSRF Set-Asides

SDWA allows each state to use up to approximately 31 percent of each DWSRF capitalization grant from the EPA to fund the state’s work to fulfill a variety of its drinking water responsibilities. For example, the state can use these set-asides to fund activities that help communities obtain the technical, managerial, and financial capacity needed to qualify for a DWSRF loan, as described in Table 3. This capacity includes the ability to maintain compliance with SDWA requirements and manage financial resources.

<p><b>Technical Capacity:</b> The physical and operational ability of a water system to meet SDWA requirements.</p>	<p><b>Managerial Capacity:</b> The ability of a water system to conduct its affairs in a manner enabling the system to achieve and maintain compliance with SDWA requirements.</p>	<p><b>Financial Capacity:</b> The ability of a water system to acquire and manage sufficient financial resources to allow the system to achieve and maintain compliance with SDWA requirements.</p>
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*—EPA Regional Capacity Development Coordinator’s Handbook*

**Table 3: How states can use SDWA-authorized set-asides to assist disadvantaged communities in obtaining the capacity needed to qualify for DWSRF loans**

Set-aside	Use example	Maximum set-aside (% of capitalization grant)
Administration and technical assistance*	<ul style="list-style-type: none"> <li>Provide technical assistance to water systems</li> </ul>	4
Small systems technical assistance†	<ul style="list-style-type: none"> <li>Provide technical assistance and training to small water systems</li> <li>Contract for third-party technical assistance providers</li> </ul>	2
State program management	<ul style="list-style-type: none"> <li>Develop and implement a capacity development strategy</li> </ul>	10
Local assistance and other state programs	<ul style="list-style-type: none"> <li>Assist in the development and implementation of local drinking water initiatives</li> <li>Provide technical or financial assistance to water systems for capacity development</li> </ul>	15
<b>Total</b>		<b>31</b>

Source: OIG analysis of EPA data. (EPA OIG table)

\* A state DWSRF program may use up to the highest of three options for the administration and technical assistance set-aside: \$400,000, 4 percent of the federal capitalization grant, or one-fifth of one percent of the current value of the state’s fund. This leads to a higher than 4 percent allocation for this set-aside for some states.

† For the purposes of the DWSRF, small systems are those systems that serve 10,000 or fewer persons.

<sup>2</sup> In a November 2021 memorandum, the EPA updated the policy regarding loan subsidies, allowing loan subsidies to be awarded from previously closed capitalization grants without reopening them and lowering the approval level to EPA regional program offices.



## ***DWSRF Planning and Reporting Requirements***

SDWA requires each state to prepare an annual intended use plan, or IUP, that describes how the state intends to use that year's capitalization grant to support the overall goals of the DWSRF program. According to 40 C.F.R. § 35.3555, the IUP must:

- Define what constitutes a disadvantaged community.
- Identify the amount and type of loan subsidies that may be made available to disadvantaged communities.
- Identify, to the maximum extent practicable, projects that will receive disadvantaged community loan subsidies and the respective subsidy amounts.

SDWA also requires that each state publish and submit to the EPA a report every other year on its DWSRF activities. In practice, many states publish their reports annually.

## ***EPA Oversight of State DWSRF Programs***

The EPA is responsible for oversight to ensure that the state DWSRF programs comply with applicable federal requirements throughout the project approval, loan closing, project completion, and close-out processes. According to 40 C.F.R. § 35.3570, the EPA is required to annually review each of the state DWSRF programs. The purpose of these annual reviews is to assess the state's performance of activities identified in the state's IUP and biennial report, as well as to determine compliance with the capitalization grant agreement requirements. Managers and staff members in EPA regional offices review the state DWSRF programs in their region. The EPA directs its regional offices to take a risk-based approach to the annual review to help direct the Agency's limited resources to the areas that need the most attention. The regions assess the financial health and management capacity of each state DWSRF program and work with states to improve program operations. The EPA provides a checklist for the regional review team to complete for each annual review. This checklist contains questions about loan subsidies that the regional review team should consider. For example, the questions ask about the state's criteria for providing loan subsidies and whether the amount and type of loan subsidies are consistent with the loan subsidy requirement for the year under review. The EPA requires the regional review team to provide the state with a written report, known as a "program evaluation report," detailing the review process and findings. The EPA encourages the team to provide this report within 60 days from the date that the team completed the annual review.

## ***Recent Federal Focus on DWSRF and Equity***

In 2021, the federal government emphasized the need for equity in drinking water safety and programs through the Justice40 Initiative and the Infrastructure Investment and Jobs Act, also known as the IIJA. Although these two efforts are outside the scope of this audit's time frame, our findings can help inform the EPA's work to meet the DWSRF-related goals established by each effort.

### ***Justice40 Initiative***

In January 2021, the president created a governmentwide Justice40 Initiative with the goal of delivering 40 percent of the overall benefits of relevant federal investments to disadvantaged communities. In

July 2021, the administration identified the DWSRF program as one of the 21 priority programs to immediately begin enhancing benefits for disadvantaged communities.

## Infrastructure Investment and Jobs Act

The president signed the IIJA on November 15, 2021. This law included \$50 billion for the EPA to strengthen the nation’s drinking water and wastewater infrastructure—the largest single investment in water infrastructure that the federal government has ever made. Overall, the DWSRF will receive \$30.7 billion allocated over federal fiscal years 2022 through 2026. Of this amount, the general fund will receive \$11.7 billion to supplement annual appropriations to the DWSRF. The remainder of the DWSRF funds appropriated in the IIJA is for replacing lead service lines and addressing emerging contaminants.

The IIJA provides that disadvantaged communities benefit from this investment in water infrastructure. The law mandates that 49 percent of IIJA funds provided through the DWSRF general fund must be provided as loan subsidies to disadvantaged communities. In a March 2022 [memorandum](#) to state revolving fund program managers, the EPA stated that “[g]iven the level of funding under [the IIJA], states should review the current disadvantaged community definition to ensure that it is sufficient to address public health and affordability issues within the state.”

## Responsible Offices

The EPA Office of Ground Water and Drinking Water, within the EPA Office of Water, protects public health by ensuring safe drinking water. The office oversees implementation of SDWA and oversees and provides funding for state drinking water programs. The Office of Water works with the ten EPA regional offices; other federal agencies; state, local, and tribal governments; the regulated community; the public; and other stakeholders to provide guidance, specify scientific methods and data collection requirements, perform oversight, and facilitate communication among those involved in providing safe drinking water.

## Scope and Methodology

We conducted this performance audit from October 2021 to May 2023 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We assessed the internal controls necessary to satisfy our audit objectives.<sup>3</sup> In particular, we assessed the internal control components—as outlined in the U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government*—significant to our audit objectives. In this report, we discuss the internal control deficiencies that we found. Because our audit was limited to the internal

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<sup>3</sup> An entity designs, implements, and operates internal controls to achieve its objectives related to operations, reporting, and compliance. The U.S. Government Accountability Office sets internal control standards for federal entities in GAO-14-704G, *Standards for Internal Control in the Federal Government* (also known as the “Green Book”), issued September 10, 2014.

control components deemed significant to our audit objectives, it may not have disclosed all internal control deficiencies that existed at the time of the audit.

To obtain an understanding of the criteria applicable to the implementation of the DWSRF program, we reviewed relevant federal statutes, regulations, policies, and guidance, including:

- SDWA, as currently enacted and in effect during the time periods of the DWSRF capitalization grants we examined.
- The IIJA.
- 40 C.F.R. part 35, subpart L.
- Relevant EPA guidance documents.
- EPA annual DWSRF reports.
- EPA policies regarding loan subsidies and closeout of capitalization grants.

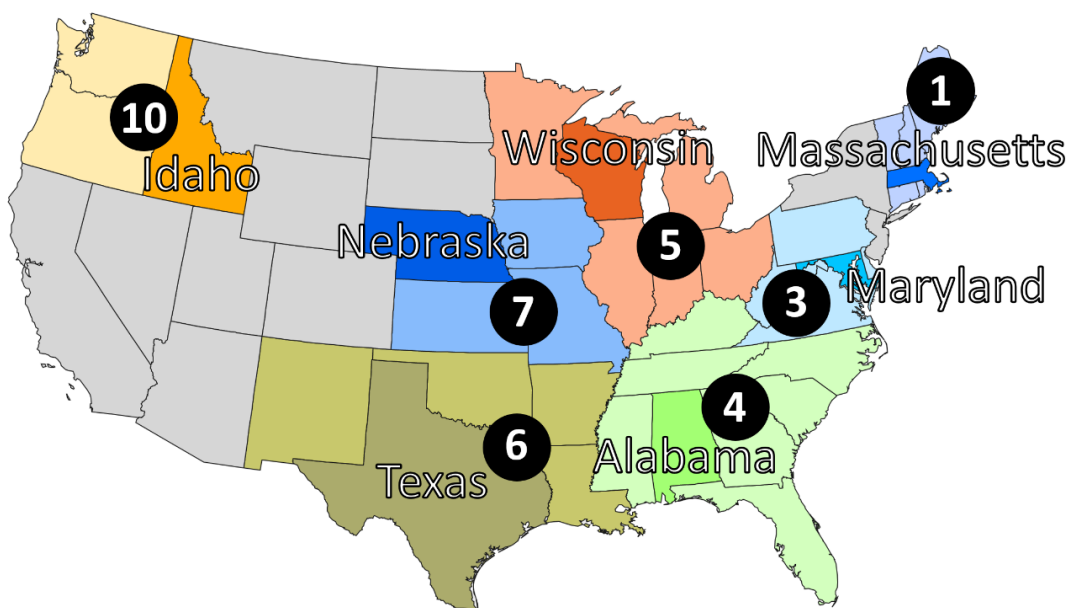
To determine whether states met their DWSRF loan subsidy requirements and the EPA timeliness goal, we reviewed seven state programs. We judgmentally selected states to obtain geographic and size diversity. As our selection was judgmental rather than random, we cannot project our findings on DWSRF program performance in these seven states to the performance of all state DWSRF programs. The selected states and their corresponding EPA region are shown in Table 4 and Figure 1.

**Table 4: States selected for our audit**

State	EPA region
Alabama	4
Idaho	10
Maryland	3
Massachusetts	1
Nebraska	7
Texas	6
Wisconsin	5

Source: OIG analysis. (EPA OIG table)

**Figure 1: The seven states selected for this audit and their corresponding EPA regions.**



Source: OIG analysis of EPA and geographic information. (EPA OIG image)

For state fiscal years 2017 through 2020, we reviewed each of the seven states' IUPs and biennial or annual reports, as well as the corresponding EPA reports assessing the state DWSRF programs.<sup>4</sup> We interviewed managers and staff for each state DWSRF program and for the EPA regions responsible for oversight of those state programs.

We also analyzed data retrieved from the EPA Office of Water State Revolving Fund, or OWSRF, database to determine the extent to which each state program met its loan subsidy requirements and the EPA timeliness goal. We identified the appropriate capitalization grant for each state fiscal year and determined the loan subsidies associated with those capitalization grants.

We were not able to perform the same type of analysis for Alabama as we did for the other six states that we reviewed because of the way the state entered its grant data into the OWSRF database. For most of the Alabama grant data we examined, the state had not assigned loan subsidy amounts to a specific capitalization grant. If a state has not made this assignment in the OWSRF database, the database cannot be used to determine whether a capitalization grant has met its minimum subsidy requirement and is ready for closeout. Because we were not able to examine Alabama's loan subsidy data by capitalization grant, we looked at its loan subsidy commitments over four consecutive state fiscal years. While this analysis differed from our analysis for the other six states, it provided comparable insight into Alabama's progress in providing loan subsidies.

Based on our findings related to Alabama, we examined nationwide loan data as recorded in the OWSRF database to identify if other states in addition to Alabama did not assign loan subsidy amounts to specific capitalization grants.

To determine whether the EPA identified and addressed barriers, if any, that hindered states from spending the maximum allowed on DWSRF loan subsidies for disadvantaged communities, we surveyed the 51 DWSRF program managers. We received 30 survey responses, for a 58.8 percent response rate. We also interviewed DWSRF staff and managers in the seven states we reviewed and in the corresponding EPA regions to further our understanding of these barriers and steps that the EPA has taken. In addition, we analyzed the EPA's data on state set-aside awards and the correlation between those awards and the states meeting loan subsidy requirements. Where we identified that the EPA is taking action to address a barrier, we did not assess the effectiveness of that action.

## Prior Reports

In EPA OIG Report No. [15-P-0032](#), *EPA Needs to Demonstrate Public Health Benefits of Drinking Water State Revolving Fund Projects*, issued December 5, 2014, we identified deficiencies with the EPA's collection of DWSRF project data and the EPA's annual review process to determine project outcomes. As a result of these deficiencies, the EPA was unable to demonstrate the public health results and overall success of the DWSRF program. We made four recommendations to address these deficiencies, and the EPA completed corrective actions to address the recommendations.

Prior to that, in EPA OIG Report No. [14-P-0318](#), *Unliquidated Obligations Resulted in Missed Opportunities to Improve Drinking Water Infrastructure*, issued July 16, 2014, we identified \$231 million in idle capitalization grant funds that were not being implemented into potential drinking water

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<sup>4</sup> Federal fiscal years run from October 1 through September 30. Many states run their fiscal years from July 1 through June 30. In both cases, the fiscal year is known by the later of the two calendar years spanned.

projects. We also found that less than one-third of the projects in state IUPs were executed within the grant year and that these states did not have a consistent definition of when projects were ready to proceed. When projects are not ready to proceed, environmental benefits are delayed. We made four recommendations to address these issues. The EPA reported that it completed corrective actions to address the recommendations. This audit resulted in the EPA implementing a national strategy to reduce unliquidated obligations within the DWSRF program.

## Chapter 2

### States Did Not Always Meet Loan Subsidy Requirements

Two of the seven states we examined, Alabama and Maryland, did not consistently meet their requirements to provide loan subsidies to disadvantaged communities and other eligible recipients for state fiscal years 2017 through 2020. By 2019, Maryland resolved state budget and staffing issues that caused their loan subsidy deficit; however, Alabama’s loan subsidy deficit remained. While most of the seven state DWSRF programs we reviewed eventually met their requirements to provide loan subsidies, only Idaho consistently met the EPA timeliness goal for providing required minimum loan subsidies. We calculated that the states did not timely award \$46.7 million in loan subsidies—nearly a third of the required minimum subsidies. When states do not provide loan subsidies to disadvantaged communities or do not provide those subsidies in a timely manner, those communities may not be able to make the critical infrastructure improvements necessary to provide safe drinking water to residents.

### States Did Not Always Meet Loan Subsidy Requirements

We found that two of the seven states, Alabama and Maryland, did not meet their loan subsidy requirements for the four state fiscal years we examined, based on the loan information we retrieved from the OWSRF database on July 7, 2022, as shown in Table 5. We also found that these two states and two additional states, Nebraska and Texas, did not meet the EPA timeliness goal. Additional information on our analysis is in Appendix B.

**Table 5: Status in meeting loan subsidy requirements for state fiscal years 2017 through 2020**

State	Region	Minimum subsidy requirements (\$)	Subsidies provided as of July 2022 (\$)	Difference (\$)
Alabama*	4	18,851,460	11,620,460	-7,231,000
Idaho	10	8,419,040	12,301,941	3,882,901
Maryland	3	12,671,200	10,079,259	-2,591,941
Massachusetts	1	18,009,000	23,726,006	5,717,006
Nebraska	7	8,418,780	8,705,242	286,462
Texas	6	63,765,300	80,654,755	16,889,455
Wisconsin	5	14,478,556	21,135,220	6,476,664

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Because Alabama’s executed loans were not associated with a capitalization grant in the OWSRF database, we were unable to determine which capitalization grant a loan belonged to. Instead, we calculated the amount for Alabama based on date ranges.

### *Alabama Should Prioritize Loan Subsidies*

Our analysis, as shown in Table 6, demonstrated that Alabama did not meet the minimum loan subsidy requirements. Over the four state fiscal years we examined, Alabama accumulated a deficit of \$7.2 million in loan subsidies. While Alabama’s subsidies increased from \$1.9 million in state fiscal year 2017 to \$4.8 million in state fiscal year 2020, that increase was not enough to make up the deficit in

subsidies from the prior three years. From this record, we concluded that Alabama did not sufficiently prioritize meeting the minimum loan subsidy requirements.

**Table 6: Alabama’s DWSRF loan subsidies by state fiscal year**

State fiscal year	Grant award amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Loan subsidy amount as of July 2022* (\$)	Difference* (\$)
2017	15,740,000	20	3,148,000	1,925,000	-1,223,000
2018	23,944,000	20	4,788,800	1,640,000	-3,148,800
2019	23,721,000	26	6,167,460	3,236,000	-2,931,460
2020	23,736,000	20	4,747,200	4,819,460	72,260
<b>Total</b>			<b>18,851,460</b>	<b>11,620,460</b>	<b>-7,231,000</b>

Notes: Green cell = Loan subsidy amount was at or above the required subsidy amount. Yellow cell = Loan subsidy amount was below the required subsidy amount. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Because Alabama’s executed loans were not associated with a capitalization grant in the OWSRF database, we were unable to determine which capitalization grant a loan belonged to. Instead, we calculated the amount for Alabama based on date ranges.

### Maryland Addressed Its Loan Subsidy Gap

The Maryland DWSRF program did not meet its loan subsidy requirements in two of the four years we examined, as shown in Table 7. The Maryland state legislature’s budget planning caused grants to remain unused for nearly a year. This legislative delay largely contributed to the Maryland DWSRF program being late in meeting its loan subsidy. In addition, according to the EPA Region 3 program evaluation reports, the Maryland DWSRF program experienced significant staff turnover during a two-year period. These vacancies included high-level positions that were temporarily filled by other staff. By 2019, Maryland completed corrective actions intended to help it meet its DWSRF program requirements. Some of the results of those actions are reflected in Table 7. As the table shows, the state caught up in meeting the loan subsidy requirements for the two earliest years examined by the time we retrieved loan information from the OWSRF database in July 2022. As of November 2022, the Maryland DWSRF program had resolved 83 percent of the \$2.6 million deficit shown in Table 7.

**Table 7: Maryland’s DWSRF loan subsidies by state fiscal year**

State fiscal year	Grant award amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Loan subsidy amount as of July 2022 (\$)	Difference* (\$)
2017	14,913,000	20	2,982,600	3,029,565	46,965
2018	14,108,000	20	2,821,600	3,000,000	178,400
2019	13,987,000	20	2,797,400	1,940,724	-856,676
2020	20,348,000	20	4,069,600	2,108,970	-1,960,630
<b>Total</b>			<b>12,671,200</b>	<b>10,079,259</b>	<b>-2,591,941</b>

Notes: Green cell = Loan subsidy amount was at or above the required subsidy amount. Yellow cell = Loan subsidy amount was below the required subsidy amount. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Difference between required subsidy amount and loan subsidy amount as of July 2022.

**States Did Not Meet the EPA Timeliness Goal**

We also examined whether the states met the EPA timeliness goal when they awarded loan subsidies to disadvantaged communities and other eligible recipients. In 2013, the EPA established a timeliness goal that the state DWSRF programs provide the required minimum loan subsidies in executed loan agreements by the end of the federal fiscal year after the EPA awarded the capitalization grant. For at least three of the four state fiscal years we reviewed, Alabama, Maryland, Nebraska, and Texas did not meet the EPA timeliness goal, as shown in Table 8. However, all except Alabama had made progress in awarding loan subsidies by the time we retrieved the loan data in July 2022. Massachusetts and Wisconsin met the EPA timeliness goal in at least two of the four state fiscal years we reviewed. Idaho was the only state reviewed that met the EPA timeliness goal for all four state fiscal years we reviewed.

**Table 8: State status in meeting the EPA timeliness goal for state fiscal years 2017 through 2020**

State	Percent of years meeting the EPA timeliness goal (%)	Status*
Alabama†	25	Did not meet the EPA timeliness goal for three of the four years we examined. As shown in Table 6, at the time we retrieved the loan data, Alabama was still behind by \$7.2 million in meeting the loan subsidy minimum requirements for the four years.
Idaho	100	Met the EPA timeliness goal for all four years we examined.
Maryland	0	Did not meet the EPA timeliness goal for any of the four years we examined. As shown in Table 7, at the time we retrieved the loan data, Maryland had met the loan subsidy minimum requirements for the two earliest years.
Massachusetts	75	Met the EPA timeliness goal for three of the four years we examined. Massachusetts missed the goal for one year due to a project delay.
Nebraska	0	Did not meet the EPA timeliness goal for any of the four years we examined. However, at the time we retrieved the loan data Nebraska had exceeded minimum subsidy amounts for the three earliest years.
Texas	25	Did not meet the EPA timeliness goal for three of the four years we examined. However, at the time we retrieved the loan data, Texas had exceeded minimum subsidy amounts for the three earliest years.
Wisconsin	50	Met the EPA timeliness goal for two of the four years we examined, and nearly met the goal for the other two.

Source: OIG analysis of EPA data. (EPA OIG table)

\* Loan data retrieved from the OWSRF database on July 7, 2022.

† Because Alabama’s executed loans were not associated with a capitalization grant in the OWSRF database, we based timeliness on the loan subsidy amount awarded within a state fiscal year.

**Effect of States Not Meeting Loan Subsidy Requirements**

We calculated that the states, for the period we reviewed, did not timely award \$46.7 million in loan subsidies, or nearly a third of the required minimum subsidies, based on the EPA timeliness goal. When states do not provide loan subsidies to disadvantaged communities and other eligible recipients, or do not provide those subsidies in a timely manner, those communities may not be able to make the critical infrastructure improvements necessary to provide safe drinking water to residents.



# Chapter 3

## Barriers Affected States' Ability to Meet the Requirements to Provide Loan Subsidies to Disadvantaged Communities

While most of the seven states we reviewed eventually met their requirements to provide loan subsidies to disadvantaged communities and other eligible recipients, most did not meet the EPA timeliness goal. When states do not provide timely loan subsidies, infrastructure improvements may be delayed, negatively affecting communities' ability to provide safe drinking water to their residents. We identified five barriers that affected the ability of state DWSRF programs to meet the requirements to provide loan subsidies in a timely manner. While the EPA has addressed or partly addressed three of these barriers, the Agency still needs to take action to address two of them. First, the EPA needs to improve its review of state DWSRF programs. And second, the states need to improve their use of set-aside funds to assist disadvantaged communities in qualifying for DWSRF loans. In particular, we found that Alabama underused the DWSRF set-asides when compared to the other states we examined. If Alabama were to increase its set-aside award to the national average, we estimated that it would have \$30.7 million for federal fiscal years 2023 through 2026 that it could put to better use by assisting disadvantaged communities in qualifying for DWSRF loans.

These improvements should lead to states not only meeting their loan subsidy requirements but also to states attaining both the IIJA goal of assisting disadvantaged communities and the Justice40 Initiative goal of delivering 40 percent of benefits from the DWSRF investment to disadvantaged communities.

### The EPA Needs to Address Barriers to Meeting Loan Subsidy Requirements

We identified five barriers that contributed to state DWSRF programs not consistently meeting the requirements for awarding loan subsidies. These included two barriers that the EPA needs to address:

- Inadequate oversight by the EPA regions.
- Underuse of set-asides by the states.

The EPA is taking actions that address, or partly address, the other three barriers we identified:

- States' narrow definitions of how communities qualify for disadvantaged community loan subsidies.
- Community challenges with meeting federal acquisition and labor requirements for proposed projects.
- States' concerns about the sustainability of their funds.

## Inadequate Oversight by the EPA Regions

We identified inadequate oversight by the EPA regions as a barrier to states awarding loan subsidies. The EPA regions conducted their oversight in different ways, with some regions inadequately addressing the timeliness of loan subsidy commitments. As shown in Table 9, EPA Region 4 did not discuss loan subsidies in its program evaluation reports for Alabama, unlike the other regions did in their reports for the states we reviewed. We concluded that, at a minimum, the EPA regions should discuss and document the progress toward meeting the minimum loan subsidy requirements.

**Table 9: EPA program evaluation reports**

Region	State	Did the EPA region include a discussion of loan subsidies in program evaluation reports?	Did the EPA region include a table of open grants and loan subsidies in program evaluation reports?	Did the EPA region include loan subsidy financial indicators in program evaluation reports?
1	Massachusetts	Yes	Yes	Yes
3	Maryland	Yes	Yes	No
4	Alabama	No	No	No
5	Wisconsin	Yes	Yes	No
6	Texas	Yes	No	No
7	Nebraska	Yes	No	No
10	Idaho	Yes	Yes	No

Source: OIG analysis of EPA data. (EPA OIG table)

Also shown in Table 9, four of the seven regions we examined included a table in their program evaluation reports that identified the minimum amount that the state must use for loan subsidies and the amounts committed and disbursed for each open capitalization grant. This comparison table presents the state's progress toward the minimum subsidy amount. The three EPA regions that did not include this type of table oversee three of the four states that did not meet the EPA timeliness goal: Alabama, Nebraska, and Texas.<sup>5</sup> Regional staff told us that the EPA and state program staff can get this information on loan subsidies from the OWSRF database and that the inclusion of this information is not required. However, the EPA's team lead for the national DWSRF program told us that the regions should include subsidies in their review of the state DWSRF programs and in the resulting program evaluation reports.

Region 1 is the only region we reviewed that included the number of loans made to disadvantaged communities and the dollar amount of the loan subsidies awarded in its program evaluation reports, as shown in Table 9. We identified the inclusion of these financial indicators related to loan subsidies in the program evaluation reports as an effective practice for tracking the progress of awarding loan subsidies.

If a region does not include information on the status of loan subsidies in its program evaluation report, the region misses an opportunity to communicate to the state the importance of meeting the minimum subsidy requirements in a timely manner. A lack of clear communication from the region about progress could contribute to some state DWSRF programs not meeting the EPA timeliness goal when they provide loan subsidies to disadvantaged communities and other eligible recipients.

<sup>5</sup> As documented in Chapter 2, Maryland's untimely award of loan subsidies were a result of budget and staffing problems, and the state completed corrective actions intended to help it meet its DWSRF program requirements.

## Underuse of Set-Asides by the States

We identified states' underuse of set-asides as a barrier to the states awarding loan subsidies to disadvantaged communities. Three of the four states that struggled to meet the EPA timeliness goal—Alabama, Nebraska, and Texas—used set-asides at rates lower than the national average. Their subsidy amounts were smaller in proportion than those of the states with higher rates of set-aside use. The states' underuse of set-asides was a barrier to meeting the EPA timeliness goal.

The rates at which states accessed set-asides varied over the four-year period we reviewed, as shown in Table 10. We present additional analyses of state set-asides use in Appendix C.

**Table 10: State set-asides shown as percent of capitalization grant, per state fiscal year**

State	2017 (%)	2018 (%)	2019 (%)	2020 (%)	Average (%)
Alabama	4.0	4.0	11.8	8.7	7.1
Idaho	31.0	31.9*	31.0	31.0	31.2*
Maryland	27.0	26.8	31.0	27.0	28.0
Massachusetts	31.0	31.0	24.6	31.0	29.4
Nebraska	17.5	21.0	19.3	17.0	18.7
Texas	19.0	19.0	18.1	18.1	18.6
Wisconsin	29.1	27.6	25.1	27.3	27.3
<b>National average</b>	<b>20.8</b>	<b>23.1</b>	<b>22.9</b>	<b>21.1</b>	<b>22.0</b>
<b>Maximum*</b>	<b>31.0</b>	<b>31.0</b>	<b>31.0</b>	<b>31.0</b>	<b>31.0</b>

Notes: Green cell = Percentage awarded for set-asides was at or above the national average. Yellow cell = Percentage awarded for set-asides was greater than one-quarter of the maximum allowed percentage and below the national average. Red cell = Percentage awarded for set-asides was less than or equal to one-quarter of the maximum allowed percentage. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

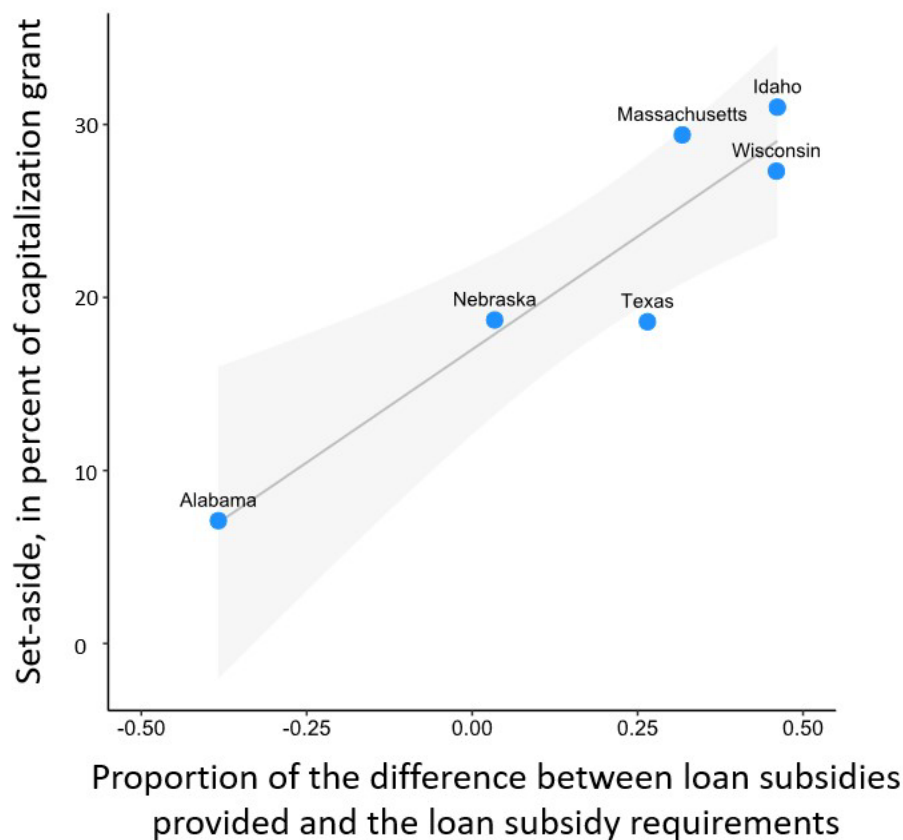
Source: OIG analysis of EPA data. (EPA OIG table)

\* A state DWSRF program may use the highest of three options for the administration and technical assistance set-aside: \$400,000; 4 percent of a capitalization grant; or one-fifth of one percent of the current value of its fund. This may result in a total percent of the capitalization grant that exceeds the 31 percent maximum listed in this table.

For the states we examined, we found that the amount of loan subsidy a state awarded statistically correlated with the percent of set-asides that a state awarded, as shown in Figure 2.<sup>6</sup> Idaho, the state that met the EPA timeliness goal for awarding loan subsidies in all four years that we examined, fully used the available set-aside options. Set-aside use in Massachusetts and Wisconsin was close to the maximum allowed. Alabama, Nebraska, and Texas took set-asides at rates lower than the national average.

<sup>6</sup> In Figure 2, the proportion of the difference (x-axis) equals the difference between the loan subsidy provided and the loan subsidy requirements divided by the loan subsidy requirements. We excluded Maryland from our analysis, as Maryland's deficit in awarding loan subsidies to disadvantaged communities resulted from a legislative delay and a temporary staffing issue that have been resolved, as discussed in the previous section. The correlation analysis R-value of 0.933 is greater than 0.9, which indicates a strong correlation. The correlation analysis p-value of 0.00651 is less than 0.05, which indicates a significant correlation. The shaded area around the correlation line shows the 95 percent confidence interval.

**Figure 2: Correlation between the percent of capitalization grants for 2017–2020 took by states as set-asides and the proportion of the difference between loan subsidies awarded and the loan subsidy requirements**



Source: OIG analysis of EPA information. (EPA OIG image)

One of the ways that a state can build community capacity is by providing assistance using the funds offered by optional DWSRF set-asides. In Table 3, we listed examples of ways that states could use set-asides to increase technical, managerial, and financial capacity within a community to the level needed for the community to qualify for a DWSRF loan. One-third of the respondents to our survey of state DWSRF program managers stated that capacity limitations affected a disadvantaged community’s ability to receive a DWSRF loan. The state and regional program managers we interviewed also identified capacity limitations as a concern. Nearly a quarter of states nationwide underused set-asides and did not meet their loan subsidy requirements.

States have used set-asides to help communities complete the DWSRF loan application, design projects, and comply with DWSRF requirements. For example, Massachusetts used set-asides to implement technical assistance programs that included assisting with loan applications, SDWA compliance, and capacity development. As shown in Figure 2, Massachusetts is one of the states we examined that took set-asides at a high rate and that successfully awarded a high proportion of loan subsidies.

Of the states we examined, we found that Alabama took only a small amount of the set-asides that SDWA permits. Alabama’s average set-aside award, 7.1 percent, was lower than the national average, 22 percent, and the average of the other states we reviewed, 26 percent. The administration and technical assistance set-aside was the only set-aside that Alabama fully took, as shown in Table 11.

Alabama used this set-aside exclusively for administrative costs. For two of the four years in our review, this was the only set-aside that Alabama accessed.

**Table 11: Alabama set-asides, shown as percent of capitalization grant**

Year*	Administration and technical assistance (%)	Small systems technical assistance (%)	State program management (%)	Local assistance and other state programs (%)	Total (%)
2017	4.0	0.0	0.0	0.0	4.0
2018	4.0	0.0	0.0	0.0	4.0
2019	4.0	0.4	6.9	0.5	11.8
2020	4.0	0.0	4.6	0.1	8.7
2017–2020	4.0	0.1	2.9	0.2	7.1
<b>National average, 2017-2020</b>	<b>3.6</b>	<b>1.7</b>	<b>8.9</b>	<b>7.8</b>	<b>22.0</b>
<b>Maximum</b>	<b>4.0</b>	<b>2.0</b>	<b>10.0</b>	<b>15.0</b>	<b>31.0</b>

Notes: Green cell = Percentage awarded for set-aside was at or above the national average. Yellow cell = Percentage awarded for set-aside was greater than one-quarter of the maximum percentage and below the national average. Red cell = Percentage awarded for set-aside was less than or equal to one-quarter of the maximum percentage. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

Source: OIG analysis of EPA data. (EPA OIG table)

\* The OWSRF database uses July of the previous year through June of the year listed.

Alabama took the other three set-asides—small systems technical assistance, state program management, and local assistance and other state programs set-asides—at rates less than the national averages. Alabama was the only state reviewed that did not access these three set-asides every year. To understand the historical use of these three set-asides, we examined use for 2004 through 2018 and found that Alabama did not access these set-asides.

Some state managers’ opinions and misperceptions regarding set-asides contributed to Alabama’s low set-aside awards. An Alabama Department of Environmental Management branch chief told us in an email that he perceived the set-asides as requiring more effort than the benefit they yield. To receive a capitalization grant, a state must submit a work plan to the EPA describing how it intends to use the set-asides. The administration and technical assistance set-aside is the only exception to this requirement. The state does not need to submit a work plan for this set-aside if the set-aside is to be used by the state only for administrative work. The water director for Region 4, the region that oversees Alabama’s DWSRF program, told us that some states do not use their set-asides because some set-asides cannot be used to augment the state staff. However, according to the DWSRF program operations manual, both the administration and technical assistance set-aside and the state program management set-aside include provisions for administrative costs that could be used to fund state staff. Finally, the Alabama branch chief told us that the state is not in the financial shape to provide a match for the state program management set-aside. However, that perception that a match is required is not consistent with current requirements. The Water Infrastructure Improvements for the Nation Act amended SDWA in December 2016 to remove the state matching requirement for this set-aside.

The EPA should work with states to overcome misperceptions on set-aside use and to assess the states’ use of set-asides to assist disadvantaged communities to qualify for DWSRF loans. For example, if Alabama increased its set-aside awards to the national average for the three set-asides it underuses, we estimated that it would have \$30.7 million for federal fiscal years 2023 through 2026—from IJJA

supplemental and annual DWSRF appropriations—that it could put to better use by assisting disadvantaged communities in qualifying for DWSRF loans.<sup>7</sup>

### ***States’ Narrow Definitions of How Communities Qualify for Disadvantaged Community Loan Subsidies***

We identified states’ narrow definitions of how communities qualify for disadvantaged community loan subsidies as a barrier to states awarding loan subsidies to disadvantaged communities. As we reviewed state IUPs and analyzed the responses we received to the state DWSRF program managers survey, we identified inconsistencies in how states define “disadvantaged community” and allocate their subsidies. For example, to determine whether a community qualifies as disadvantaged, Alabama uses the ratio of the community’s annual average water bill to the state median household income, whereas Texas compares a community’s median household income to a percentage of the state median household income. SDWA provides the flexibility for each state DWSRF program to establish its own definition for a disadvantaged community. However, how the states define disadvantaged communities affects the distribution of loan subsidies because communities that would be eligible under the definition of one state would not be eligible under the definition of other states.

The EPA took action that addresses this barrier through its implementation of the IJIA. In a March 2022 [memorandum](#), the EPA strongly encouraged states to update their definitions of disadvantaged communities; this encouragement aligns with the goals of the Justice40 Initiative and the EPA’s *Environmental Justice Action Plan*. The EPA issued *DWSRF Disadvantaged Community Definitions: A Reference for States* in June 2022 to serve as a resource for states that are updating their disadvantaged community definitions. The EPA revised the guidance [document](#) in October 2022.

### ***Community Challenges with Meeting Federal Acquisition and Labor Requirements for Proposed Projects***

We identified community challenges with meeting federal acquisition and labor requirements that apply to funded water infrastructure projects as a barrier to states awarding loan subsidies. Thirty percent of the respondents to our survey of state DWSRF program managers, as well as EPA regional managers we interviewed, raised concerns regarding these requirements. Communities may not have the ability to comply with these requirements, which may prevent them from qualifying for DWSRF loans. However, states can use the set-asides to help communities comply with these requirements. For example, a regional project officer explained that states could use the set-asides to hire rural water organizations to provide assistance.

In addition, the EPA is taking action to partly address this barrier by proposing national waivers for some requirements related to the new IJIA requirement that infrastructure projects use construction materials produced in the United States. Furthermore, under specific conditions the EPA can waive federal requirements on a project level. States can use set-asides to help a community apply for a project-specific waiver.

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<sup>7</sup> To arrive at this estimate, we assumed that the EPA would allocate funds from the fiscal year 2023 appropriation to the state DWSRFs in the same proportion as used in fiscal year 2022 and that annual appropriations for fiscal years 2024, 2025, and 2026 would remain the same as that for fiscal year 2023.

## ***States' Concerns About the Sustainability of Their DWSRFs***

We identified state concerns about the sustainability of their funds as a barrier to the states awarding loan subsidies. Forty percent of the respondents to our survey of the state DWSRF program managers reported that the need to financially sustain their programs was a barrier to providing the maximum amount of loan subsidies allowed. This sustainability concern arises because loan subsidies are effectively grants and are not repaid to the state DWSRF. This means that loan subsidies result in fewer funds revolving through the state DWSRF.

Despite these concerns, some states exceeded the minimum loan subsidy requirements. For example, Idaho reported in its IUPs that, while it awarded subsidies well above the minimum requirements, the projected health of its program was strong. In its 2020 IUP, Idaho stated that its level of loan subsidies “is in keeping with recent years’ levels, during which an analysis of fund balances and revenues have shown consistently rising year-end amounts; therefore, it is reasonable to conclude that a level of [loan subsidy] above the ‘floor’ does not endanger the perpetuity of the DWSRF.”

Twenty-three percent of respondents to our survey of state DWSRF program managers stated that an increase or modification in funds would help alleviate barriers associated with providing loan subsidies. The EPA has the opportunity to address this sustainability concern barrier through the funds provided by the IIJA. This Act provides the EPA with an unprecedented \$30.7 billion, which the EPA is to invest in the nation’s drinking water infrastructure through the state DWSRF programs. By providing significant additional funds through the IIJA, the EPA’s implementation of the IIJA should help alleviate concerns that state program managers have regarding the sustainability of their DWSRFs.

## **Not Meeting Loan Subsidy Requirements Timely Can Delay Critical Infrastructure Improvements**

Most states we reviewed did not meet the EPA timeliness goal. When states do not provide timely loan subsidies to disadvantaged communities and other eligible recipients, critical infrastructure improvements can be delayed, and the communities’ ability to provide safe drinking water to their residents is impaired. These same communities have historically struggled to access DWSRF funding. The EPA is implementing the IIJA funding so that disadvantaged communities have greater access to funds to improve their water infrastructure through higher loan subsidy requirements.

To improve its oversight, the EPA regions should consistently monitor the rate at which states award loan subsidies to disadvantaged communities and document this information in annual program evaluation reports. These changes will communicate to the states the importance of providing subsidies. Additionally, the changes should improve state timeliness in providing loan subsidies and help the state DWSRF programs reach the IIJA and Justice40 goals of assisting disadvantaged communities.

The EPA regions also should improve how they work with states regarding assistance to disadvantaged communities through the states’ use of set-asides. If states are not assisting disadvantaged communities in developing the needed technical, managerial, and financial capacity, these communities are unlikely to qualify for subsidized DWSRF loans. Improved state use of set-asides to provide needed assistance should lead to improvements in the timely awarding of subsidized DWSRF loans to disadvantaged communities.

## Recommendations

We recommend that the assistant administrator for Water:

1. Update the EPA's *State Revolving Fund Annual Review Guidance* to require regions to include the following in the annual program evaluation reports for each state's drinking water state revolving fund:
  - a. An analysis of the state's progress in meeting the minimum loan subsidy requirements for open capitalization grants.
  - b. Financial indicators related to loan subsidies.
2. Implement a plan for the EPA regions to work with states to clarify set-aside use requirements and to assess the states' use of set-asides in assisting disadvantaged communities in qualifying for drinking water state revolving fund loans.

## Agency Response and OIG Assessment

The Office of Water provided its response to our draft report on May 31, 2023, and agreed to Recommendations 1 and 2. The Agency's full response is in Appendix E. We agree that the corrective actions and estimated completion dates proposed by the Office of Water meet the intent of Recommendations 1 and 2.



# Chapter 4

## Incomplete Data Prevents Consistent Oversight of DWSRF Loan Subsidy Requirements

Of the seven states we reviewed, Alabama did not consistently assign its loan subsidies to a capitalization grant in the OWSRF database. We looked at the OWSRF data for all states and found this problem with ten additional states. This problem affected the accuracy of records for \$114 million in loan subsidies across 313 projects. For capitalization grants, states must report the use of all DWSRF funds, including loan subsidies, to the EPA. In May 2021, the EPA replaced previous reporting systems with the OWSRF database. After the EPA migrated loan and grant data to the new database, states needed to take additional steps to fix data issues, such as assigning loan subsidies to capitalization grants. Because 11 states did not assign the loan subsidies to a capitalization grant, the EPA is unable to determine, using the data in the OWSRF database, the progress these states have made in awarding loan subsidies.

### Required Reporting of State DWSRF Information in the OWSRF Database

The EPA DWSRF capitalization grants require states to report the use of all funds, including loan subsidies, to the EPA at least quarterly. In May 2021, the EPA replaced previous reporting systems with the OWSRF database. The EPA provided guidance and a training video on its website to show states what data are required, how to access the database’s tools, and how to enter the needed data. The EPA migrated existing data to the new database, and the states had to take additional steps to resolve data issues, such as assigning loans subsidies to grants.

### The OWSRF Database Has Incomplete Data Entries

Eleven states—or approximately 22 percent of the states—did not consistently assign project loan data, including loan subsidies, to the appropriate capitalization grant, for federal fiscal years 2015 through 2021. We found, as of June 2022, \$114 million in project loan subsidies distributed across 313 projects was not assigned. Over half of these states—six of the 11—are in Region 4, as shown in Table 12.

**Table 12: States that did not consistently assign project loan data to the appropriate capitalization grant data**

State	EPA region
Alabama	4
Kentucky	4
Maine	1
Mississippi	4
Nevada	9
North Carolina	4
Puerto Rico	2
South Carolina	4
Tennessee	4
Vermont	1
Washington	10

Source: OIG analysis of EPA data. (EPA OIG table)

### The EPA Did Not Require States to Update Data

The EPA worked with states to correct missing or incomplete data in the new database, including assigning loan subsidies to corresponding capitalization grants. The EPA built quality assurance procedures into the data migration which identified

data issues to the states. However, controls were not in place to require states to address these data issues in the new database.

## Data Problem Prevents Consistent Oversight

With some loan subsidies not being assigned to the appropriate capitalization grant, the EPA is unable to perform consistent oversight of DWSRF loan subsidy requirements using the data in the OWSRF database. The database includes tools that generate reports showing the states’ progress in fulfilling their DWSRF capitalization grant requirements. One of these reports, the *Assistance Agreement Report*, shows a discrepancy between two loan subsidy fields—current additional subsidy amount and assigned grant subsidy—when the loan subsidy data has not been assigned to a capitalization grant in the OWSRF database. In Figure 3 we show examples of the report when loan subsidies are unassigned and when they are assigned.

For the 11 states that did not consistently assign project loan data to the appropriate capitalization grant, the EPA staff performing oversight would not be able to rely on the data within OWSRF. We conclude that the EPA staff would need to ask the state program staff for additional information about loans, subsidies, and the capitalization grants. This might delay the EPA’s review processes, including the drafting and issuance of the annual program evaluation report. In addition, because the EPA region cannot close a state’s grant until the state has reached the minimum loan subsidy requirement, accurate documentation of loan subsidy status in the OWSRF database is important for effective grant management. The EPA must ensure that the grant and loan information in the OWSRF database is complete and accurate to allow oversight of states’ progress in awarding loan subsidies to disadvantaged communities.

**Figure 3: Examples of loan subsidy information in OWSRF for projects with unassigned and assigned loan subsidies**

Unassigned Loan Subsidy		Assigned Loan Subsidy	
Current Additional Subsidy Amount	Assigned Grant Subsidy	Current Additional Subsidy Amount	Assigned Grant Subsidy
500,000.00	0.00	500,000.00	500,000.00
500,000.00	0.00	500,000.00	500,000.00
125,000.00	0.00	185,000.00	185,000.00
97,625.00	0.00	500,000.00	500,000.00

Source: OIG analysis of OWSRF assistance agreement reports. (EPA OIG image)

## Recommendation

We recommend that the assistant administrator for Water:

- Require states to assign executed loans to the appropriate capitalization grant in the EPA Office of Water state revolving fund database.

## Agency Response and OIG Assessment

The Office of Water provided its response to our draft report on May 31, 2023, and agreed to Recommendation 3. The Agency’s full response is in Appendix E. We determined that the corrective

action and completion date the Office of Water proposed do not fully meet the intent of Recommendation 3. As we discussed in a previous section, we found, as of June 2022, \$114 million in project loan subsidies distributed across 313 projects in 11 states was not assigned in the OWSRF database to the appropriate capitalization grant for federal fiscal years 2015 through 2021. In June 2023, we found that the problem remained, with \$136 million in project loan subsidies distributed across 269 projects not assigned. We also noted the same problem with newer loans. Consequently, we determined that the Office of Water's efforts to administer the requirement that states assign loans to capitalization grants have been ineffective. An acceptable corrective action would include a plan for how the Office of Water will get the states to comply. We will work with the Office of Water to resolve this recommendation.

# Status of Recommendations and Potential Monetary Benefits

## RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	19	Update the EPA's <i>State Revolving Fund Annual Review Guidance</i> to require regions to include the following in the annual program evaluation reports for each state's drinking water state revolving fund: <ul style="list-style-type: none"> <li>a) An analysis of the state's progress in meeting the minimum loan subsidy requirements for open capitalization grants.</li> <li>b) Financial indicators related to loan subsidies.</li> </ul>	R	Assistant Administrator for Water	10/31/23	
2	19	Implement a plan for the EPA regions to work with states to clarify set-aside use requirements and to assess the states' use of set-asides in assisting disadvantaged communities in qualifying for drinking water state revolving fund loans.	R	Assistant Administrator for Water	10/31/23	\$30,700
3	21	Require states to assign executed loans to the appropriate capitalization grant in the EPA Office of Water state revolving fund database.	U	Assistant Administrator for Water		

<sup>1</sup> C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

## ***Key Definitions***

**Capitalization Grant:** A monetary award by the EPA to a state for purposes of funding that state's DWSRF.

**Disadvantaged Community:** The area served by a public water system that meets affordability criteria established by the state after public review and comment. Each state is required to define what constitutes a disadvantaged community in their DWSRF intended use plans.

**DWSRF Annual Review:** The process in which the EPA annually assesses the success of the state's performance of activities identified in the state's DWSRF IUP, biennial report, and operating agreement and determines the state's compliance with the capitalization grant agreement and the requirements of SDWA section 1452 and 40 C.F.R. part 35, subpart L. Each review results in a written report called a program evaluation report.

**Financial Capacity:** The ability of a water system to acquire and manage sufficient financial resources to allow the system to achieve and maintain compliance SDWA requirements.

**Intended Use Plan, or IUP:** A document prepared annually by a state, after public review and comment, which identifies intended uses of all DWSRF program funds and describes how those uses support the overall goals of the DWSRF program.

**Loan Subsidy:** An additional subsidy that is provided for a proposed project to a disadvantaged community, or a community that the state expects to become disadvantaged as a result of taking on a loan. Some states also provide loan subsidies to other qualifying communities, such as a community recovering from an emergency, or a community served by a very small water system.

**Managerial Capacity:** The ability of a water system to conduct its affairs in a manner enabling the system to achieve and maintain compliance with SDWA requirements.

**Pace:** The amount of executed loans as a percent of all funds available.

**Program Evaluation Report:** A document prepared by an EPA region that reports on the results of the region's annual review of a state's DWSRF program. The report provides the EPA's perspective on state use of DWSRF funds and helps guide management and administration decisions, to ensure efficiency, effective implementation, and management of the state's DWSRF program.

**Set-Aside:** A portion of a capitalization grant that a state may use for a) administration and technical assistance, b) small system technical assistance, c) state program management, and d) local assistance and other state programs.

**Small System:** A water system that serves 10,000 or fewer persons, for the purposes of the DWSRF.

**Technical Capacity:** The physical and operational ability of a water system to meet SDWA requirements, including the adequacy of physical infrastructure and the technical knowledge and capability of personnel.

**Unliquidated Obligations:** The unexpended balance remaining from the amount of federal funds that the EPA has obligated to an agreement.

## Additional Analysis of the States that We Reviewed

This appendix details our analysis of the seven states we reviewed. It includes specific information about loan subsidy requirements, loan subsidy timeliness, and regional oversight.

### Alabama Needs to Prioritize Loan Subsidies, and Region 4 Oversight Does Not Discuss Loan Subsidies

Our analysis, as shown in Table B-1, demonstrates that Alabama did not meet the minimum loan subsidy requirements over the four state fiscal years we examined. Alabama accumulated a deficit of \$7.2 million in loan subsidies. Table B-1 further demonstrates that, while Alabama is behind in providing subsidies, its subsidies increased from \$1.9 million in state fiscal year 2017 to \$4.8 million in state fiscal year 2020. Alabama should prioritize its award of loan subsidies to continue making progress, resolve its deficit, and meet minimum loan subsidy requirements. Our analysis of Alabama’s loan execution differed from our analyses of other states because Alabama’s loans and subsidies were not assigned to specific capitalization grants in the OWSRF database. While the “required subsidy amount” listed in Table B-1 is not an annual requirement but rather a requirement for the period of the capitalization grant, we would expect the difference between the required subsidy and the loan subsidy amounts to be small.

**Table B-1: Alabama’s DWSRF loan subsidies by state fiscal year**

State fiscal year	Grant award amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Provided timely	Subsidy amount as of July 2022* (\$)	Difference* § (\$)
2017	15,740,000	20	3,148,000	No	1,925,000	-1,223,000
2018	23,944,000	20	4,788,800	No	1,640,000	-3,148,800
2019	23,721,000	26	6,167,460	No	3,236,000	-2,931,460
2020	23,736,000	20	4,747,200	Yes	4,819,460	72,260
<b>Total</b>			<b>18,851,460</b>		<b>11,620,460</b>	<b>-7,231,000</b>

Notes: Green cell = Loan subsidy amount was at or above the required subsidy amount. Yellow cell = Loan subsidy amount was below the required subsidy amount but above one-quarter of the required subsidy amount. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Because Alabama’s executed loans were not associated with a capitalization grant in the OWSRF database, we were unable to determine to which capitalization grant a loan belonged. Instead, we calculated the amount for Alabama based on date ranges.

§ Difference between required subsidy amount and subsidy amount as of July 2022.

The EPA Region 4 program evaluation reports, which document the region’s annual reviews of the Alabama DWSRF program, differed from the reports we examined for the other six state programs. Region 4 made no mention of loan subsidies for disadvantaged communities in the four Alabama reports we examined.

The Region 4 program evaluation reports discussed the cumulative amount of loans issued as a percent of all funds available, referred to as pace. In the state fiscal year 2017 program evaluation report, Region 4 recommended that Alabama increase its pace of executing loans. Alabama’s pace improved from 91 percent in 2017 to 102 percent in 2020, which exceeds the national average of 96 percent. However, the pace at which Alabama provided loan subsidies lagged, meaning that disadvantaged communities did not receive subsidies to make drinking water infrastructure improvements.

Alabama may be prompted to improve its efforts to provide loan subsidies if Region 4 includes discussions of loan subsidies in its annual program evaluation reports. A Region 4 section chief told us that current Region 4 staff were not involved before 2019; therefore, they were not responsible for the state fiscal year 2017 and 2018 program evaluation reports. Further, the section chief told us that the Region 4 staff followed the EPA’s annual review guidance, and that guidance does not require an analysis of subsidies to disadvantaged communities. However, the team lead for the EPA’s national DWSRF program told us that regions should include such subsidies in their review of the state DWSRF programs and in the resulting program evaluation reports. In addition, the checklist provided to the region by the national program included questions related to assisting disadvantaged communities. The same Region 4 section chief indicated that the next program evaluation report would be different.

### ***Idaho Met the EPA Timeliness Goal When It Provided Loan Subsidies to Disadvantaged Communities***

Idaho exceeded the loan subsidy requirements and met the EPA timeliness goal for all four state fiscal years we examined, as shown in Table B-2; none of the other six states met both the requirements and the EPA timeliness goal. In addition, Idaho provided an amount of loan subsidies to disadvantaged communities and other eligible recipients that was more than the minimum requirements of its awarded capitalization grants. Idaho reported in its IUPs that despite providing an amount of loan subsidies that exceeded the minimum requirements, the projected health of its program was strong.

**Table B-2: Analysis of Idaho loan subsidies**

State fiscal year	Grant amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Subsidy amount within EPA time frame (\$)	Provided timely	Subsidy amount as of July 2022 (\$)	Difference*
2017	8,312,000	20	1,662,400	2,318,647	Yes	2,318,647	656,247
2018	8,241,000	20	1,648,200	2,216,881	Yes	2,216,881	568,681
2019	11,107,000	20	2,221,400	3,122,357	Yes	3,122,357	900,957
2020	11,104,000	26	2,887,040	4,644,056	Yes	4,644,056	1,757,016
<b>Total</b>			<b>8,419,040</b>			<b>12,301,941</b>	<b>3,882,901</b>

Notes: Green cell = Loan subsidy amount was at or above the required subsidy amount. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Difference between required subsidy amount and subsidy amount as of July 2022.

EPA Region 10 noted in its 2020 program evaluation report that Idaho’s return on federal investment, calculated by dividing the total loan funds disbursed by the federal portion, had maintained a level greater than the 120 percent federal benchmark. For state fiscal years 2017 through 2020, Idaho maintained a 130 percent return on federal investment despite a high level of loan subsidy awards. Idaho also provided subsidies for projects outside of the disadvantaged community definition, such as for emergencies.

### ***The State Legislature’s Budget Process Hindered Maryland’s Timeliness***

The Maryland DWSRF program did not meet the loan subsidy requirements in a timely manner for any of the four state fiscal years we examined, as shown in Table B-3. Maryland’s loan subsidies met or exceeded the minimum subsidy requirements in only two of the four years, based on the information we retrieved from the OWSRF database on July 7, 2022. Maryland’s state legislature required that a capitalization grant be awarded before the required state matching funds would be included in budget planning for the next state fiscal year, which caused capitalization grants to remain unused for nearly a

year. This legislative delay largely contributed to Maryland not meeting the EPA timeliness goal. The Maryland DWSRF program experienced significant staff turnover over a two-year period, which also contributed to the delays. According to EPA Region 3’s program evaluation reports, these vacancies included high level positions that had to be filled temporarily by other staff.

**Table B-3: Analysis of Maryland loan subsidies**

State fiscal year	Grant amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Subsidy amount within EPA time frame (\$)	Provided timely	Subsidy amount as of July 2022 (\$)	Difference* (\$)
2017	14,913,000	20	2,982,600	0	No	3,029,565	46,965
2018	14,108,000	20	2,821,600	0	No	3,000,000	178,400
2019	13,987,000	20	2,797,400	0	No	1,940,724	-856,676
2020	20,348,000	20	4,069,600	0	No	2,108,970	-1,960,630
<b>Total</b>			<b>12,671,200</b>			<b>10,079,259</b>	<b>-2,591,941</b>

Notes: Green cell = Loan subsidy amount was at or above required subsidy amount. Yellow cell = Loan subsidy amount was below required subsidy amount but above one-quarter of the required subsidy amount. Red cell = Loan subsidy amount was one-quarter or less of required subsidy amount. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Difference between required subsidy amount and subsidy amount as of July 2022.

Region 3’s program evaluation reports documented how the region communicated with the Maryland DWSRF program regarding the problems with the pace of providing loan subsidies. Each of the four Region 3 program evaluation reports for Maryland we reviewed provided a table of open grants that identified the grant year; minimum amount of loan subsidies required; and the planned, committed, and disbursed amounts of subsidies. In addition, Region 3 proactively worked with Maryland to increase the use of subsidies. For example, in the 2018 program evaluation report, Region 3 encouraged Maryland to expedite loans receiving subsidies.

### **Massachusetts Exceeded Loan Subsidy Minimum Requirement Amounts**

As shown in Table B-4, Massachusetts met the loan subsidy minimum requirement in a timely manner for three of the state fiscal years we reviewed. The state missed meeting the minimum in state fiscal year 2019 due to delays related to a single loan. In state fiscal year 2020, the state greatly exceeded its required loan subsidies.

**Table B-4: Analysis of Massachusetts loan subsidies**

State fiscal year	Grant amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Subsidy amount within EPA time frame (\$)	Provided timely	Subsidy amount as of July 2022 (\$)	Difference* (\$)
2017	15,451,000	20	3,090,200	3,090,200	Yes	3,090,200	0
2018	15,319,000	20	3,063,800	3,063,800	Yes	3,063,800	0
2019	25,774,000	20	5,154,800	4,674,329	No	4,764,329	-390,471
2020	25,770,000	26	6,700,200	12,259,047	Yes	12,807,677	6,107,477
<b>Total</b>			<b>18,009,000</b>			<b>23,726,006</b>	<b>5,717,006</b>

Notes: Green cell = Loan subsidy amount was at or above the required subsidy amount. Yellow cell = Loan subsidy amount was below the required subsidy amount but above one-quarter of the required subsidy amount. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Difference between required subsidy amount and subsidy amount as of July 2022.



The EPA Region 1 program evaluation reports for Massachusetts were the only reports we examined that included financial indicators related to subsidies for disadvantaged communities. These financial indicators included the number of loans made to disadvantaged communities and the dollar amount of the loan subsidies awarded. Additionally, the reports included a table that identified—by open capitalization grant—the minimum amounts the state could use for loan subsidies, the amounts committed, and the amounts disbursed.

### Nebraska’s Loan Pace Affected Timeliness of Loan Subsidies

As shown in Table B-5, Nebraska did not meet the minimum loan subsidy requirement in a timely manner for any of the four state fiscal years we reviewed. However, Nebraska met the requirement for all but the last year based on the information we retrieved from the OWSRF database on July 7, 2022.

**Table B-5: Analysis of Nebraska loan subsidies**

State fiscal year	Grant amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Subsidy amount within EPA time frame (\$)	Provided timely	Subsidy amount as of July 2022 (\$)	Difference* (\$)
2017	8,312,000	20	1,662,400	0	No	2,484,082	821,682
2018	8,312,000	20	1,662,400	146,160	No	1,881,291	218,891
2019	11,036,000	20	2,207,200	0	No	3,592,397	1,385,197
2020	11,103,000	26	2,886,780	0	No	747,472	-2,139,308
<b>Total</b>			<b>8,418,780</b>			<b>8,705,242</b>	<b>286,462</b>

Notes: Green cell = Loan subsidy amount at or above required subsidy amount. Yellow cell = Loan subsidy amount below required subsidy amount but above one-quarter of the required subsidy amount. Red cell = Loan subsidy amount one-quarter or less of required subsidy amount. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Difference between required subsidy amount and subsidy amount as of July 2022.

In the four program evaluation reports we reviewed for Nebraska, EPA Region 7 discussed its concerns with the state’s loan pace. Nebraska’s loan pace averaged 76 percent over the four-year period we reviewed, which was significantly below the national average of 96 percent. This means that a significant amount of funds had not revolved through as committed loans or been used for loan subsidies. Nebraska’s 2017 annual report stated that “[t]he small rural makeup of the [s]tate remains a challenge for communities in funding major capital projects. Declining population bases make it difficult to collect the amount of user fees needed to fund infrastructure requirements.” In its 2020 program evaluation report, Region 7 requested that Nebraska prepare a written plan to address the timely and expeditious use of funds.

Unlike other regional program evaluation reports we reviewed, the Region 7 reports for Nebraska did not include a table of open grants and loan subsidies that presents the state’s progress toward the minimum subsidy amount.

### Texas Regularly Exceeded Loan Subsidy Requirements Despite Some Delays

Texas met the loan subsidy minimum in a timely manner for only one of the four state fiscal years we examined, as shown in Table B-6. However, based on the data we retrieved from the OWSRF database in July 2022, Texas had committed loan subsidies that significantly exceeded the minimum amount required

for the first three capitalization grants we examined. Texas also provided subsidies to eligible recipients outside of disadvantaged communities, such as to communities addressing emergency conditions.

**Table B-6: Analysis of Texas loan subsidies**

State fiscal year	Grant amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Subsidy awarded within EPA time frame (\$)	Provided timely	Subsidy amount as of July 2022 (\$)	Difference*
2017	60,104,000	20	12,020,800	6,676,285	No	15,759,908	3,739,108
2018	59,590,000	20	11,918,000	17,101,840	Yes	20,735,850	8,817,850
2019	87,040,000	20	17,408,000	14,669,976	No	25,225,185	7,817,185
2020	86,225,000	26	22,418,500	14,382,066	No	18,933,812	-3,484,688
<b>Total</b>			<b>63,765,300</b>			<b>80,654,755</b>	<b>16,889,455</b>

Notes: Green cell = Loan subsidy amount was at or above the required subsidy amount. Yellow cell = Loan subsidy amount was below the required subsidy amount but above one-quarter of the required subsidy amount. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Difference between required subsidy amount and subsidy amount as of July 2022.

If Region 6 improved its program evaluation reports, Texas may improve its timely awarding of loan subsidies. In the program evaluation reports we examined for Texas, EPA Region 6 generally included how much Texas made available in loan subsidies, both in total and to disadvantaged communities, and the number of projects awarded to disadvantaged communities. Region 6 did not include an analysis of open grants that identified the minimum amount that the state must use in subsidies, the amount committed, and the amount expended. Region 6 staff told us that each year the region attempts to focus on items that the EPA Office of Water is interested in and on the recommendations from previous reviews. Region 6 staff also told us that they were selective in what they included in the reports to ensure the reports were of a manageable length.

### Wisconsin Had Minor Delays in Awarding Loan Subsidies

As shown in Table B-7, Wisconsin met the loan subsidy minimum requirements in a timely manner for two of the four state fiscal years we examined. However, Wisconsin's loan subsidies met or exceeded the minimum subsidy requirements for all four state fiscal years based on the information we retrieved from the OWSRF database in July 2022.

**Table B-7: Analysis of Wisconsin capitalization grant subsidies**

State fiscal year	Grant amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Subsidy amount within EPA time frame (\$)	Provided timely	Subsidy amount as of July 2022 (\$)	Difference*
2017	14,496,000	20	2,899,200	6,762,352	Yes	7,248,000	4,348,800
2018	14,360,681	20	2,872,136	3,718,085	Yes	5,000,000	2,127,864
2019	18,931,000	20	3,786,200	3,267,843	No	3,786,200	0
2020	18,927,000	26	4,921,020	3,416,369	No	4,921,020	0
<b>Total</b>			<b>14,478,556</b>			<b>20,955,220</b>	<b>6,476,664</b>

Notes: Green cell = Loan subsidy amount was at or above the required subsidy amount. Yellow cell = Loan subsidy amount was below the required subsidy amount but above one-quarter of the required subsidy amount. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Difference between required subsidy amount and subsidy amount as of July 2022.

In each of the program evaluation reports for Wisconsin we examined, EPA Region 5 included a table that identified, by capitalization grant, the minimum amount the state could take in subsidies and how much subsidization from each capitalization grant was reported. Region 5 staff told us they provide a similar table in program evaluation reports for all six of their states.

## ***Analysis of the Four Set-Asides Available for the DWSRF Programs***

### ***Administration and Technical Assistance Set-Aside***

A state may use the highest of three options for the administration and technical assistance set-aside: \$400,000; 4 percent of a capitalization grant; or one-fifth of one percent of the current value of its fund. The state may use this set-aside to cover the reasonable costs of administering the DWSRF program and to provide technical assistance to public water systems. According to the EPA, however, few states have provided technical assistance through this set-aside. As shown in Table C-1, most states we reviewed took at least 4 percent of their grant for the administrative and technical assistance set-aside; however, Nebraska and Maryland did not. Maryland accessed this set-aside only once, taking 4 percent in 2019, while Nebraska took 0.4 percent in 2017 and 1.1 percent in 2019. Neither of the states met the loan subsidy timeliness goal in the years we reviewed, as shown in Chapter 2, Table 5. States could use this set-aside to assist water systems that serve disadvantaged communities, regardless of the size of the system.

**Table C-1: Administration and technical assistance set-aside, shown as percent of capitalization grant**

<b>State</b>	<b>2017 (%)</b>	<b>2018 (%)</b>	<b>2019 (%)</b>	<b>2020 (%)</b>	<b>Average (%)</b>
Alabama	4.0	4.0	4.0	4.0	<b>4.0</b>
Idaho*	4.0	4.9	4.0	4.0	<b>4.2</b>
Maryland	0.0	0.0	4.0	0.0	<b>1.0</b>
Massachusetts	4.0	4.0	4.0	4.0	<b>4.0</b>
Nebraska	0.4	0.0	1.1	0.0	<b>0.4</b>
Texas	4.0	4.0	4.0	4.0	<b>4.0</b>
Wisconsin*	5.4	4.1	5.4	5.6	<b>5.1</b>
<b>National average</b>	<b>3.2</b>	<b>3.8</b>	<b>3.8</b>	<b>3.4</b>	<b>3.6</b>
<b>Maximum*</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>

*Notes:* Green cell = Percentage took as set-aside was at or above the national average. Yellow cell = Percentage took as set-aside was greater than one-quarter of the maximum set-aside, but below the national average. Red cell = Percentage took as set-aside was less than one-quarter of the maximum set-aside. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

Source: OIG analysis of EPA data. (EPA OIG table)

\* A state DWSRF program may use the highest of three options for the administration and technical assistance set-aside: \$400,000; 4 percent of a capitalization grant; or one-fifth of one percent of the current value of its fund.

### ***Small Systems Technical Assistance Set-Aside***

A state may use up to 2 percent of its capitalization grant to provide technical assistance to small systems, those serving 10,000 or fewer persons, including activities such as supporting a state technical assistance team or contracting with outside technical assistance organizations. Alabama was the only state we reviewed that did not consistently use this set-aside, as shown in Table C2. Alabama did not use this set-aside in three of the four years we reviewed. In the one year that Alabama did use this set-aside, it used only a small fraction of what was available. Nebraska did not use this set-aside in 2020, which lowered its average below the national average. Although Wisconsin also did not fully use this set-aside, Wisconsin was one of two states that, as of July 2022, met the minimum loan subsidy requirements for each of the four years we examined, as shown in Table B7 in Appendix B. The EPA expects states to fully use this set-aside for the additional DWSRF funding that will be available for federal fiscal years 2022 through 2026 through the IJJA. This set-aside could help water systems serving disadvantaged communities, as many of these systems are small.

**Table C-2: Small systems technical assistance set-aside, shown as percent of capitalization grant**

State	2017 (%)	2018 (%)	2019 (%)	2020 (%)	Average (%)
Alabama	0.0	0.0	0.4	0.0	0.1
Idaho	2.0	2.0	2.0	2.0	2.0
Maryland	2.0	2.0	2.0	2.0	2.0
Massachusetts	2.0	2.0	2.0	2.0	2.0
Nebraska	2.0	2.0	2.0	0.0	1.5
Texas	2.0	2.0	2.0	2.0	2.0
Wisconsin	2.0	1.7	1.2	1.3	1.6
National average	1.6	1.8	1.8	1.6	1.7
Maximum	2.0	2.0	2.0	2.0	2.0

Notes: Green cell = Percentage took as set-aside was at or above the national average. Yellow cell = Percentage took as set-aside was greater than one-quarter of the maximum set-aside, but below the national average. Red cell = Percentage took as set-aside was less than one-quarter of the maximum set-aside. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

Source: OIG analysis of EPA data. (EPA OIG table)

### State Program Management Set-Aside

A state may use up to 10 percent of its capitalization grant for state program management activities, such as administering the state public water system supervision program; administering or providing technical assistance through source water protection programs; and developing and implementing a capacity development strategy and an operator certification program. As shown in Table C-3, Alabama was the only state we reviewed that did not use this set-aside every year. For two of the four years we reviewed, Alabama did not use any of this set-aside. For the other two years, Alabama did not maximize its use of this set-aside.

**Table C-3: State program management set-aside, shown as percent of capitalization grant**

State	2017 (%)	2018 (%)	2019 (%)	2020 (%)	Average (%)
Alabama	0.0	0.0	6.9	4.6	2.9
Idaho	10.0	10.0	10.0	10.0	10.0
Maryland	10.0	10.0	10.0	10.0	10.0
Massachusetts	10.0	10.0	3.6	10.0	8.4
Nebraska	10.0	10.0	10.0	10.0	10.0
Texas	10.0	10.0	10.0	10.0	10.0
Wisconsin	10.0	10.0	10.0	10.0	10.0
National average	8.5	9.3	9.3	8.6	8.9
Maximum	10.0	10.0	10.0	10.0	10.0

Notes: Green cell = Percentage took as set-aside was at or above the national average. Yellow cell = Percentage took as set-aside was greater than one-quarter of the maximum set-aside, but below the national average. Red cell = Percentage took as set-aside was less than one-quarter of the maximum set-aside. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

Source: OIG analysis of EPA data. (EPA OIG table)

### Local Assistance and Other State Programs Set-Aside

States may use up to 15 percent of their capitalization grant for local assistance and other state programs. Authorized uses include source water protection activities, wellhead protection measures, and technical or financial assistance for capacity development. States may use no more than 10 percent of each grant for any one project category funded through this set-aside, including the technical and financial assistance projects. Alabama did not fully use the available set-aside for local assistance and other state programs, as shown in Table C-4. Specifically, it did not use any of this set-aside in two of the four years we reviewed. In the two years that Alabama used this set-aside, it used a small fraction of the amount available. Although Nebraska and Texas also did not fully use this set-aside, both states, by July 2022, exceeded their loan subsidy requirements in three of the four years we examined, as shown in Tables B-5 and B-6 in Appendix B.

**Table C-4: Local assistance and other state programs set-aside, shown as percent of capitalization grant**

<b>State</b>	<b>2017 (%)</b>	<b>2018 (%)</b>	<b>2019 (%)</b>	<b>2020 (%)</b>	<b>Average (%)</b>
<b>Alabama</b>	0.0	0.0	0.5	0.1	<b>0.2</b>
<b>Idaho</b>	15.0	15.0	15.0	15.0	<b>15.0</b>
<b>Maryland</b>	15.0	14.8	15.0	15.0	<b>14.9</b>
<b>Massachusetts</b>	15.0	15.0	15.0	15.0	<b>15.0</b>
<b>Nebraska</b>	5.1	9.0	6.2	7.0	<b>6.8</b>
<b>Texas</b>	3.0	3.0	2.1	2.1	<b>2.6</b>
<b>Wisconsin</b>	11.7	11.8	8.5	10.4	<b>10.6</b>
<b>National average</b>	<b>7.5</b>	<b>8.2</b>	<b>8.0</b>	<b>7.5</b>	<b>7.8</b>
<b>Maximum</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>

Notes: Green cell = Percentage took as set-aside was at or above the national average. Yellow cell = Percentage took as set-aside was greater than one-quarter of the maximum set-aside, but below the national average. Red cell = Percentage took as set-aside was less than one-quarter of the maximum set-aside. Appendix D includes a version of this table that uses symbols, rather than color, to convey the information above.

Source: OIG analysis of EPA data. (EPA OIG table)

## Alternate Tables

**Table D-1: Alabama's DWSRF loan subsidies by state fiscal year, alternate for Table 6**

State fiscal year	Grant award amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Loan subsidy amount as of July 2022* (\$)	Difference* (\$)
2017	15,740,000	20	3,148,000	1,925,000 ↔	-1,223,000
2018	23,944,000	20	4,788,800	1,640,000 ↔	-3,148,800
2019	23,721,000	26	6,167,460	3,236,000 ↔	-2,931,460
2020	23,736,000	20	4,747,200	4,819,460 ✓	72,260
<b>Total</b>			<b>18,851,460</b>	<b>11,620,460 ↔</b>	<b>-7,231,000</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount. ↔ = Loan subsidy amount was below the required subsidy amount.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Because Alabama's executed loans were not associated with a capitalization grant in the OWSRF database, we were unable to determine which capitalization grant a loan belonged to. Instead, we calculated the amount for Alabama based on date ranges.

**Table D-2: Maryland's DWSRF loan subsidies by state fiscal year, alternate for Table 7**

State fiscal year	Grant award amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Loan subsidy amount as of July 2022 (\$)	Difference* (\$)
2017	14,913,000	20	2,982,600	3,029,565 ✓	46,965
2018	14,108,000	20	2,821,600	3,000,000 ✓	178,400
2019	13,987,000	20	2,797,400	1,940,724 ↔	-856,676
2020	20,348,000	20	4,069,600	2,108,970 ↔	-1,960,630
<b>Total</b>			<b>12,671,200</b>	<b>10,079,259 ↔</b>	<b>-2,591,941</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount. ↔ = Loan subsidy amount was below the required subsidy amount.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Difference between required subsidy amount and loan subsidy amount as of July 2022.

**Table D-3: State set-asides, shown as percent of capitalization grant, alternate to Table 10**

State	2017	2018	2019	2020	Average
Alabama	4.0 *	4.0 *	11.8 ↔	8.7 ↔	7.1 *
Idaho	31.0 ✓	*31.9 ✓	31.0 ✓	31.0 ✓	*31.2 ✓
Maryland	27.0 ✓	26.8 ✓	31.0 ✓	27.0 ✓	28.0 ✓
Massachusetts	31.0 ✓	31.0 ✓	24.6 ✓	31.0 ✓	29.4 ✓
Nebraska	17.5 ↔	21.0 ↔	19.3 ↔	17.0 ↔	18.7 ↔
Texas	19.0 ↔	19.0 ↔	18.1 ↔	18.1 ↔	18.6 ↔
Wisconsin	29.1 ✓	27.6 ✓	25.1 ✓	27.3 ✓	27.3 ✓
<b>National average</b>	<b>20.8</b>	<b>23.1</b>	<b>22.9</b>	<b>21.1</b>	<b>22.0</b>
<b>Maximum*</b>	<b>31.0</b>	<b>31.0</b>	<b>31.0</b>	<b>31.0</b>	<b>31.0</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount. ↔ = Loan subsidy amount was below the required subsidy amount. \* = Percentage awarded for set-asides was less than or equal to one-quarter of the maximum allowed percentage.

Source: OIG analysis of EPA data. (EPA OIG table)

\* A state DWSRF program may use the highest of three options for the administration and technical assistance set-aside: \$400,000; 4 percent of a capitalization grant; or one-fifth of one percent of the current value of its fund. This may result in a total percent of the capitalization grant that exceeds the 31 percent maximum listed in this table.

**Table D-4: Alabama set-asides, shown as percent of capitalization grant, alternate to Table 11**

Year*	Administration and technical assistance (%)	Small systems technical assistance (%)	State program management (%)	Local assistance and other state programs (%)	Total (%)
2017	4.0 ✓	0.0 *	0.0 *	0.0 *	4.0 *
2018	4.0 ✓	0.0 *	0.0 *	0.0 *	4.0 *
2019	4.0 ✓	0.4 *	6.9 ↔	0.5 *	11.8 ↔
2020	4.0 ✓	0.0 *	4.6 ↔	0.1 *	8.7 ↔
2017–2020	4.0 ✓	0.1 *	2.9 ↔	0.2 *	7.1 *
<b>National average, 2017–2020</b>	<b>3.6</b>	<b>1.7</b>	<b>8.9</b>	<b>7.8</b>	<b>22.0</b>
<b>Maximum</b>	<b>4.0</b>	<b>2.0</b>	<b>10.0</b>	<b>15.0</b>	<b>31.0</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount. ↔ = Loan subsidy amount was below the required subsidy amount. \* = Percentage awarded for set-asides was less than or equal to one-quarter of the maximum allowed percentage.

Source: OIG analysis of EPA data. (EPA OIG table)

\* The OWSRF database uses July of the previous year through June of the year listed.

**Table D-5: Alabama’s DWSRF loan subsidies by state fiscal year, alternate to Table B-1**

State fiscal year	Grant award amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Provided timely	Subsidy amount as of July 2022* (\$)	Difference* § (\$)
2017	15,740,000	20	3,148,000	No	1,925,000 ↔	-1,223,000
2018	23,944,000	20	4,788,800	No	1,640,000 ↔	-3,148,800
2019	23,721,000	26	6,167,460	No	3,236,000 ↔	-2,931,460
2020	23,736,000	20	4,747,200	Yes	4,819,460 ✓	72,260
<b>Total</b>			<b>18,851,460</b>		<b>11,620,460 ↔</b>	<b>-7,231,000</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount. ↔ = Loan subsidy amount was below the required subsidy amount.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Because Alabama’s executed loans were not associated with a capitalization grant in the OWSRF database, we were unable to determine which capitalization grant a loan belonged to. Instead, we calculated the amount for Alabama based on date ranges.

§ Difference between required subsidy amount and subsidy amount as of July 2022.

**Table D-6: Analysis of Idaho loan subsidies, alternate to Table B-2**

State fiscal year	Grant amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Subsidy amount within EPA time frame (\$)	Provided timely	Subsidy amount as of July 2022 (\$)	Difference* (\$)
2017	8,312,000	20	1,662,400	2,318,647 ✓	Yes	2,318,647 ✓	656,247
2018	8,241,000	20	1,648,200	2,216,881 ✓	Yes	2,216,881 ✓	568,681
2019	11,107,000	20	2,221,400	3,122,357 ✓	Yes	3,122,357 ✓	900,957
2020	11,104,000	26	2,887,040	4,644,056 ✓	Yes	4,644,056 ✓	1,757,016
<b>Total</b>			<b>8,419,040</b>			<b>12,301,941 ✓</b>	<b>3,882,901</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Difference between required subsidy amount and subsidy amount as of July 2022.



**Table D-7: Analysis of Maryland loan subsidies, alternative to B-3**

State fiscal year	Grant amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Subsidy amount within EPA time frame (\$)	Provided timely	Subsidy amount as of July 2022 (\$)	Difference* (\$)
2017	14,913,000	20	2,982,600	0 *	No	3,029,565 ✓	46,965
2018	14,108,000	20	2,821,600	0 *	No	3,000,000 ✓	178,400
2019	13,987,000	20	2,797,400	0 *	No	1,940,724 ↔	-856,676
2020	20,348,000	20	4,069,600	0 *	No	2,108,970 ↔	-1,960,630
<b>Total</b>			<b>12,671,200</b>			<b>10,079,259 ↔</b>	<b>-2,591,941</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount. ↔ = Loan subsidy amount was below the required subsidy amount. \* = Percentage awarded for set-asides was less than or equal to one-quarter of the maximum allowed percentage.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Difference between required subsidy amount and subsidy amount as of July 2022.

**Table D-8: Analysis of Massachusetts loan subsidies, alternate to Table B-4**

State fiscal year	Grant amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Subsidy amount within EPA time frame (\$)	Provided timely	Subsidy amount as of July 2022 (\$)	Difference* (\$)
2017	15,451,000	20	3,090,200	3,090,200 ✓	Yes	3,090,200 ✓	0
2018	15,319,000	20	3,063,800	3,063,800 ✓	Yes	3,063,800 ✓	0
2019	25,774,000	20	5,154,800	4,674,329 ↔	No	4,764,329 ↔	-390,471
2020	25,770,000	26	6,700,200	12,259,047 ✓	Yes	12,807,677 ✓	6,107,477
<b>Total</b>			<b>18,009,000</b>			<b>23,726,006 ✓</b>	<b>5,717,006</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount. ↔ = Loan subsidy amount was below the required subsidy amount.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Difference between required subsidy amount and subsidy amount as of July 2022.

**Table D-9: Analysis of Nebraska loan subsidies, alternate to Table B-5**

State fiscal year	Grant amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Subsidy amount within EPA time frame (\$)	Provided timely	Subsidy amount as of July 2022 (\$)	Difference* (\$)
2017	8,312,000	20	1,662,400	0 *	No	2,484,082 ✓	821,682
2018	8,312,000	20	1,662,400	146,160 *	No	1,881,291 ✓	218,891
2019	11,036,000	20	2,207,200	0 *	No	3,592,397 ✓	1,385,197
2020	11,103,000	26	2,886,780	0 *	No	747,472 ↔	-2,139,308
<b>Total</b>			<b>8,418,780</b>			<b>8,705,242 ✓</b>	<b>286,462</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount. ↔ = Loan subsidy amount was below the required subsidy amount. \* = Percentage awarded for set-asides was less than or equal to one-quarter of the maximum allowed percentage.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Difference between required subsidy amount and subsidy amount as of July 2022.

**Table D-10: Analysis of Texas loan subsidies, alternate to Table B-6**

State fiscal year	Grant amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Subsidy awarded within EPA time frame (\$)	Provided timely	Subsidy amount as of July 2022 (\$)	Difference* (\$)
2017	60,104,000	20	12,020,800	6,676,285 ↔	No	15,759,908 ✓	3,739,108
2018	59,590,000	20	11,918,000	17,101,840 ✓	Yes	20,735,850 ✓	8,817,850
2019	87,040,000	20	17,408,000	14,669,976 ↔	No	25,225,185 ✓	7,817,185
2020	86,225,000	26	22,418,500	14,382,066 ↔	No	18,933,812 ↔	-3,484,688
<b>Total</b>			<b>63,765,300</b>			<b>80,654,755 ✓</b>	<b>16,889,455</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount. ↔ = Loan subsidy amount was below the required subsidy amount.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Difference between required subsidy amount and subsidy amount as of July 2022.

**Table D-11: Analysis of Wisconsin capitalization grant subsidies, alternate to Table B-7**

State fiscal year	Grant amount (\$)	Required subsidy (%)	Required subsidy amount (\$)	Subsidy amount within EPA time frame (\$)	Provided timely	Subsidy amount as of July 2022 (\$)	Difference* (\$)
2017	14,496,000	20	2,899,200	6,762,352 ✓	Yes	7,248,000 ✓	4,348,800
2018	14,360,681	20	2,872,136	3,718,085 ✓	Yes	5,000,000 ✓	2,127,864
2019	18,931,000	20	3,786,200	3,267,843 ↔	No	3,786,200 ✓	0
2020	18,927,000	26	4,921,020	3,416,369 ↔	No	4,921,020 ✓	0
<b>Total</b>			<b>14,478,556</b>			<b>20,955,220 ✓</b>	<b>6,476,664</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount. ↔ = Loan subsidy amount was below the required subsidy amount.

Source: OIG analysis of EPA data retrieved on July 7, 2022. (EPA OIG table)

\* Difference between required subsidy amount and subsidy amount as of July 2022.

**Table D-12: Administration and technical assistance set-aside, shown as percent of capitalization grant, alternate to Table C-1**

State	2017 (%)	2018 (%)	2019 (%)	2020 (%)	Average (%)
Alabama	4.0 ✓	4.0 ✓	4.0 ✓	4.0 ✓	<b>4.0 ✓</b>
Idaho*	4.0 ✓	4.9 ✓	4.0 ✓	4.0 ✓	<b>4.2 ✓</b>
Maryland	0.0 ✗	0.0 ✗	4.0 ✓	0.0 ✗	<b>1.0 ✗</b>
Massachusetts	4.0 ✓	4.0 ✓	4.0 ✓	4.0 ✓	<b>4.0 ✓</b>
Nebraska	0.4 ✗	0.0 ✗	1.1 ↔	0.0 ✗	<b>0.4 ✗</b>
Texas	4.0 ✓	4.0 ✓	4.0 ✓	4.0 ✓	<b>4.0 ✓</b>
Wisconsin*	5.4 ✓	4.1 ✓	5.4 ✓	5.6 ✓	<b>5.1 ✓</b>
<b>National average</b>	<b>3.2</b>	<b>3.8</b>	<b>3.8</b>	<b>3.4</b>	<b>3.6</b>
<b>Maximum*</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount. ↔ = Loan subsidy amount was below the required subsidy amount. ✗ = Percentage awarded for set-asides was less than or equal to one-quarter of the maximum allowed percentage.

Source: OIG analysis of EPA data. (EPA OIG table)

\* A state DWSRF program may use the highest of three options for the administration and technical assistance set-aside: \$400,000; 4 percent of a capitalization grant; or one-fifth of one percent of the current value of its fund.

**Table D-13: Small systems technical assistance set-aside, shown as percent of capitalization grant, alternate to Table C-2**

State	2017 (%)	2018 (%)	2019 (%)	2020 (%)	Average (%)
Alabama	0.0 *	0.0 *	0.4 *	0.0 *	0.1 *
Idaho	2.0 ✓	2.0 ✓	2.0 ✓	2.0 ✓	2.0 ✓
Maryland	2.0 ✓	2.0 ✓	2.0 ✓	2.0 ✓	2.0 ✓
Massachusetts	2.0 ✓	2.0 ✓	2.0 ✓	2.0 ✓	2.0 ✓
Nebraska	2.0 ✓	2.0 ✓	2.0 ✓	0.0 *	1.5 ↔
Texas	2.0 ✓	2.0 ✓	2.0 ✓	2.0 ✓	2.0 ✓
Wisconsin	2.0 ✓	1.7 ↔	1.2 ↔	1.3 ↔	1.6 ↔
<b>National average</b>	<b>1.6</b>	<b>1.8</b>	<b>1.8</b>	<b>1.6</b>	<b>1.7</b>
<b>Maximum</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount. ↔ = Loan subsidy amount was below the required subsidy amount. \* = Percentage awarded for set-asides was less than or equal to one-quarter of the maximum allowed percentage.

Source: OIG analysis of EPA data. (EPA OIG table)

**Table D-14: State program management set-aside, shown as percent of capitalization grant, alternate to Table C-3**

State	2017 (%)	2018 (%)	2019 (%)	2020 (%)	Average (%)
Alabama	0.0 *	0.0 *	6.9 ↔	4.6 ↔	2.9 ↔
Idaho	10.0 ✓	10.0 ✓	10.0 ✓	10.0 ✓	10.0 ✓
Maryland	10.0 ✓	10.0 ✓	10.0 ✓	10.0 ✓	10.0 ✓
Massachusetts	10.0 ✓	10.0 ✓	3.6 ↔	10.0 ✓	8.4 ↔
Nebraska	10.0 ✓	10.0 ✓	10.0 ✓	10.0 ✓	10.0 ✓
Texas	10.0 ✓	10.0 ✓	10.0 ✓	10.0 ✓	10.0 ✓
Wisconsin	10.0 ✓	10.0 ✓	10.0 ✓	10.0 ✓	10.0 ✓
<b>National average</b>	<b>8.5</b>	<b>9.3</b>	<b>9.3</b>	<b>8.6</b>	<b>8.9</b>
<b>Maximum</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount. ↔ = Loan subsidy amount was below the required subsidy amount. \* = Percentage awarded for set-asides was less than or equal to one-quarter of the maximum allowed percentage.

Source: OIG analysis of EPA data. (EPA OIG table)

**Table D-15: Local assistance and other state programs set-aside, shown as percent of capitalization grant, alternate to Table C-4**

State	2017 (%)	2018 (%)	2019 (%)	2020 (%)	Average (%)
Alabama	0.0 *	0.0 *	0.5 *	0.1 *	0.2 *
Idaho	15.0 ✓	15.0 ✓	15.0 ✓	15.0 ✓	15.0 ✓
Maryland	15.0 ✓	14.8 ✓	15.0 ✓	15.0 ✓	14.9 ✓
Massachusetts	15.0 ✓	15.0 ✓	15.0 ✓	15.0 ✓	15.0 ✓
Nebraska	5.1 ↔	9.0 ✓	6.2 ↔	7.0 ↔	6.8 ↔
Texas	3.0 *	3.0 *	2.1 *	2.1 *	2.6 *
Wisconsin	11.7 ✓	11.8 ✓	8.5 ✓	10.4 ✓	10.6 ✓
<b>National average</b>	<b>7.5</b>	<b>8.2</b>	<b>8.0</b>	<b>7.5</b>	<b>7.8</b>
<b>Maximum</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>

Notes: ✓ = Loan subsidy amount was at or above the required subsidy amount. ↔ = Loan subsidy amount was below the required subsidy amount. \* = Percentage awarded for set-asides was less than or equal to one-quarter of the maximum allowed percentage.

Source: OIG analysis of EPA data. (EPA OIG table)



additional subsidy, including minimum additional subsidy requirements. Expected completion date of October 31, 2023.

2. Update the State Revolving Fund Annual Review Guidance to explain new Annual Review Checklist questions regarding additional subsidy. The Guidance will also include requirements for the program evaluation reports (PERs) to address additional subsidy, including relevant financial indicators. Expected completion date of October 31, 2023.

### **OIG Recommendation 2 – Agree**

We recommend that the Assistant Administrator for Water implement a plan for the EPA regions to work with their states to clarify set-aside use requirements and to assess the states' use of set-asides in assisting disadvantaged communities in qualifying for drinking water state revolving fund loans.

#### **Response:**

OW agrees with Recommendation 2. OW conducts several annual SRF training sessions for EPA regional and state SRF employees. Set-aside use requirements are included in these ongoing training sessions, and OW will continue to reiterate these requirements.

#### **Proposed Corrective Actions:**

OW proposes the following Corrective Actions to satisfy this recommendation:

1. Update the State Revolving Fund Annual Review Checklist to include questions regarding set-aside utilization by states to assist disadvantaged communities. Expected completion date of October 31, 2023.
2. Update the State Revolving Fund Annual Review Guidance to explain new Annual Review Checklist questions regarding set-aside utilization by states to assist disadvantaged communities. Expected completion date of October 31, 2023.

### **OIG Recommendation 3 – Agree**

We recommend that the Assistant Administrator for Water require states to assign executed loans to the appropriate capitalization grant in the EPA Office of Water state revolving fund database for capitalization grants.

#### **Response:**

OW agrees with Recommendation 3 and notes that EPA already requires the states to enter loan assignment information into the database. As noted in the OIG's draft report, OW began transitioning from a legacy reporting system to the new OWSRF data system in May 2021 (see attached a screenshot of the OWSRF home screen). Both the legacy reporting system and the new OWSRF data system require states to assign executed loans to the appropriate capitalization grant.

#### **Proposed Corrective Actions:**

OW proposes that no additional corrective actions are needed, as the program's current activities and actions (especially since May 2021) already satisfy this recommendation.

Thank you again for the opportunity to respond to the recommendations in the draft report OA-FY22-0020. If you have any questions regarding this response, please have your staff contact OW's Acting Audit Follow-Up Coordinator, Cameo Smoot, at [Smoot.Cameo@epa.gov](mailto:Smoot.Cameo@epa.gov).

Attachment

cc: Benita Best-Wong, OW/DAA  
Cameo Smoot, OW AFC  
Macara Lousberg, OW/IO  
Janita Aguirre, OW/IO  
Jennifer McLain, OW/OGWDW  
Yu-Ting Guilaran, OW/OGWDW  
Karen Wirth, OW/OGWDW  
Anita Thompkins, OW/OGWDW  
Cindy Simbanin, OW/OGWDW  
Kiri Anderer, OW/OGWDW  
Damaris Christensen, OW/OGWDW  
Nick Chamberlain, OW/OGWDW  
Susan Perkins, OCFO  
Andrew LeBlanc, OCFO

Attachment: Screenshot of the OWSRF Home Screen

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### Drinking Water Home

Please save your work often. NCC regulations require this application time-out after a short period of inactivity and log out the user.

#### Drinking Water Home

11/29/2022 - DWSRF BIL GRANTS HAVE BEEN ADDED TO THE SPECIAL APPROPRIATIONS DROP LIST FOR ASSISTANCE AGREEMENTS.

In the future, more BIL fields are expected to be added. In the interim, BIL loans can be marked with this feature. Until additional fields are added, if an agreement is using multiple pots of BIL funds, please select the appropriation you feel best represents the project.

We opened up the SRF data system for SFY 2022 data collection starting 8/22. Data will be collected through 9/30. We are currently performing final QA on this data and it will be published soon.

This system replaces the legacy Project & Benefits Reporting (PBR) and Drinking Water National Information (DWNIMS) Systems. EPA migrated legacy data from PBR and DWNIMS to this system. Note that for legacy data, PBR project level data may not total to DWNIMS state level data because those were formerly two separate systems.

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