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EPA Office of Inspector General identifies incorrect EPA guidance related to oversight of billions of taxpayer dollars

WASHINGTON – The EPA Office of Inspector General today issued a [management alert](#) regarding an EPA Office of Water policy memorandum published in September 2021 that incorrectly advised states that they do not have to review single audits of nonfederal entities that borrow money from state revolving funds. This guidance contradicted and misinterpreted federal law and created the risk that any state or territory that administers a Drinking Water State Revolving Fund (DWSRF) or Clean Water State Revolving Fund (CWSRF) may not be using single audit reports as a tool to evaluate the risk for or detect fraud, waste, or abuse.

EPA OIG auditors identified this issue while performing work for an ongoing [audit](#) to identify federal funding and spending decisions related to drinking water in Jackson, Mississippi. While their work focused on the DWSRF, the Mississippi State Department of Health, and the City of Jackson, the EPA policy memorandum, *Updated Single Audit Act Borrower Audit Collection Policy*, is relevant to both the DWSRF and CWSRF and applies to all DWSRF and CWSRF passthrough entities. If states are not using single audit reports as a tool to monitor federal funds that they distribute through the DWSRF and CWSRF, their ability, and by extension the EPA's ability, to protect DWSRF and CWSRF money against fraud, waste, and abuse is hampered.

Illustrating this risk, when EPA OIG auditors reviewed single audit reports for the City of Jackson for fiscal years 2017 through 2021, they identified a DWSRF-related finding in the fiscal year 2019 report regarding the City of Jackson failing to use an advance of award funds in a timely manner. They also identified numerous findings related to the city's financial statements, including deficiencies in the city's financial management system. Not reviewing these single audit reports means that the MSDH may be unaware of the City of Jackson's DWSRF and financial statement deficiencies and may not be monitoring or determining whether prompt and appropriate corrective actions have been taken. This lack of oversight is particularly concerning given that the City of Jackson is receiving an additional \$600 million through appropriations under the Safe Drinking Water Act to address its drinking water state of emergency, which was declared in August 2022.

The EPA OIG informed Office of Water officials of this issue in June 2023. On July 19, 2023, the EPA issued new guidance to regional SRF branch chiefs to clarify the requirement for single

audits, federal funds, and the responsibilities of recipients of state revolving fund assistance and state programs.

“The EPA’s erroneous guidance created a troubling potential lack of oversight for billions of taxpayer dollars,” said EPA Inspector General Sean O’Donnell. “It’s even more alarming given that the EPA will provide SRFs more than \$40 billion in additional funding under the Infrastructure Investment and Jobs Act. The Agency must ensure every oversight tool available is employed to protect this historic investment and make certain that federal funds are used as intended.”

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