



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.

Address inquiries to our public affairs office at (202) 566-2391 or OIG.PublicAffairs@epa.gov.

[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.