



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

AUG 12 2014

OFFICE OF WATER

MEMORANDUM

SUBJECT: Response to Office of Inspector General Report No. 14-P-0318
"Unliquidated Obligations Resulted in Missed Opportunities to Improve Drinking Water
Infrastructure," dated July 16, 2014

FROM: Nancy K. Stoner *Michael Elkins*
Deputy Assistant Administrator *for*

TO: Arthur A. Elkins, Jr.
Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject audit report. Following is a summary of the U.S. Environmental Protection Agency's overall position, along with its position on each of the report recommendations. For the report recommendations, with which the EPA agrees, we have provided high-level intended corrective actions and estimated completion dates.

AGENCY'S OVERALL POSITION

The EPA has communicated through the Regional Offices to the states since 2006 the need to address unliquidated obligations in the Drinking Water State Revolving Fund. Non-compliance notices to specific states to draw federal funds in a timely and expeditious manner were issued in 2004, 2011 and 2013. The EPA issued a Strategy for Unliquidated Obligations Reduction on April 14, 2014. We have participated in many meetings and workgroups with state organizations including the Council of Infrastructure Financing Authorities and the Association of State Drinking Water Administrators to identify practices and approaches to reduce ULO. Your office's review of this matter reinforces our resolve to work with states to utilize these resources in a timely manner to invest in drinking water infrastructure and technical assistance to protect public health. Paralleling our renewed emphasis with the Regions and states on ULO reduction since 2012, DWSRF ULO has gone down by over \$700 million. We will continue to press for further reductions to an appropriate practical level through implementation of our Strategy.

AGENCY'S RESPONSE TO REPORT RECOMMENDATIONS

Agreements

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by FY
1a	<p>Reduce unliquidated obligations by: Working with states with high unliquidated obligations to use financial tools to project future cash flows to aid in liquidating balances by using those projections in planning for expending funds in a timely and efficient manner.</p>	<p>The EPA agrees with this recommendation and has issued its Unliquidated Obligations Reduction Strategy (4/14/14) identifying financial tools, including cash flow projection, for use by states to plan for drawing federal funds in a timely and efficient manner.</p>	<p>Done 4/14/14</p>
1b	<p>Reduce unliquidated obligations by: Quarterly providing to the regions a summary of states that have attended the cash flow analysis training and compare that with states not achieving the goals of the 2014 strategy to identify states that may need additional assistance.</p>	<p>The EPA agrees with this recommendation and conducted a webinar on "Cash Flow Analysis" for over 200 participants from states and Regions on February 26, 2014, and recorded it for future electronic access. The EPA has a record of the states that participated in the webinar and will make that available to Regions as well as updates to the list of states that will participate in the "Cash Flow Model" webinar to be offered on August 20, 2014. Since the April 2014 Strategy, the EPA has provided monthly ULO results to Regions during the 1st week of each month, and will continue to do so through September 2016, that can be used to determine which states need additional assistance.</p>	<p>Cash Flow Webinar, February 26, 2014 Planned Webinar on cash flow modeling August 20, 2014 Monthly ULO results to Regions through 9/30/16</p>
2	<p>Develop guidance for states on what projects are to be included on the fundable list, including a definition for "ready to proceed."</p>	<p>The EPA agrees with the recommendation. The ULO Reduction Strategy defines "ready to proceed" as prepared "to begin construction" and "are immediately ready, or poised to be ready, to enter into assistance agreements." If projects are not ready to proceed to construction and still need planning, the state may include projects on the fundable list that are ready to proceed to planning and design to enable them to be ready to proceed to construction in a future fundable list.</p>	<p>Done 4/14/14</p>
3	<p>Require that the EPA regions, when reviewing the capitalization grant application for states with high unliquidated obligation balances, ensure states have adopted the EPA's guidance on the definition of "ready to</p>	<p>The EPA agrees with the recommendation and will provide Regions with a question to enable determination of whether states have adopted the definition of ready to proceed from the ULO Reduction Strategy and are using it to develop their fundable lists and will include the question in the DWSRF State Review Checklist. The EPA will also inquire of each Region whether</p>	<p>"Ready to proceed" definition included in Review Checklist 9/30/14 Check on inclusion of the definition in state fundable list development 9/30/15</p>