



At a Glance

Why We Did This Review

We performed this audit to determine whether the U.S. Environmental Protection Agency (EPA) has been effective in identifying and deobligating unneeded Drinking Water State Revolving Fund (DWSRF) assistance agreement funds and preventing unwarranted accumulations of unliquidated obligations. Our objectives were to determine whether (1) EPA and state actions taken to address large balances of DWSRF unliquidated obligations reduced such obligations, and (2) state lists of projects to be funded by capitalization grants realistically reflect the projects that may be funded.

This report addresses the following EPA goals and cross-agency strategies:

- *Working to make a visible difference in communities.*
- *Protecting America's waters.*

For further information, contact our public affairs office at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2014/20140716-14-P-0318.pdf

Unliquidated Obligations Resulted in Missed Opportunities to Improve Drinking Water Infrastructure

What We Found

We found that the EPA and the five states we reviewed took many actions to reduce DWSRF unliquidated balances, but those actions have not reduced DWSRF unliquidated balances to the goal of below 13 percent of the cumulative federal capitalization grants awarded. For the period we examined the five states reviewed—California, Connecticut, Hawaii, Missouri and New Mexico—executed small numbers of loans each year and did not maximize the use of all DWSRF resources, including capitalization grant awards. State programs reviewed were not adequately projecting the DWSRF resources that would be available in the future to enable the states to anticipate the amount of projects needed to be ready for loan execution in a given year. As a result, \$231 million of capitalization grant funds remained idle, loans were not issued, and communities were not able to implement needed drinking water improvements.

When hundreds of millions of DWSRF dollars remain idle, states miss opportunities to improve the health of their communities' drinking water infrastructure and the opportunity to infuse funds into the economy and create jobs.

We also noted that states' project lists included in the capitalization grant application—called fundable lists—did not reflect projects that would be funded in the current year and overestimated the number of projects that will receive funding. Less than one-third of the projects on the fundable lists we reviewed resulted in executed DWSRF loans during the current grant year. We found that, generally, these states did not have a consistent "ready-to-proceed" definition. When projects are not ready to proceed, expected environmental benefits are delayed. Because states use the fundable lists to justify their annual capitalization grants, the fundable lists should communicate to the EPA and the public the projects that will be funded with taxpayer money.

Recommendations and Planned Corrective Actions

We recommend that the Assistant Administrator for Water require states with unliquidated obligations that exceed the Office of Water's 13-percent-cutoff goal to project future cash flows to ensure funds are expended as efficiently as possible. We also recommend that the Assistant Administrator develop guidance for states on what projects are to be included on the fundable lists and require regions, when reviewing capitalization grant applications, to ensure states are complying with the guidance. The EPA agreed to take sufficient corrective actions on most of the recommendations. The EPA still needs to take steps to ensure states have adopted the EPA's guidance on the definition of "ready to proceed."