

Audit of Compliance with the Clean Water and Drinking Water State Revolving Fund Financial Statement Audit Requirements

October 15, 2025 | Report No. 26-P-0001



Abbreviations

C.F.R.	Code of Federal Regulations
CWA	Clean Water Act
CWSRF	Clean Water State Revolving Fund
DWSRF	Drinking Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
OIG	Office of Inspector General
SDWA	Safe Drinking Water Act
SRF	State Revolving Fund
U.S.C.	United States Code

Cover Image

Top: A manhole cover labeled “WATER” (EPA image). *Middle:* A section of a water line to the right, with yellow construction vehicles to the left and in the background (EPA image). *Bottom:* A faucet dispensing water into a glass (U.S. Centers for Disease Control and Prevention image).

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At a Glance

Audit of Compliance with the Clean Water and Drinking Water State Revolving Fund Financial Statement Audit Requirements

Why We Did This Audit

To accomplish this objective:

The U.S. Environmental Protection Agency Office of Inspector General conducted this audit to determine whether the states and the Commonwealth of Puerto Rico had an annual audit of their Clean Water State Revolving Fund and Drinking Water State Revolving Fund financial statements for fiscal year 2022 in accordance with requirements.

The 1987 amendments to the Clean Water Act created the Clean Water State Revolving Fund Program that provides financial assistance for clean water infrastructure projects. The 1996 amendments to the Safe Drinking Water Act established the Drinking Water State Revolving Fund Program that helps finance drinking water infrastructure projects.

To support these EPA mission-related efforts:

- Ensuring clean and safe water.
- Partnering with states and other stakeholders.

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[List of OIG reports.](#)

What We Found

The majority of states and the Commonwealth of Puerto Rico, respectively, had an annual audit of their Clean Water State Revolving Fund and Drinking Water State Revolving Fund financial statements for fiscal year 2022 prepared in accordance with requirements.

Specifically, in fiscal year 2022, 43 out of 51 state CWSRF programs and 42 out of 51 state DWSRF programs had an independently conducted financial audit that identified the financial information for each program as separate financial statements, separate components in the basic financial statements section of a financial report, or separate components in the financial statement's supplementary information section. The remaining states provided other documentation for their FY 2022 CWSRF and DWSRF programs that did not specifically include audited financial statements. This occurred because Office of Water guidance is not consistent with the Clean Water Act and the Safe Drinking Water Act statutory requirements. The EPA awarded over \$490 million in total funding in FY 2022 to the states that provided other documentation.

The Clean Water Act and the Safe Drinking Water Act require periodic independent audits of the state revolving fund programs in compliance with the U.S. Government Accountability Office's *Government Auditing Standards*. Such audits require an auditor's opinion on each program's financial statements; a report on internal controls; and a report on compliance with law, regulations, and general grant requirements. According to the EPA, obtaining annual audited financial statements from a state's programs is one of the best methods to support the Agency's oversight role.

We make no recommendations in this report.

Without audited financial statements of the state revolving fund programs, the EPA and the OIG lack sufficient clarity on the programs' operations to identify potential fraud, waste, and abuse.



OFFICE OF INSPECTOR GENERAL
U.S. ENVIRONMENTAL PROTECTION AGENCY

October 15, 2025

MEMORANDUM

SUBJECT: Audit of Compliance with the Clean Water and Drinking Water State Revolving Fund
Financial Statement Audit Requirements
Report No. 26-P-0001

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

TO: Peggy S. Browne, 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-FY23-0097. This report contains findings that describe the problems the OIG has identified.

The Office of Water is responsible for the issues discussed in this report.

A response to this report is not required because the report contains no recommendations. If your office submits a response, however, it will be posted on the OIG's website, along with our memorandum commenting on the response. The response should be provided as an Adobe PDF file that complies with the requirements of section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that your office does not want released to the public; if the response contains such data, your office should identify the data for redaction or removal along with corresponding justification.

We will post this report to our website at www.epa.gov/oig.

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Purpose

The U.S. Environmental Protection Agency Office of Inspector General initiated this audit to determine whether the states and the Commonwealth of Puerto Rico had an annual audit of their Clean Water State Revolving Fund and Drinking Water State Revolving Fund financial statements for fiscal year 2022 in accordance with requirements.

Background

The EPA is charged with implementing two state revolving fund, or SRF, programs: the Clean Water State Revolving Fund, or CWSRF, program and the Drinking Water State Revolving Fund, or DWSRF, program. The CWSRF program was created by the 1987 amendments to the Clean Water Act, or CWA. It provides financial assistance for a wide range of clean water infrastructure projects, such as constructing municipal wastewater facilities, controlling nonpoint sources of pollution, and building decentralized wastewater treatment systems. In 1996, Congress amended the Safe Drinking Water Act, or SDWA, to establish the DWSRF program. The program helps states finance critical drinking water infrastructure projects, such as improving drinking water treatment, improving sources of water supply, and replacing or constructing finished water storage tanks that further the health protection objectives of SDWA.

The EPA provides grant funding through its SRF programs to all 50 states plus Puerto Rico, hereafter referred to as states, to fund the 51 state CWSRF and 51 state DWSRF loan programs. The EPA oversees and Congress appropriates funds to the EPA for the state SRF programs each fiscal year. The Infrastructure Investment and Jobs Act, which Congress enacted in November 2021, provided the EPA with a supplemental \$48.4 billion for water infrastructure funding, of which \$43.4 billion is for the SRF programs, to further invest in water infrastructure programs for FYs 2022 through 2026. The CWSRF and DWSRF programs are therefore funded by both regular annual appropriations and the Infrastructure Investment and Jobs Act.

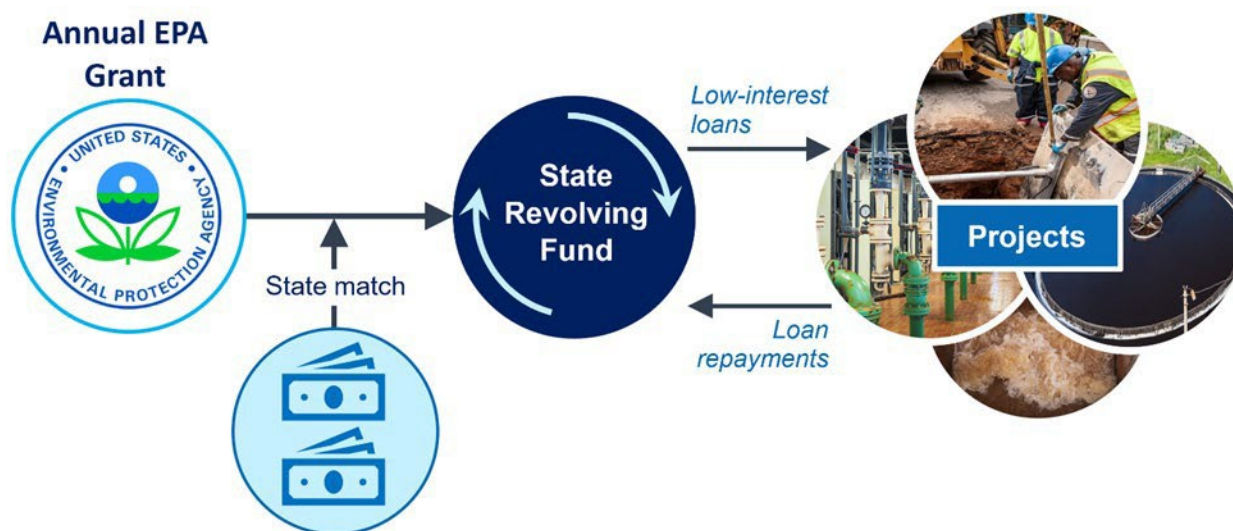
How the CWSRF Works

The EPA's CWSRF program annually awards a grant to each state for its program. The amount of the state's grant is based on the EPA's annual appropriations and the funding allocation percentages included in the CWA. Each state also typically contributes a nonfederal match of at least 20 percent to its CWSRF program, which provides low-interest loans to eligible recipients for clean water infrastructure projects. Repayments of the loan principal and interest earnings are sent to the state CWSRF programs, allowing the funds to "revolve" over time and finance new projects. Each state is responsible for the operation of its CWSRF program, and the EPA oversees the state's program. The state has flexibility to target financial resources to its specific community and environmental needs. Figure 1 illustrates the flow of funds for SRFs.

How the DWSRF Works

The EPA's DWSRF program annually awards a grant to each state for its program. The amount of the state's grant is based on the results of the EPA's most recent drinking water infrastructure needs survey and assessment. Each state also typically contributes a nonfederal match of at least 20 percent to its DWSRF program. The state DWSRF program then issues loans to community water systems for eligible projects. As water systems repay their loans, the repayments and interest replenish the revolving fund to cover the state's future eligible infrastructure projects. States are responsible for the operation of their respective DWSRF programs, and the EPA oversees the state programs. As in SDWA, states may provide additional assistance to disadvantaged communities in the form of principal-forgiveness loans and grants. Figure 1 illustrates the flow of funds for SRFs.

Figure 1: General steps in the award of clean water and drinking water SRF grants



Source: OIG analysis of the *Drinking Water State Revolving Fund: Program Operations Manual*, Provisional Edition (2006). (EPA OIG image)

How Audited Financial Statements Support the SRF Programs

According to the EPA's September 2002 *Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*, obtaining annual audited financial statements from state SRF programs is one of the best methods the EPA has to support its oversight role of the programs. Audited financial statements help ensure that financial statements are reliable. They also strengthen the internal control structure while making sure that state SRF programs are compliant with provisions of federal laws and regulations. According to the 2002 *Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*, the EPA uses the audited financial statements as one of many tools to determine whether a state SRF program is operating as intended and to gather certain information necessary to report to Congress. In addition, the EPA's March 2018 *SRF Fund Management Handbook* states that "[f]inancial reporting and audits are a key component of catching potential waste, fraud, and abuse in the SRF." The EPA's July 2006 *DWSRF Guide to Understanding Audits* clarifies that a statewide single

audit does not always include testing of or reporting on the SRF's financial statements or comply with SRF program requirements.

The Single Audit Act

Under the Single Audit Act of 1984, as amended, and Office of Management and Budget regulations, a nonfederal entity that expends \$1 million or more in federal funds is required to have a comprehensive annual audit of its financial statements and its expenditures of federal awards (effective October 2024, the threshold increased from \$750,000 to \$1 million). A single audit must be conducted by an independent external auditor in accordance with the Single Audit Act and 2 C.F.R. part 200, subpart F.

Additionally, the Single Audit Act at 31 U.S.C. § 7503(a) provides that “[a]n audit conducted in accordance with this chapter shall be in lieu of any financial or financial and compliance audit of an individual Federal assistance program which a State or local government is required to conduct under any other Federal law or regulation.” Thus, the Single Audit Act permits an entity, to include a state, to submit a single, streamlined audit that fulfills all federal award audit requirements under any applicable statutes or regulations.

Statutory and Regulatory SRF Audit Requirements

The CWA, specifically 33 U.S.C. § 1386(b), requires that either the EPA or state conduct an annual audit of each CWSRF:

The Administrator shall, at least on an annual basis, conduct or require each State to have independently conducted reviews and audits as may be deemed necessary or appropriate by the Administrator to carry out the objectives of this section. Audits of the use of funds ... shall be conducted in accordance with the auditing procedures of the Government Accountability Office, including [single audit requirements].

In 1990, to implement the CWA annual audit requirement, the EPA promulgated 40 C.F.R. §35.3165(d), which states that “[a]t least once a year the [regional administrator] (through the Office of the Inspector General) will conduct, or require the State to have independently conducted, a financial and compliance audit of the SRF and the operations of the SRF.” Further, the audit report “must contain an opinion on the financial statements of the SRF and its internal controls, and a report on compliance with Title VI.” The independent external auditors who perform the audit must meet the U.S. Government Accountability Office’s independence standards. Also, according to 40 C.F.R. § 35.3165(d), the audit “may be done in conjunction with the Single Audit Act.”

For the DWSRF Program, SDWA at 42 U.S.C. § 300j–12(g)(4) requires the EPA to conduct periodic audits as follows:

Each State administering a loan fund and assistance program under this subsection shall publish and submit to the Administrator a report every 2 years on its activities under this section, including the findings of the most recent audit of the fund and the entire State allotment. The Administrator shall periodically audit all State loan funds established by, and all other amounts allotted to, the States pursuant to this section in accordance with procedures established by the Comptroller General.

DWSRF regulations at 40 C.F.R. § 35.3570(b) provide that for the audit, states “must comply with the provisions of the Single Audit Act Amendments of 1996” but that states “may voluntarily agree” to conduct annual program audits. The regulations further state that the OIG will conduct periodic audits for those states that do not voluntarily conduct independent annual audit reviews.¹

Both the CWA and SDWA require audits in compliance with the Government Accountability Office’s *Government Auditing Standards*, or Generally Accepted Government Auditing Standards, commonly referred to as GAGAS. The primary purpose of the financial statements is to provide financial statement users with an opinion by an auditor on whether a reporting entity’s financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework. Reporting on financial statement audits conducted in accordance with GAGAS also includes reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.

States follow guidance from the Governmental Accounting Standards Board to prepare their financial statements. The board assists each state in defining its reporting entity, which is based primarily on the notion of financial accountability. Financial statements of the reporting entity should provide an overview of the entity based on financial accountability yet allow users to distinguish between the primary entity and its component units. Due to the concept of financial accountability, an SRF program may be either the primary entity or one of the component units on the financial statements. As such, CWSRF or DWSRF financial information may be disclosed in a variety of ways based upon a state’s financial structure including (1) for each program as separate financial statements, (2) as separate components in the basic financial statements section of a financial report, or (3) as separate components in the financial statement’s supplementary information section.²

Although a state’s obligation to have a financial audit of the SRFs is fulfilled when it conducts a single audit pursuant to the Single Audit Act, the statutory requirements placed upon the EPA to conduct the periodic SRF audits remain in place. As discussed in more detail below, the EPA’s guidance provides that

¹ In 2006, the OIG advised the EPA that it would discontinue conducting audits of the SRFs as noted in the regulations.

² Per the American Institute of Certified Public Accountants, supplementary information is presented outside the basic financial statements, and the objective of the auditor is to evaluate the presentation of the supplementary information and report on the supplementary information in relation to the financial statements as a whole.

the SRF audit requirements are met when a state submits the results of its single audit, thereby absolving the EPA of its statutory obligation to conduct the periodic audits. However, while a single audit encompasses the SRF program, a single audit may not provide the SRF financial information in the same level of detail as a program-specific audit.

Responsible Offices

The EPA Office of Water is responsible for implementing the CWA and SDWA in partnership with the ten EPA regional offices, other federal agencies, state and local governments, American Indian tribes, the regulated community, organized professional and interest groups, landowners and managers, and the public. The Office of Water supports the *FY 2022-2026 EPA Strategic Plan's* Strategic Goal 5 to “Ensure Clean and Safe Water for All Communities.” The EPA’s SRF programs provide federal investment designed to be used in concert with other sources of funds to address water quality needs.

The Office of Wastewater Management within the Office of Water supports the CWA and manages the CWSRF Program. It promotes effective and responsible water use, wastewater treatment, disposal, and management, and it encourages the protection and restoration of watersheds. The office provides regulatory standards, voluntary management approaches, and financial and technical assistance to states, tribes, communities, and regulated entities to protect human health and aquatic ecosystems, reduce flooding, and protect the nation’s infrastructure investment.

The Office of Water’s Office of Ground Water and Drinking Water oversees the implementation of SDWA and manages the DWSRF Program. The office, together with states, tribes, and other partners, protects public health by ensuring safe drinking water and protecting ground water. The office is responsible for developing and assisting with the implementation of national drinking water standards, overseeing and assisting funding of state drinking water programs, responding to emergencies that may impact our nation’s water and wastewater infrastructure, supporting efforts to increase water security, protecting underground sources of drinking water, and providing information about drinking water quality to the public.

For each fiscal year from 2022 through 2024, the CWSRF Program received about \$1.64 billion and the DWSRF Program received about \$1.3 billion in annual funding. These amounts do not reflect reductions for congressionally directed spending or community project fundings, commonly referred to as earmarks. In addition, the programs will receive a total of \$43.4 billion in Infrastructure Investment and Jobs Act funds from FY 2022 through FY 2026.

Scope and Methodology

We conducted this performance audit from September 2023 to March 2025 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We assessed the internal controls necessary to satisfy our audit objective.³ 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 objective. Any internal control deficiencies we found are discussed in this report. Because our audit was limited to the internal control components deemed significant to our audit objective, it may not have disclosed all internal control deficiencies that may have existed at the time of the audit.

To obtain an understanding of the criteria applicable to the CWSRF and DWSRF financial statement audit requirements, we reviewed relevant federal statutes and regulations, such as the CWA and CWSRF regulations; SDWA and DWSRF regulations; the Single Audit Act of 1984, as amended; and the Infrastructure Investment and Jobs Act. In addition, we reviewed the Government Accountability Office’s *Government Auditing Standards* and the Governmental Accounting Standards Board guidance. We also reviewed Office of Water guidance documents, such as the 2002 *Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*, the March 2018 *SRF Fund Management Handbook*, and, dated July 2006, *The DWSRF Guide to Understanding Audits*, as well as relevant EPA memorandums. Appendix A lists the documents we reviewed as part of the scope of this audit.

For this audit, we reviewed the states’ FY 2022 SRF audited financial statements to determine whether the audits were conducted in accordance with requirements. To answer our objective, we reviewed documentation provided to us from the 51 CWSRF state programs and 51 DWSRF state programs. In April 2023, we asked the states to provide their three most recent audited financial statements for their CWSRF and DWSRF programs. We received documentation from all the states for the past three years. For the purposes of this audit, we documented the receipt of information from prior years, but we further analyzed only the documentation received for FY 2022 because that was the most recent year completed at the time of our request. We analyzed it to determine which states provided audited financial statements for that fiscal year.

We reviewed FY 2022 SRF audited financial statements from states that provided them to determine whether they met the following GAGAS requirements:

- Conducted independently.
- Included a financial and compliance audit of the SRF and the operations of the SRF.
- Included an opinion of the financial statements of the SRF and its internal controls, and a report on compliance.

For the states that did not provide FY 2022 audited financial statements, we reviewed any other documentation the states provided in lieu of an audited financial statement, such as a single audit report, to determine whether the other documentation provided included audited financial statements

³ 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*, issued September 10, 2014.

for a state's CWSRF and DWSRF programs that met requirements. We also conducted outreach or interviews with the Office of Water, EPA Regions 4 and 8, and select states to obtain more documentation, such as a regional program evaluation report, or to receive clarification on the financial information received.

Prior Reports

The EPA OIG's Oversight of the SRF Programs

OIG Report No. 24-P-0028, *The EPA Should Improve Annual Reviews to Protect Infrastructure Investment and Jobs Act Grants to Clean Water State Revolving Funds*, issued March 14, 2024. The report made six recommendations. The Office of Water agreed with the report recommendations and provided acceptable corrective actions and estimated completion dates. We consider the recommendations resolved with one corrective action pending.

OIG Report No. 24-E-0022, *Perspectives on Capacity: Managing Drinking Water State Revolving Fund Infrastructure Investment and Jobs Act Funding*, issued February 27, 2024, was based on survey results that showed most state DWSRF administrators agreed that their agencies had the organizational capacity necessary to manage the DWSRF Infrastructure Investment and Jobs Act funds awarded to their states. This report made no recommendations.

OIG Report No. 23-N-0028, *EPA Guidance Removed States' Responsibilities for Monitoring State Revolving Fund Borrowers' Single Audit Reports*, issued August 15, 2023, described that the EPA issued incorrect guidance to states on single audit requirements. This report made no recommendations.

OIG Report No. 23-P-0022, *The EPA Could Improve Its Review of Drinking Water State Revolving Fund Programs to Help States Assist Disadvantaged Communities*, issued July 11, 2023, found that two of the seven states reviewed did not consistently meet their requirements to award loan subsidies to disadvantaged communities and other eligible recipients for state FYs 2017 through 2020. The report made three recommendations. The Agency agreed to all three recommendations and proposed acceptable corrective actions for two.

OIG Report No. 22-N-0057, *Considerations from Single Audit Reports for the EPA's Administration of Infrastructure Investment and Jobs Act Funds*, issued September 14, 2022, described instances of noncompliance from a review of the single audit findings from FY 2019 through 2021. This report made no recommendations.

The Government Accountability Office's Oversight of the SRF Programs

Government Accountability Office Report No. GAO-02-135, *Drinking Water: Key Aspects of EPA's Revolving Fund Program Need to Be Strengthened*, issued January 24, 2002, recommended that the EPA conduct independent audits in the states where no audits have been done, track and evaluate the quality of audits performed by others, complete financial audit guidelines for the DWSRF Program, and

facilitate the exchange of audit findings and program evaluation results between the DWSRF Program and OIG officials. Overall, the EPA agreed with the findings and recommendations in this report.

Results

The majority of the states and the Commonwealth of Puerto Rico had an annual audit of their CWSRF and DWSRF financial statements for FY 2022 prepared in accordance with statutory requirements for an audit to be conducted pursuant to GAGAS. Specifically, 43 out of 51 CWSRF state programs and 42 out of 51 DWSRF state programs had an independently conducted financial audit that identified the financial information for each program as separate financial statements, separate components in the basic financial statements section of a financial report, or separate components in the financial statement's supplementary information section. The remainder of the state SRF programs provided other documentation for their FY 2022 programs that did not identify financial information. This occurred because Office of Water guidance is not consistent with statutory requirements. Although single audits include a financial review that examines the accounting, financial statements, and general award transactions, according to the EPA's July 2006 *The DWSRF Guide to Understanding Audits*, single audits rarely provide sufficient financial detail to evaluate an SRF program's financial condition and the results of operations. Therefore, most states' single audits do not qualify as SRF program-specific audits.

The EPA awarded over \$490 million in total SRF funding in FY 2022 to the states that provided other documentation. Without audited financial statements of the SRF programs, the EPA and the OIG lack sufficient clarity on the financial and operational health of the SRFs to identify potential fraud, waste, and abuse. In addition, the EPA uses financial audits to gather certain information necessary to report to Congress.

The SRF Financial Statement Audit Requirements

The CWA, specifically 33 U.S.C. § 1386(b), requires an annual audit of each CWSRF by either the EPA or a state. For the DWSRF Program, SDWA at 42 U.S.C. § 300j-12(g)(4) requires the EPA to conduct periodic audits. Both the CWA and SDWA require audits in compliance with GAGAS. States that conduct separate audits for their SRFs follow the Governmental Accounting Standards Board guidance in preparing their financial statements.

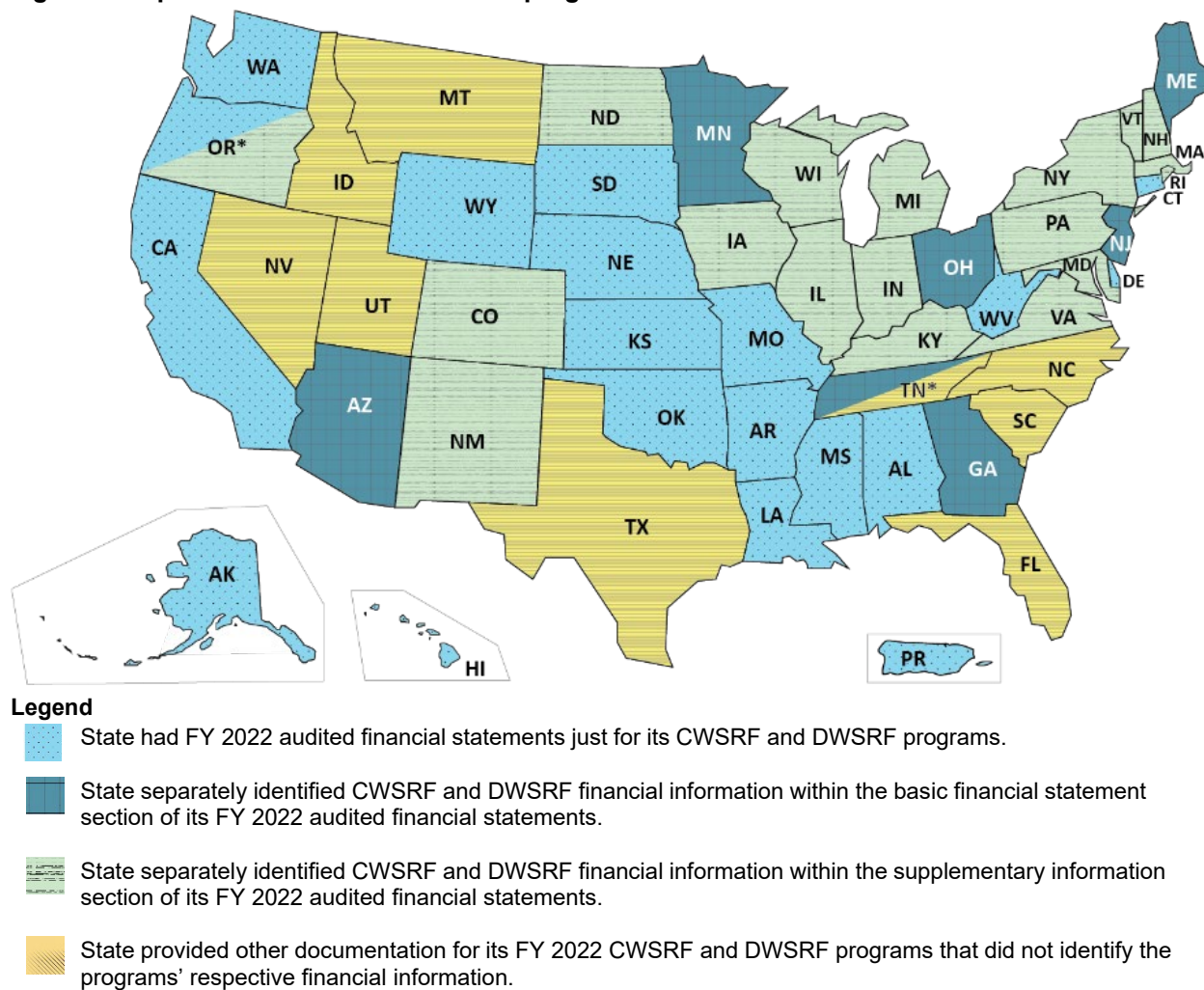
As previously noted, states are also subject to single audit requirements. Although a state's obligation to conduct a financial audit of the SRFs is fulfilled when it conducts a single audit pursuant to the Single Audit Act, the statutory requirements placed upon the EPA to conduct the periodic audits remain in place. Furthermore, according to the EPA's July 2006 *The DWSRF Guide to Understanding Audits*, single audits rarely provide sufficient financial detail to evaluate an SRF program's financial condition and the results of operations.

CWSRF Audited Financial Statements for Fiscal Year 2022

The majority of the 51 state CWSRF programs had audited financial statements for FY 2022 that met requirements. Specifically, 43, or 84 percent, had FY 2022 audited financial statements for their CWSRF

programs that specifically identified the state's CWSRF financial information the EPA considers necessary to determine whether the program is operating as intended. However, eight states provided other financial documentation for their FY 2022 CWSRF program, such as unaudited financial statements or an agreed-upon procedures engagement.⁴ Specific information on each state can be found in Figure 2.

Figure 2: Map of state CWSRF and DWSRF programs' FY 2022 audited financial statement results



Source: Analysis of state SRF documentation received. (EPA OIG image)

* Oregon had FY 2022 audited financial statements just for its CWSRF program and separately identified the DWSRF financial information within the supplementary information section of its state FY 2022 audited financial statements. Tennessee separately identified its CWSRF financial information within the basic financial statement section of its FY 2022 audited financial statements. The state provided documentation for its FY 2022 DWSRF program that did not identify the DWSRF financial information.

⁴ According to the American Institute of Certified Public Accountants, "an agreed-upon procedures engagement is an attestation engagement in which a practitioner performs specific procedures on subject matter and reports the findings without providing an opinion or conclusion. The subject matter may be financial or nonfinancial information. Because the needs of an engaging party may vary widely, the nature, timing, and extent of the procedures may vary, as well."

We found that the ways the 43 states presented their CWSRF financial information within their audited financial statements varied. Still, the documentation provided met requirements of having an annual financial audit that met GAGAS requirements, and it contained an independent auditor's opinion on the CWSRF program financial statements, reports on internal controls, and reports on compliance.

For example:

- Nineteen states had audited financial statements just for their CWSRF program. These were Alabama, Alaska, Arkansas, California, Connecticut, Delaware, Hawaii, Kansas, Louisiana, Mississippi, Missouri, Nebraska, Oklahoma, Oregon, Puerto Rico, South Dakota, Washington, West Virginia, and Wyoming.
- Seven states had their CWSRF financial information within the basic financial statements section of their state audited financial statements. These were Arizona, Georgia, Maine, Minnesota, New Jersey, Ohio, and Tennessee.
- Seventeen states had their CWSRF financial information within the supplementary information section of their state audited financial statements. These were Colorado, Illinois, Indiana, Iowa, Kentucky, Maryland, Massachusetts, Michigan, New Hampshire, New Mexico, New York, North Dakota, Pennsylvania, Rhode Island, Vermont, Virginia, and Wisconsin.

However, eight states provided other financial documentation for their FY 2022 CWSRF program, including unaudited CWSRF financial statements, statewide single audits that did not include the CWSRF financial statements, an agreed-upon procedures engagement for the program, or an audited financial statement that did not separately identify the program's financial information. For example, Florida, North Carolina, and Utah provided unaudited financial statements for their respective programs. South Carolina provided its single audit, but the single audit did not include financial statements for the state's CWSRF program, and the state indicated that it does not separately audit its CWSRF financial statement.⁵ Similarly, when requested, Florida, North Carolina, and Utah provided statewide single audits for FY 2022, but these also did not include the financial statements for their CWSRF programs. In addition, Idaho had an agreed-upon procedures engagement performed on its CWSRF program, but these procedures did not include audited financial statements of the CWSRF program. Montana provided audited financial statements of the Montana Department of Natural Resources and Conservation, and Nevada and Texas provided statewide annual comprehensive financial reports, but none of these documents specifically identified the CWSRF funds.

The EPA provided over \$238.9 million in total CWSRF funds for FY 2022 to each of the eight states that did not have audited financial statements, as detailed in Appendix B. Until specifically requested, none of the states provided their SRF financial statements to the OIG.

⁵ Unless provided to us by a state, we did not review SRF financial information in state single audits, as this was outside the scope of this audit.

DWSRF Audited Financial Statements for Fiscal Year 2022

Forty-two of 51 state DWSRF programs had an audited financial statement completed for FY 2022 that met requirements. However, nine states provided other financial documentation for their FY 2022 DWSRF program, including unaudited DWSRF financial statements, statewide single audits that did not include DWSRF financial statements, an agreed-upon procedures engagement, or an audited financial statement that did not specifically identify the DWSRF program financial information. Specific information on each state can be found in Figure 3.

Similar to the CWSRF program, the ways the 42 states presented their DWSRF financial information within their audited financial statements varied, but the documentation provided met GAGAS requirements, and it contained an independent auditor's opinion on the DWSRF program financial statements, reports on internal controls, and reports on compliance. For example:

- Eighteen states had audited financial statements just for their DWSRF program. These were Alabama, Alaska, Arkansas, California, Connecticut, Delaware, Hawaii, Kansas, Louisiana, Mississippi, Missouri, Nebraska, Oklahoma, Puerto Rico, South Dakota, Washington, West Virginia, and Wyoming.
- Six states had their DWSRF financial information within the basic financial statements section of their state audited financial statements. These were Arizona, Georgia, Maine, Minnesota, New Jersey, and Ohio.
- Eighteen states had their DWSRF financial information within the supplementary information section of their state audited financial statements. These were Colorado, Illinois, Indiana, Iowa, Kentucky, Maryland, Massachusetts, Michigan, New Hampshire, New Mexico, New York, North Dakota, Oregon, Pennsylvania, Rhode Island, Vermont, Virginia, and Wisconsin.

However, nine states provided other financial documentation for their FY 2022 DWSRF programs. For example, Florida, North Carolina, and Utah provided unaudited financial statements for their respective programs, and South Carolina provided the state's single audit, which did not include financial statements for its DWSRF program; in doing so, the state indicated that it does not separately audit its DWSRF financial statements. When requested, Florida, North Carolina, and Utah provided single audits for FY 2022, but the single audits did not include financial statements for their DWSRF programs. In addition, Idaho had agreed-upon procedures performed on its DWSRF program, but these procedures did not include audited financial statements of the program. Montana and Tennessee had audited financial statements, but the statements did not identify the DWSRF financial information. And Nevada and Texas had annual comprehensive financial reports that did not identify the DWSRF funds.

The EPA provided over \$251.3 million in total DWSRF funds for FY 2022 to each of the nine states that did not have audited financial statements, as detailed in Appendix B.

The EPA’s Oversight of SRF Programs Is Inhibited Because Office of Water Guidance Is Not Consistent with Statutory Requirements

The CWA and SDWA require periodic audits of the SRFs. The Office of Water’s March 2018 *SRF Fund Management Handbook* provides that a statewide single audit will “satisfy the requirement for an SRF audit”; however, as the EPA has previously acknowledged in its audit guides, a statewide single audit does not always include testing of or reporting on the SRF’s financial statements or compliance with SRF program requirements. Table 1 provides examples of how the Office of Water CWSRF and DWSRF guidance is not consistent with statutory requirements.

Table 1: Examples of how Office of Water guidance is not consistent with statutory requirements

Applicable Statutory Requirements	Office of Water Guidance
• The Clean Water Act at 33 U.S.C. § 1386(b) requires the EPA to conduct, or require a state to conduct, annual audits of the CWSRFs in accordance with Government Accountability Office procedures. • The Safe Drinking Water Act at 42 U.S.C. § 300j-12(g) requires the EPA to periodically audit the DWSRFs in accordance with comptroller general procedures.	• <i>The DWSRF Guide to Understanding Audits</i>, July 2006, states that most audits performed in compliance with the Single Audit Act will not qualify as SRF program-specific audits. • <i>SRF Fund Management Handbook</i>, March 2018, states, “Financial reporting and audits are a key component of catching potential waste, fraud, and abuse in the SRF. CWSRF Regulations Section 35.3165(d) and DWSRF Regulations Section 35.3570(b) state that audits are due within 1 year after the end of the fiscal year, although OMB [Office of Management and Budget] requires Single Audits – which satisfy this requirement – to be completed within 9 months.” • <i>SRF Annual Review Guidance</i>, October 2022, advises regional staff that a state can substitute a statewide single audit for an audit of the SRF.

Source: OIG analysis of CWSRF and DWSRF regulations and Office of Water guidance. (EPA OIG table)

As noted in Table 1, the EPA’s *SRF Annual Review Guidance*, dated October 2022, advises regional staff that a state can substitute a statewide single audit for an audit of the SRF. Region 4, which oversees the SRF programs for Florida, North Carolina, and South Carolina, and Region 8, which oversees Utah’s SRF, accepted the states’ single audits in lieu of requesting the states to also provide independent CWSRF and DWSRF financial statement audits. However, Region 8, in its FY 2022 Program Evaluation Report for Utah, recommended that the state conduct a separate financial statement and compliance audit for its CWSRF and DWSRF programs.

According to the EPA’s July 2006 *The DWSRF Guide to Understanding Audits*, single audits rarely provide sufficient financial detail to evaluate an SRF program’s financial condition and the results of operations. Figure 3 provides an example of state SRF financial information included in a state’s single audit compared to an example of a state’s SRF audited financial statement. The CWSRF and DWSRF financial information included in North Carolina’s single audit provided a total amount for the funds. In comparison, the CWSRF and DWSRF financial information included in Georgia’s audited financial statement provided more details about fund assets, liabilities, and balances.

Figure 3: Example of the SRF financial information included in North Carolina's FY 2022 Single Audit compared to Georgia's FY 2022 SRF audited financial statement

NORTH CAROLINA

Clean Water State Revolving Fund—Cluster:

U. S. Environmental Protection Agency

66.458	D	28,676,000	27,487,526	Capitalization Grants for Clean Water State Revolving Funds
		28,676,000	27,487,526	Total - Clean Water State Revolving Fund Cluster - U. S. Environmental Protection Agency
		28,676,000	27,487,526	Total - Clean Water State Revolving Fund

STATE OF NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (DETAIL)

For the Fiscal Year Ended June 30, 2022

Federal ALN	Direct/ Indirect	Program Expenditures	Amount Provided to Subrecipients	ALN Program Title
Drinking Water State Revolving Fund—Cluster:				
U. S. Environmental Protection Agency				
66.468	D	43,236,080	35,377,229	Capitalization Grants for Drinking Water State Revolving Funds
66.468	I	32,601	-	Capitalization Grants for Drinking Water State Revolving Funds
66.468	I	20,248	-	Capitalization Grants for Drinking Water State Revolving Funds
		43,288,929	35,377,229	Total - Drinking Water State Revolving Fund Cluster - U. S. Environmental Protection Agency
		43,288,929	35,377,229	Total - Drinking Water State Revolving Fund

GEORGIA

GEORGIA ENVIRONMENTAL FINANCE AUTHORITY

(A Component Unit of the State of Georgia)

Balance Sheet
Governmental Funds
June 30, 2022

Assets	General	Weatherization Assistance Program	Clean Water SRF Administration	Drinking Water SRF State Program Setasides	Drinking Water SRF Local Assist Setasides	Drinking Water SRF Administration
Cash	\$ 1,470,121	3	4	—	—	25,454
Investments	18,450,856	—	26,674,899	—	—	4,995,221
Due from other governments	763,351	2,154,033	25,033	856,199	1,650,658	262,512
Due from other funds	4,954,249	67,840	—	—	—	—
Other assets	18,834	—	—	—	—	—
Total assets	\$ 25,657,411	2,221,876	26,699,936	856,199	1,650,658	5,283,187
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 761,031	1,361,326	28,994	317,913	828,605	6,516
Accrued payroll	30,864	—	—	—	—	—
Due to other governments	28,295	—	—	—	—	—
Due to other funds	3,705	848,040	455,066	538,286	822,053	67,013
Total liabilities	823,895	2,209,366	484,060	856,199	1,650,658	73,529
Fund balances:						
Restricted for grant programs	513,921	12,510	—	—	—	—
Restricted for loan programs	11,885,386	—	26,215,876	—	—	5,209,658
Unassigned	12,434,209	—	—	—	—	—
Total fund balances	24,833,516	12,510	26,215,876	—	—	5,209,658
Total liabilities and fund balances	\$ 25,657,411	2,221,876	26,699,936	856,199	1,650,658	5,283,187

Source: North Carolina's FY 2022 Single Audit and Georgia's FY 2022 SRF audited financial statement.
(EPA OIG images)

Without audited financial statements of the SRF programs, the EPA, in its oversight role of the SRFs, lacks certain financial information necessary to identify potential fraud, waste, and abuse and to determine whether the CWSRF programs for the eight states that provided alternative documentation, totaling over \$238.9 million in CWSRF funds, or the DWSRF programs for the nine states that did likewise, totaling over \$251.3 million in DWSRF funds, are operating as intended.

Conclusions

According to the EPA, it uses the audited financial statements as one of many tools to determine whether an SRF program is operating as intended and to gather certain information necessary to report to Congress. In addition, as the EPA states in its March 2018 *SRF Fund Management Handbook*, financial audits can identify potential fraud, waste, and abuse in the SRFs. Not all states had FY 2022 audited financial statements for their SRF programs because Office of Water guidance is not consistent with the CWA and SDWA statutory requirements. Without audited financial statements for the SRF programs, the EPA and the OIG lack sufficient clarity on the operations of the SRFs to identify potential fraud, waste, and abuse.

We make no recommendations in this report.

Agency Response and OIG Assessment

Although not required, the Agency provided a formal response to our draft report, which we include in Appendix C. The Agency also provided technical comments. We reviewed the Agency's response and technical comments and incorporated changes in our report, as appropriate.

The OIG acknowledges the requirements set forth for audits of the state SRF programs, including requirements in the CWA, SDWA, and the Single Audit Act. As described in the report, the CWA, specifically 33 U.S.C. § 1386(b), requires an annual audit of each state CWSRF program. Further, SDWA at 42 U.S.C. § 300j-12(g)(4) requires periodic audits of each state DWSRF program. Despite the Single Audit Act, the statutory requirements in the CWA and SDWA remain in place. As noted in the report, for the scope of our audit work, we reviewed documentation provided to us from the 51 CWSRF and 51 DWSRF state programs in response to our April 2023 request where we asked the states to provide their three most recent audited financial statements for their CWSRF and DWSRF programs. For the states that provided FY 2022 SRF audited financial statements, we reviewed those statements to determine whether they complied with the GAGAS audit requirements, as provided in the CWA and SDWA. For the states that did not provide FY 2022 audited financial statements, we reviewed any other documentation the states provided in lieu of an audited financial statement, such as a single audit report, to determine whether that documentation included audited financial statements for their CWSRF and DWSRF programs. Our report findings describe the results of our audit work, given our audit scope of work, and we make no recommendations to the Agency as a result of those findings.

The EPA has long expressed the need for heightened financial scrutiny of the SRFs. For example, in its memorandum dated October 16, 1997, addressing its SRF audit strategy, the Agency said, “While the Single Audit Act limits the Agency’s ability to implement its original strategy, all of the parties above and many State officials recognize that additional audit coverage, beyond the Single Audit Act, is needed to ensure the financial integrity of these unique programs.” Similarly, in its rulemaking dated August 7, 2000, for the DWSRF regulations, the EPA conveyed its “belief that independent audits of financial statements, beyond the Single Audit Act, are important to ensure the financial integrity of the DWSRF program.”⁶ More recently, the March 2018 *SRF Fund Management Handbook* stated:

With over \$165 billion in assets across the CWSRF and DWSRF, it is imperative that states have proper internal controls to protect them from waste, fraud, and abuse. While statewide Single Audits satisfy the requirement for an SRF audit, they may not show SRF-specific information and therefore may not have the necessary information for a thorough analysis of the SRF.

The billions of federal taxpayer dollars provided to the SRFs, including both annual appropriations and the approximately \$43 billion in Infrastructure Investment and Jobs Act funding appropriated from FYs 2022 through 2026, supports our assertion that financial audits are a crucial part of SRF oversight. Audited financial statements also help protect the financial integrity of state SRF programs.

⁶ Drinking Water State Revolving Funds, [65 Fed. Reg. 48286](#) (Aug. 7, 2000).

SRF Documentation Reviewed

To answer our audit objective, we reviewed the following documents, laws, and regulations.

Document, law, or regulation	Summary
Clean Water Act, as amended	33 U.S.C. §§ 1381 to 1389, established the CWSRF program.
40 C.F.R. § 35.3165(d)	The regulatory provision requiring annual CWSRF financial and compliance audits.
40 C.F.R. § 35.3570(b)	The regulatory provision regarding annual DWSRF financial and compliance audits.
Single Audit Act of 1984, as amended	The laws establishing single audit requirements, 31 U.S.C. §§ 7501-7506.
EPA memorandum, <i>Clarification of Single Audit Requirements Under the Clean Water and Drinking Water State Revolving Fund Programs</i> (July 2023)	A resource for SRFs and recipients of SRF assistance to clarify requirements concerning single audits, federal funds, and responsibilities for recipients of SRF assistance and the state programs.
EPA memorandum, <i>Updated Single Audit Act Borrower Audit Collection Policy</i> (September 2021)	Clarification of SRF process changes made in Policy Memorandum 07-03, <i>Clarification of Single Audit Act Requirements Under the Clean Water and Drinking Water State Revolving Fund programs</i> , related to updated regulations.
Government Accountability Office's <i>Government Auditing Standards</i> (2024 Revision)	Auditing standards for government entities and entities that receive government awards.
Statements of the Governmental Accounting Standards Board	Accounting and financial reporting standards for U.S. state and local governments.
EPA 2002 <i>Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs</i> (September 2002) EPA <i>DWSRF Guide to Understanding Audits</i> (July 2006)	Guidance on how the SRF programs' annual financial statement audits should be conducted and the importance of the audits.
OIG memorandum, <i>Discontinuation of State Revolving Fund Financial Audits</i> (March 2006) EPA memorandum, <i>Response to the Discontinuation of State Revolving Fund Financial Audits</i> (April 2006)	Notification to the EPA of the OIG's intent to discontinue performing annual SRF financial audits and the EPA's response.
Office of Management and Budget, <i>Information Collection Request Supporting Statement for CWSRF and DWSRF Programs</i> (January 2023) Office of Management and Budget, <i>Information Collection Request Clean Water State Revolving Fund Program (Renewal)</i> (January 2021)	Provision that "[a] State must comply with the provisions of the Single Audit Act Amendments of 1996. Best management practices suggest, and the EPA recommends, that a State conduct an annual independent audit of its SRF programs."
SDWA, as amended	42 U.S.C. § 300j-12, established the DWSRF Program.
Infrastructure Investment and Jobs Act, Pub. L. 117-58 (2021)	Includes water infrastructure funding for the CWSRF and DWSRF Programs. The Act amends the CWA and SDWA to include new provisions to the SRF programs, applicable to projects funded in whole or in part by the Act.

Document, law, or regulation	Summary
EPA, <i>Interpretive Guidance for in the Water Resources Reform and Development Act to Titles I, II, V and VI of the Federal Water Pollution Control Act</i> (September 2014) EPA memorandum, <i>Interpretive Guidance for Certain Amendments in the Water Resources Reform and Development Act (WRRDA) to Titles I, II, V and VI of the Federal Water Pollution Control Act</i> (January 2015)	Interpretive guidance for the Water Resources Reform and Development Act of 2014 and provisions affecting the CWSRF program.
EPA, <i>Drinking Water State Revolving Fund Eligibility Handbook</i> (June 2017)	Guidance on the DWSRF loan and set-aside activity eligibility.
EPA, <i>Initial Guidance for State Revolving Funds</i> (January 1988)	Agency approach to implementing Title VI of the CWA.
EPA, <i>Clean Water and Drinking Water Grants to U.S. Territories and Washington, D.C. FY 2017 Annual Report</i> (July 2018)	Report about clean water and drinking water grants to U.S. territories.
EPA, <i>SRF Annual Review Guidance</i> (October 2022)	Guidance for annual reviews of the CWSRF and DWSRF Programs.
EPA, <i>Annual Review Checklist 2022</i> (Update) (October 2022)	Updated method in FY 2022 for ensuring that the annual review addresses all major review elements.
2 C.F.R. part 200 subpart F, Audit Requirements	Standards for obtaining consistency and uniformity among federal agencies for the audit of nonfederal entities expending federal awards.
EPA, <i>SRF Fund Management Handbook</i> (March 2018)	Analysis of measuring the financial viability of the SRF programs.
EPA, <i>Drinking Water State Revolving Fund Program Operations Manual</i> (October 2006)	An overview of the DWSRF program.

Source: OIG summary of documents reviewed. (EPA OIG table)

Fiscal Year 2022 SRF Funding for States Without SRF Audited Financial Statements

Table B-1: CWSRF funding

State	State FY 2022 CWSRF funding (\$)
1. Florida	89,692,100
2. Idaho	7,779,000
3. Montana	7,779,000
4. Nevada	7,779,000
5. North Carolina	28,676,000
6. South Carolina	16,278,000
7. Texas	72,622,000
8. Utah	8,357,000
Total	238,962,100

Source: The EPA's Compass Business Objects reporting. (EPA OIG table)

Table B-2: DWSRF funding

State	State FY 2022 DWSRF funding (\$)
1. Florida	43,562,185
2. Idaho	11,001,000
3. Montana	11,100,000
5. Nevada	12,868,000
4. North Carolina	40,745,000
6. South Carolina	14,720,000
7. Tennessee	19,284,000
8. Texas	87,015,000
9. Utah	11,100,000
Total	251,395,185

Source: The EPA's Compass Business Objects reporting. (EPA OIG table)

Agency Response to the Draft Report



OFFICE OF WATER

WASHINGTON, D.C. 20460

April 28, 2025

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Draft Report: *Audit of the States' and the Commonwealth of Puerto Rico's Compliance with the Clean Water and Drinking Water State Revolving Fund Annual Financial Statement Audit Requirements*, Project No. OA-FY23-0097, March 21, 2025

FROM: Peggy S. Browne, Acting Assistant Administrator **Browne, Peggy**

TO: Nicole N. Murley, Acting Inspector General
Office of Inspector General

Digitally signed by
Browne, Peggy
Date: 2025.04.28
16:15:31 -04'00'

Thank you for the opportunity to review and respond to the Office of Inspector General's draft report titled, *Audit of the States' and the Commonwealth of Puerto Rico's Compliance with the Clean Water and Drinking Water State Revolving Fund Annual Financial Statement Audit Requirements*, Project No. OA-FY23-0097, dated March 21, 2025. The following is a summary of the U.S. Environmental Protection Agency's overall position, followed by comments on the draft report's findings. In addition, the EPA has provided more detailed technical comments attached to this memorandum.

AGENCY'S OVERALL POSITION

All 51 CWSRFs and all 51 DWSRFs operate consistent with and in compliance with the Single Audit Act. Additionally, the OIG's draft report states that 43 CWSRF (of 51) and 42 DWSRF (of 51) state programs perform voluntary annual financial auditing of their programs. These voluntary audits go beyond the requirements of the Single Audit Act. The EPA commends the state programs for the high level of participation in voluntary audits.

The EPA agrees with the OIG that audited financial statements from the SRF programs or audited financial statements from each state that clearly identify SRF funds represent a good practice for the state SRFs.¹ Such individual audits, along with the EPA's comprehensive program oversight, help to ensure that the SRFs' financial information is reliable and compliant with provisions of federal laws and regulations.

The EPA disagrees with the OIG in two important areas.

- First, the EPA disagrees with the OIG that there are inconsistencies between program regulations and Office of Water guidance. As the OIG is aware, the CWSRF regulations were written before the Single Audit Act was passed and DWSRF regulations were written after the passage. Since the EPA's SRF regulations cannot require states to perform an audit that is voluntary under the Single Audit Act, in 1997 the OIG, the EPA and the Office of Management and Budget developed an audit strategy. The purpose of the strategy is to explicitly align SRF statutory and regulatory requirements with the provisions of the Single Audit Act. The Office of Water guidance consistently follows that audit strategy.
- Second, the EPA disagrees with the OIG conclusion that without audited financial statements of the state revolving fund programs, the EPA and the OIG lack sufficient clarity on the programs' operations to identify potential fraud, waste, and abuse. Under federal law, the EPA must comply with the Single Audit Act and the agency does not have authority to add auditing requirements. Further, the EPA disagrees that the agency and the OIG lack sufficient clarity on the financial and operational health of the SRFs to identify potential fraud, waste, and abuse based on the relatively small percentage of states that do not conduct voluntary independent audits. Beyond the auditing requirements, the EPA performs comprehensive program oversight that includes onsite annual reviews of the state SRF programs. During these onsite reviews, the EPA conducts detailed interviews with state staff to discuss program operations, long term goals and potential challenges. The EPA also discusses any issues concerning information included in Annual Reports and entered by states into the EPA's SRF Data System. Finally, a key component of the onsite review is a detailed examination of sampled project files to ensure the state is in compliance with all programmatic requirements.

The OIG report makes no recommendations despite the claim that the EPA and the OIG lack sufficient clarity on the financial and operational health of the SRFs to identify potential fraud, waste, and abuse. Given that majority of the states already conduct voluntary individual audits,

¹ See 10/16/1997 memorandum "Clean Water and Drinking Water Revolving Fund Audit Strategy" and 1/16/2025 memorandum "Requirements for State Revolving Fund Auditing and Subrecipient Monitoring" attached.

in addition to what is required by the Single Audit Act and the EPA's oversight, the OIG's assertions that the combined efforts are inadequate is not supported by evidence. This type of unsupported claim from the OIG damages the reputation of the state SRF programs and can put the programs at risk. We encourage the OIG to directly engage with relevant programs as is called for in the DWSRF regulations if the OIG continues to be concerned with the less than 20 percent of programs that do not perform voluntary individual audits,

AGENCY RESPONSE TO FINDINGS

The state SRF programs are in full compliance with the Single Audit Act. The reported findings indicate that over 80 percent of the states have shown that they go above the requirements of the Single Audit Act. Given that majority of the state SRF programs are going beyond the Single Audit Act requirements, it is unclear why the OIG report concludes and calls into question the ability of the Single Audit Act requirements to identify potential fraud, waste, and abuse in the SRF programs. The Single Audit Act is the controlling law for state audits. The Single Audit Act overrides requirements in other statutes or regulations unless the programs are deemed high risk, which is not the case for the SRF programs, or unless the agency requiring the audits assumes all auditing costs that go beyond those required by the Single Audit Act. In fact, because of the EPA's comprehensive oversight and states' robust internal controls, the SRF programs have historically been considered low risk programs.

The OIG suggests that where states provided documentation that did not specifically include audited financial statements, this occurred because of inconsistencies between program regulations and Office of Water guidance. In fact, this occurs because Single Audit Act requirements may not require those states to include specific information on the SRF programs. The OIG report appears to assert that states' compliance with Single Audit Act requirements is insufficient. As described above, the agency and states are acting in accordance with the law and the 1998 audit strategy. The CWSRF regulations that call for annual independent audits predate and are superseded by the Single Audit Act. The CWSRF regulations are in the process of being updated. Once these regulations are revised, they, like the DWSRF regulations, will call for voluntary audits of the SRF programs where specific information about the SRFs may not be included in the single audit.

The EPA SRF regulations cannot require states to perform an audit that is voluntary under the Single Audit Act. As noted above, the DWSRF regulations note that where the agency determines information beyond voluntary audits is needed, the OIG can request information and perform audits.

In short, the OIG report should more clearly note:

- The Single Audit Act is the controlling legal authority for program financial auditing.
- The EPA, operating within the scope of the Single Audit Act, is limited in its authority to add financial audit requirements that are not directly authorized by that Act.
- The Single Audit Act requires that the EPA pay for all the costs associated with financial auditing requirements that go beyond those required by the Act.
- The Office of Water's current guidance is based on a 1998 audit strategy that was designed to align SRF statutory and regulatory requirements with the provisions of the Single Audit Act, which was amended in 1996. The 1998 audit strategy was developed in coordination with representatives from Office of Water, Office of General Counsel, Office of Inspector General, the EPA Regional Offices, and the Office of Management and Budget.
- Under this strategy, and in response to multiple directives from the EPA emphasizing the importance of clear financial audits, over 80 percent of the SRF programs voluntarily perform additional financial auditing beyond what is required by the Single Audit Act.

The Agency has robust systems of oversight in place to prevent waste, fraud, and abuse of state SRF programs.

The EPA shares the OIG's goal of reducing fraud, waste, and abuse. Audits are just one part of the EPA's robust and multi-faceted oversight of state SRF programs. The EPA gathers and analyzes data from annual reviews, including compliance checklists and the EPA reviews of state project files; findings from state transaction testing; interviews with state staff; and analysis of data states enter into the EPA's SRF data system to determine whether the SRF Programs are operating as intended.

Again, the DWSRF regulations call for the OIG to audit states that do not conduct independent financial audits voluntarily, and the CWSRF regulations also note that the OIG can conduct independent financial audits. Historically, the OIG had performed this financial auditing for both the CWSRF and the DWSRF. The OIG has not performed one of these audits for 19 years.

The EPA has attached a technical comment sheet citing specific statements that it finds incorrect in the OIG's report. The EPA, operating within the scope of the Single Audit Act, is limited in its authority to add financial audit requirements that are not directly authorized by that Act. The Single Audit Act requires that the EPA would need to bear the full costs of these additional audit requirement. Despite this, almost all states voluntarily do financial audits of

their SRF programs, which is beyond the Single Audit Act requirements. The EPA encourages SRF programs to voluntarily conduct these audits and views this level of voluntary participation positively.

OIG's report closes with no recommendations for the SRF programs. Notwithstanding, if the OIG has sufficient concerns to warrant the claims made related to the vulnerability of the SRF programs, given that the programs must only comply with the Single Audit Act, the EPA encourages the OIG to directly engage and/or audit SRF state programs that do not have annual audits as described in the DWSRF and the CWSRF regulations.

CONTACT INFORMATION

If you have any questions regarding this response or the technical comments, please have your staff contact the Office of Water's Audit Follow-Up Coordinator, Carla Hagerman, at Hagerman.Carla@epa.gov.

ATTACHMENTS (3)

1. Technical Comments on OIG Draft Report: OA-FY23-0097
2. Memorandum: "Clean Water and Drinking Water Revolving Fund Audit Strategy," 10/16/1997
3. Memorandum "Requirements for State Revolving Fund Auditing and Subrecipient Monitoring," 1/16/2025

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