Office of Inspector General
U.S. Environmental Protection Agency
At a Glance

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July 11, 2023

Why We Did This Audit

The U.S. Environmental Protection Agency Office of Inspector General conducted this audit to determine to what extent states have met their drinking water state revolving fund loan subsidy goals for disadvantaged communities as identified in their intended use plans and whether the EPA identified and addressed barriers, if any, that hindered states from spending the maximum allowed on loan subsidies for disadvantaged communities.

Annually, the EPA awards capitalization grants to the states that then provide low interest rate loans for drinking water infrastructure projects. For federal fiscal years 2017 through 2021, these grants totaled $5.1 billion. The grants contain minimum loan subsidy requirements. The EPA also set a goal for the states to provide the subsidies timely. The states can use up to approximately 31 percent of their grants to fund set-asides to, among other things, assist disadvantaged communities in qualifying for loans.

This audit supports an EPA mission-related effort:

- *Ensuring clean and safe water.*

This audit addresses top EPA management challenges:

- *Integrating and leading environmental justice, including communicating risks.*
- *Managing increased investment in infrastructure.*

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The EPA Could Improve Its Review of Drinking Water State Revolving Fund Programs to Help States Assist Disadvantaged Communities

What We Found

We found that two of the seven states we reviewed, Alabama and Maryland, did not consistently meet their requirements to award loan subsidies to disadvantaged communities and other eligible recipients for state fiscal years 2017 through 2020. By 2019, Maryland completed corrective actions to address this issue.

When states do not provide loan subsidies, or do not provide them timely, infrastructure improvements may not occur, negatively affecting disadvantaged communities' ability to provide safe drinking water.

Furthermore, of the seven states we reviewed, Idaho was the only one to consistently meet the EPA's timeliness goal. We calculated that the other six states did not timely award $46.7 million in loan subsidies, nearly a third of the required minimum subsidies.

We identified barriers to meeting the loan subsidies requirements, including:

- Inadequate oversight by the EPA regions.
- Underuse of set-asides by the states.

For the states we reviewed, the level of set-aside statistically correlated with the level of loan subsidy. Alabama, which fell $7.2 million, or 38.4 percent, short of its loan subsidy requirements, took less than a quarter of its available set-asides. If Alabama increased its set-aside award to the national average, we estimated that it would have $30.7 million for federal fiscal years 2023 through 2026 that it could put to better use by assisting disadvantaged communities in qualifying for loans.

Lastly, Alabama did not consistently assign its loan subsidies with a capitalization grant in the EPA's database. We found this problem with ten additional states nationwide. This problem prevents the EPA from performing consistent oversight.

Recommendations and Planned Agency Corrective Actions

To improve the EPA's oversight of states' efforts to provide loan subsidies to disadvantaged communities, we recommend that the EPA update regional review guidance, work more closely with states to clarify set-aside requirements and to assess set-aside use to assist disadvantaged communities, and ensure that states assign loan subsidies with a capitalization grant in the EPA's database. The Agency agreed to all three recommendations and proposed acceptable corrective actions for two. We will work with the Office of Water to resolve the third recommendation.