



ASSISTANT ADMINISTRATOR FOR WATER

WASHINGTON, D.C. 20460

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Final Report, Report No. 26-P-0001, *Audit of Compliance with the Clean Water and Drinking Water State Revolving Fund Financial Statement Audit Requirements*, dated October 15, 2025

FROM: Jessica L. Kramer

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

Thank you for the opportunity to review and respond to the Office of Inspector General's final report titled, *Audit of Compliance with the Clean Water and Drinking Water State Revolving Fund Financial Statement Audit Requirements*, Report No. 26-P-0001, dated October 15, 2025. In this response to the final report, we want to reiterate and reinforce key points the U.S. Environmental Protection Agency provided on the draft report that are not fully reflected in the final report.

- First, and most significant, the EPA's statutory obligation is to ensure that both the Clean Water and Drinking Water State Revolving Fund programs comply with the Single Audit Act, the Clean Water Act, and the Safe Drinking Water Act. All states are in full compliance with these laws as they pertain to financial audits.
- Under the Single Audit Act the EPA is not required to do SRF-specific annual audits. The requirement for an annual financial audit referenced in the CWA was superseded by the Single Audit Act requirement for single audit. In the OIG's final report, the OIG states, "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." This statement is incorrect. The EPA's Office of General Counsel confirms that the Single Audit Act is the controlling federal law regarding audits and that those statutory requirements supersede the auditing requirements described in the CWA. There is no other statutory obligation for SRF-specific annual audits for the agency.
- The Office of Water's program guidance is consistent with the Single Audit Act, CWA, and SDWA. 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. The statement OIG made in the final report regarding OW's guidance not being consistent with the CWA and SDWA statutory requirements is incorrect as the audit requirements of the CWA have, under federal law, been superseded by the Single Audit Act. Financial auditing is only one of multiple layers of program oversight. In concert with auditing, the EPA continues to provide extensive regional oversight of each state SRF program.

- The Office of Water continues to encourage states to voluntarily perform additional auditing, beyond that required by the Single Audit Act, as additional financial information may be helpful where the Single Audit Act does not elevate the SRF to major program status in a given year. The most recent communication on this issue includes OW's January 16, 2025, memorandum, *Requirements for State Revolving Fund Auditing and Subrecipient Monitoring*. As noted in the OIG's final report, the majority of state SRF programs (about 83 percent) already conduct this voluntary additional auditing. Under DWSRF regulations, the OIG has the responsibility to perform such additional audits as they see fit.

CONTACT INFORMATION

If you have any questions regarding this response, please have your staff contact OW's Audit Follow-Up Coordinator Carla Hagerman, at Hagerman.Carla@epa.gov.

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