

The EPA Left \$20 Million Unawarded in the Sewer Overflow and Stormwater Reuse Municipal Grants Program

February 10, 2025 | Report No. 25-P-0014



Report Contributors

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Abbreviations

C.F.R.	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
IIIA	Infrastructure Investment and Jobs Act
OIG	Office of Inspector General
OSG	Sewer Overflow and Stormwater Reuse Municipal Grants Program

Key Definitions

Financially Distressed Community	A community that meets the affordability criteria established by the state in which the community is located, as defined in section 221 of the Clean Water Act.
Rural Community	A city, town, or unincorporated area having a population of 10,000 or fewer, as defined in section 221 of the Clean Water Act.

Cover Image

Wastewater outfall, Fourmile Creek, Iowa. (Source: U.S. Geological Survey)

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At a Glance

The EPA Left \$20 Million Unawarded in the Sewer Overflow and Stormwater Reuse Municipal Grants Program

Why We Did This Audit

The U.S. Environmental Protection Agency Office of Inspector General conducted this audit to determine whether the EPA is managing its Sewer Overflow and Stormwater Reuse Municipal Grants Program in a proper and timely manner in accordance with applicable laws, regulations, policies, and guidance.

The program provides grants to states and U.S. territories. In this report we use **states** to refer to states, the District of Columbia, and U.S. territories. The intent of the Sewer Overflow and Stormwater Reuse Municipal Grants Program is to allow states to make subawards to municipalities to plan, design, and construct projects for infrastructure that controls stormwater and prevents the release of raw sewage into nearby water bodies. The EPA reported that, as of January 2022, over \$630 billion was needed nationwide to fund projects that address water quality or water-quality-related public health problems. Congress appropriated \$202 million for the program for fiscal years 2020 through 2024.

To support this EPA mission-related effort:

- *Ensuring clean and safe water.*

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What We Found

The EPA did not consistently manage its Sewer Overflow and Stormwater Reuse Municipal Grants, or OSG, Program in accordance with some applicable laws, regulations, policies, and guidance. We found that, as of January 10, 2024, the EPA had not awarded approximately \$20 million, or about 18 percent, of the approximately \$110 million allocated to states within the OSG Program for fiscal years 2020 through 2022. In addition, the EPA failed to meet its statutory requirement to submit a report to Congress, provided insufficient justification on required merit review worksheets, and allowed a cost share to be imposed on a grant that should have been exempt because the communities to benefit were rural or financially distressed.

These management lapses partly occurred because some states did not apply for OSG funds and the EPA did not issue guidance to the regions on reallocating unawarded OSG funds. Also, the EPA did not set up mechanisms to gather information on program progress and store pertinent OSG information centrally, implement control steps to ensure that OSG grant applications were adequately reviewed by the regions, or issue guidance to the regions in a timely manner on the cost-share requirement imposed by the Infrastructure Investment and Jobs Act.

Some of the EPA's management lapses—a lack of transparency and accountability and an ineffective control—increased the risk for fraud, waste, and abuse within the OSG Program. Most importantly, the approximately \$20 million in unawarded OSG funds led us to conclude that needed infrastructure projects may have gone unfunded. The unawarded funds also may lead the public and Congress to conclude that additional funding is not urgently needed.

The approximately \$20 million in unawarded OSG funds are funds that potentially could be put to better use.

Recommendations and Planned Agency Corrective Actions

We recommend that the assistant administrator for Water update OSG implementation guidance so that it includes procedures to award and reallocate funds in a timely manner; work with regions to accelerate the award of program funds; improve program reporting by completing the required report to Congress and populating established data storage platforms with OSG Program information; implement control steps to ensure that OSG grant applications are adequately reviewed; and examine OSG grants to determine whether grants align with nonfederal cost-share flexibilities and amend grants, as appropriate.

The Agency disagreed with the recommendation to update the implementation guidance and work with regions to accelerate the award of program funds. Resolution efforts are in progress. The Agency agreed with the other four recommendations and provided acceptable corrective actions and estimated completion dates.



OFFICE OF INSPECTOR GENERAL
U.S. ENVIRONMENTAL PROTECTION AGENCY

February 10, 2025

MEMORANDUM

SUBJECT: The EPA Left \$20 Million Unawarded in the Sewer Overflow and Stormwater Reuse Municipal Grants Program
Report No. 25-P-0014

FROM: Nicole N. Murley, Deputy Inspector General performing the duties of the Inspector General *Nicole N. Murley*

TO: Benita Best-Wong, Deputy Assistant Administrator performing delegated duties as the Assistant Administrator Office of Water

Jim Macy, Regional Administrator
Region 7

This is our report on the subject audit conducted by the U.S. Environmental Protection Agency Office of Inspector General. The project number for this audit was [OA-FY24-0030](#). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

In accordance with EPA Manual 2750, your offices provided acceptable planned corrective actions and estimated milestone dates for Recommendations 2, 3, 4, and 5. These recommendations are resolved. A final response pertaining to these recommendations is not required; however, if you submit a response, it will be posted on the OIG's website, along with our memorandum commenting on your response.

Action Required

Recommendation 1 is unresolved. EPA Manual 2750 requires that recommendations be resolved promptly. Therefore, we request that the EPA provide us within 60 days its response concerning specific actions in process or alternative corrective actions proposed for the recommendations. Your response will be posted on the OIG's website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

We will post this report to our website at www.epaoig.gov.

Table of Contents

Purpose	1
Background.....	1
OSG Program Implementation	2
Grant Award Process	3
OSG Program Reporting Requirements.....	4
Program Roles and Responsibilities	4
Infrastructure Investment and Jobs Act	6
Scope and Methodology	7
Results.....	8
The OSG Program Had Funds that Were Unawarded	9
The EPA Has Not Delivered Its Report to Congress.....	12
The Regional Reviews Were Poorly Documented.....	14
Nonfederal Cost Share Imposed on Grant to Benefit Rural and Financially Distressed Communities	15
Conclusions.....	16
Recommendations	16
Agency Response and OIG Assessment	17
Status of Recommendations and Potential Monetary Benefits.....	19

Appendixes

A Sewer Overflow and Stormwater Reuse Municipal Grants	20
B Agency Response to Draft Report	23
C Distribution	27

Purpose

The U.S. Environmental Protection Agency Office of Inspector General [initiated](#) this audit to determine whether the EPA is managing its Sewer Overflow and Stormwater Reuse Municipal Grants, or OSG, Program in a proper and timely manner in accordance with applicable laws, regulations, policies, and guidance.

Background

Stormwater collects pollutants, such as trash, chemicals, and oils, and delivers those pollutants to nearby waterways. It also contributes to sewer overflows that discharge untreated waste into our nation's waters. Many communities face challenges because of the cost to construct, operate, and maintain the infrastructure needed to address the complex environmental issues caused by stormwater and sewer overflows. The EPA reported that, as of January 2022, over \$630 billion was needed nationwide to fund projects that address these and other water quality or water-quality-related public health problems.

In 2018, Congress amended section 221 of the Clean Water Act, creating a grant program that addressed stormwater and sewer overflow problems, as shown in Table 1. A prior version of the program addressed only sewer overflows. Congress began annually appropriating funds to the EPA for the OSG Program in fiscal year 2020, as shown in Table 2. With the OSG Program, the EPA awards grants to the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands. In this report, we use **states** to refer to these entities. The states, in turn, issue subawards to communities to address sewer overflow and stormwater infrastructure needs. For fiscal years 2020 through 2024, Congress appropriated the OSG Program \$202 million, far short of the over \$1 billion that Congress authorized in the same period.¹

Table 1: Timeline of the OSG Program

Date	Action
October 23, 2018	The America's Water Infrastructure Act of 2018 amended section 221 of the Clean Water Act and authorized \$225 million per year for fiscal years 2019 and 2020 for the OSG Program.
December 20, 2019	Congress made its first appropriation of \$28 million to the OSG Program.
February 24, 2021	The EPA established the allocation formula for the OSG Program.
March 29, 2021	The EPA issued its first OSG implementation guidance.

¹ The EPA can only spend up to the amount that Congress appropriates to the OSG Program even though the amount authorized by Congress may be greater.

Date	Action
April 1, 2021	The EPA announced the availability of \$67 million for OSG grants for fiscal years 2020 and 2021.
June 24, 2021	The EPA allocated OSG funds for fiscal years 2020 and 2021.
September 1, 2021	The EPA issued its first OSG grant to a state.
November 15, 2021	The Infrastructure Investment and Jobs Act added priority and cost-share requirements to the OSG Program.
November 18, 2022	The EPA issued guidance on the 2021 amendment.

Source: OIG summary of OSG program events. (EPA OIG table)

Table 2: Congressional authorizations and appropriations to the OSG Program

Fiscal year	Congressional authorization (\$)	Congressional appropriation (\$)	Date of appropriation
2020	225,000,000	28,000,000	December 20, 2019
2021	—*	40,000,000	December 27, 2020
2022	280,000,000	43,000,000	March 15, 2022
2023	280,000,000	50,000,000	December 29, 2022
2024	280,000,000	41,000,000	March 9, 2024
Total	1,065,000,000	202,000,000	—

Source: OIG summary of congressional appropriations. (EPA OIG table)

* Congress provided an unauthorized appropriation for fiscal year 2021.

OSG Program Implementation

The EPA’s Office of Wastewater Management within the EPA Office of Water is responsible for implementing the OSG Program. The office developed an allocation formula, issued program guidance, and announced the availability of grant funds. The regions then awarded grants to states.

OSG Allocation Formula

Section 221 of the Clean Water Act requires that the EPA establish and use a formula to allocate appropriated OSG funding to the states. The EPA developed an allocation formula, which it published in the [Federal Register](#) in February 2021, reserving 1 percent of appropriated funds for the EPA’s administrative expenses, as authorized; allocating the remainder based on several factors, including infrastructure needs, precipitation, and population; and adjusting allocations so that no state receives an allocation below 0.5 percent.

OSG Implementation Guidance

The EPA issued the *Sewer Overflow and Stormwater Reuse Municipal Grants Program Grant Implementation Document*, hereafter referred to as the implementation guidance, in March 2021. The implementation guidance describes how the EPA administers the grant funds, the program priority requirements, the nonfederal cost-share requirements, and the project eligibilities. It also provides guidance to states on OSG Program procedures and implementation.

The EPA issued a [memorandum](#) in November 2022 that provided guidance on, among other things, a requirement added in 2021 aimed at preventing the nonfederal cost share from being passed on to rural and financially distressed communities. The EPA regions are to reference this memorandum in conjunction with the implementation guidance.

Initial Allocations and Grants

On April 1, 2021, the EPA announced the availability of \$67 million in grant funding through the OSG Program. On June 24, 2021, the EPA issued EPA Memorandum, *Allocation of Federal Fiscal Years 2020 and 2021 Sewer Overflow and Stormwater Reuse Municipal Grant Program Funding*, to EPA regional water division directors. The memorandum specified the amounts allocated to each state. These allocations came from appropriations for fiscal years 2020 and 2021. The EPA awarded the first OSG grant funds to a state, New Mexico, on September 1, 2021.

Grant Award Process

Section 221 of the Clean Water Act authorizes the EPA to award OSG grants to states, which, in turn, issue subawards to communities to meet sewer overflow and stormwater infrastructure needs. To be awarded a grant, a state must submit a grant application that includes, among other things, estimated project costs and a work plan. In accepting the grant, the state accepts the grant terms and conditions such as reporting and cost-share requirements.

Although the EPA allocated OSG funds to all states, states were not required to apply for their OSG allocations. The EPA recommended in its OSG allocation memorandums that regions should obligate the funds before the end of the fiscal year following the EPA's issuance of the allocation or risk having the funds rescinded by Congress. In addition, the EPA regional administrator could award funds to another state in the region. According to EPA Grants Policy Issuance [12-06, Timely Obligation, Award and Expenditure of EPA Grant Funds](#), the EPA's goal is to expeditiously obligate grant funds during the first year the funds become available to ensure the obligation, award, and expenditure of EPA grant funds in a timely manner. Although this 2012 policy predates the OSG Program, adherence to this policy aligns with the directions that the EPA gave in its OSG allocation memorandums. As such, we consider adherence to the 2012 policy to be a best practice for the EPA's management of the OSG Program.

OSG Program Reporting Requirements

The OSG grant terms and conditions require the state to submit annual performance reports to the appropriate EPA region within 90 days of the end of the state fiscal year. The state is to include key project characteristics, project milestones, and environmental and public health protection results in its annual reports. The terms and conditions also require the state to submit a final performance report to the EPA no later than 120 calendar days after the period of performance for the grant. This final report should summarize accomplishments, expenditures, outcomes, outputs, and lessons learned.

The two reporting requirements provide mechanisms for the EPA to monitor and track the progress that each state has made in implementing the OSG Program. As a result, these reporting requirements assist the EPA in highlighting measurable accomplishments to the public and to Congress.

As outlined in the OSG Program grant agreement, the state agrees to inform the EPA “as soon as problems, delays, or adverse conditions which will materially impair the [state’s] ability to meet the outputs/outcomes specified in the [OSG] work plan are known.”

Program Roles and Responsibilities

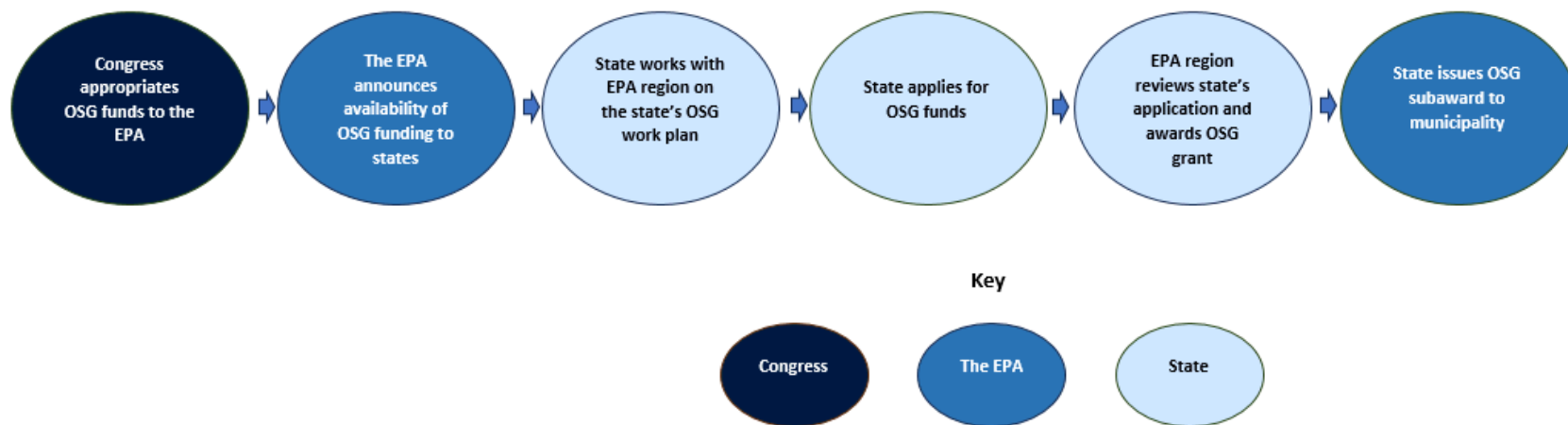
The EPA national program office, the EPA regions, and state grant recipients have specific roles and responsibilities in carrying out the OSG Program, as shown in Figure 1.

OSG National Management

The OSG Program is managed nationally by the Office of Wastewater Management—part of the EPA Office of Water—which supports the Clean Water Act by, among other things, promoting effective and responsible wastewater and stormwater management. The Office of Wastewater Management is responsible for implementing and managing the OSG Program nationally and supporting the processes within the ten EPA regional offices for awarding and managing the OSG grants.

The Office of Wastewater Management developed and issued guidance to the regional offices and states on the implementation of the OSG Program and developed and implemented the formula to allocate the annual appropriations to the states. The office also continues to provide overall program management and oversight.

Figure 1: Annual OSG award process



Source: OIG graphic from EPA information. (EPA OIG image)

EPA Regions

The EPA regional project officers are responsible for communicating with states about the OSG Program and working with states on their applications for OSG funding. The project officers review applications by using a merit review worksheet and supporting documentation to ensure that applicants are compliant with relevant requirements and that eligible projects are available for funding. Merit reviews are required by 2 C.F.R. § 200.205. The EPA created a merit review worksheet specific for the OSG Program. Using the merit review worksheet, the project officer objectively evaluates federal award applications against written standards set forth by the EPA. The project officer must retain the completed worksheet in the file that the project officer maintains for each grant.

The project officer reviews the work plan to confirm that it (1) is designed to help achieve the elements, goals, and objectives of the grant program; (2) includes eligible costs that are allowable and consistent with the grant program; (3) clearly identifies and describes the specific outputs, outcomes, and other results that are expected to be achieved, including target dates and milestones for achieving them; and (4) clearly identifies the source of the nonfederal cost share.

Once the project officer determines that the state's application complies with program requirements, the project officer forwards to a regional grant specialist a funding recommendation to award the grant to the state. The project officer and grant specialist work together to resolve issues with a state's OSG application before finalizing the grant award. Once the EPA awards a grant to the state, the project officer receives and reviews the state-submitted annual and final performance reports.

State Grant Recipients

The state submits its application for OSG funding through the governmentwide grant application system. The work plan, submitted as part of the application, includes project and budget narratives for use of OSG funds. The state develops a scheme for prioritizing the selection of municipalities to receive OSG funding.

The EPA requires that the state's work plan adequately describes environmental outputs and outcomes to be achieved. After the state awards funds to the subrecipients, it monitors the subrecipients to ensure that OSG funds are being properly used and that intended results are being achieved.

According to section 221(h)(2) of the Clean Water Act, a state can retain up to 4 percent of each grant that it awards to a municipal entity for the costs of administering the grant.

Infrastructure Investment and Jobs Act

On November 15, 2021, the president signed into law the Infrastructure Investment and Jobs Act, or IIJA. Among other things, the IIJA amended section 221 of the Clean Water Act, adding a focus to the OSG Program on prioritizing funding to rural and financially distressed communities while mitigating

cost-share requirements for such communities.² The new priority and cost-share requirements applied immediately to all unawarded and future OSG funds. In addition, the IIJA required the EPA to report to Congress on the OSG Program by November 15, 2023.

Scope and Methodology

We conducted this performance audit from January 2024 to October 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We assessed the internal controls necessary to satisfy our audit objective(s).³ In particular, we assessed the internal control components—as outlined in the U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government*—significant to our audit objective. Any internal control deficiencies we found are discussed in this report.

To obtain an understanding of the criteria applicable to the implementation and management of the OSG Program, we reviewed relevant laws, regulations, policies, and guidance, including:

- 2 C.F.R. § 200.205, *Federal awarding agency review of merit of proposals*.
- Section 221 of the Clean Water Act.
- EPA Grants Policy Issuance 12-06, *Timely Obligation, Award and Expenditure of EPA Grant Funds*.
- EPA Memorandum, *Allocation of Federal Fiscal Years 2020 and 2021 Sewer Overflow and Stormwater Reuse Municipal Grant Program Funding*, June 24, 2021.
- EPA [Memorandum](#), *Amendments to the Sewer Overflow and Stormwater Reuse Municipal Grants Program and Allocation of Federal Fiscal Year 2022 Funding*, November 18, 2022.
- EPA [Guidance](#), *Sewer Overflow and Stormwater Reuse Municipal Grants Program Grant Implementation Document*, March 2021.
- Section 50204 of the IIJA.

To determine the EPA’s progress in awarding OSG grants, we analyzed grant information available in the EPA’s databases for the 73 OSG grants that the EPA awarded to states from fiscal year allocations 2020 through 2022, as of January 10, 2024, as shown in Appendix A.

² The Clean Water Act defines a rural community as a city, town, or unincorporated area having a population of 10,000 or fewer.

³ An entity designs, implements, and operates internal controls to achieve its objectives related to operations, reporting, and compliance. The U.S. Government Accountability Office sets internal control standards for federal entities in GAO-14-704G, *Standards for Internal Control in the Federal Government*, issued September 10, 2014.

To determine whether the EPA properly oversaw cost-share and prioritization requirements imposed by the IJA, we selected 18 OSG grants that were awarded to states after passage of the IJA and that came from appropriations for fiscal years 2020 through 2022. This resulted in a sample of grants that were awarded to 15 states and spanned six of the ten EPA regions, as shown in Table 3. We analyzed the award documentation for these grants and interviewed the regional project officers responsible for them. We also interviewed one state OSG manager to obtain clarification on that state’s cost-share approach.

Table 3: Distribution of 18 OSG Program grants for fiscal year 2020 through 2022, selected to assess compliance with IJA cost-share and prioritization requirements

EPA region	States
Region 1	Connecticut, Maine, New Hampshire,* Rhode Island, and Vermont
Region 2	New Jersey, New York, and Puerto Rico*
Region 5	Minnesota and Wisconsin
Region 6	Louisiana
Region 7	Nebraska
Region 9	Guam, Nevada,* and Northern Mariana Islands

Source: OIG analysis of OSG grant documents. (EPA OIG table)

* We selected two grants each for New Hampshire, Puerto Rico, and Nevada.

To determine whether the EPA managed the OSG Program nationwide in a proper and timely manner, we reviewed OSG funding allocations, reallocation data, and grant information in the EPA’s databases and supplied by the EPA. We also interviewed national program managers and staff in the six regions covering the 18 selected grants. We reviewed in greater detail the merit review worksheets and other information for the 18 selected grants.

Results

The EPA did not consistently manage its OSG Program in accordance with some applicable laws, regulations, policies, and guidance. We found that, as of January 10, 2024, the EPA had not awarded approximately \$20 million, or about 18 percent, of the approximately \$110 million allocated to states within the OSG Program for fiscal years 2020 through 2022.⁴ In addition, the EPA failed to meet its statutory requirement to submit a report to Congress, provided insufficient justification on required merit review worksheets, and allowed a cost share to be imposed on a grant that should have been exempt because the communities to benefit were rural or financially distressed communities.

These management lapses occurred because some states did not apply for OSG funds and the EPA did not issue guidance to the regions on reallocating unawarded OSG funds. Also, the EPA delayed setting up mechanisms to gather information on program progress and store pertinent OSG information

⁴ We acknowledge that the EPA made progress in awarding these funds during our audit. See updates we present in the section titled “Agency Response and OIG Assessment.”

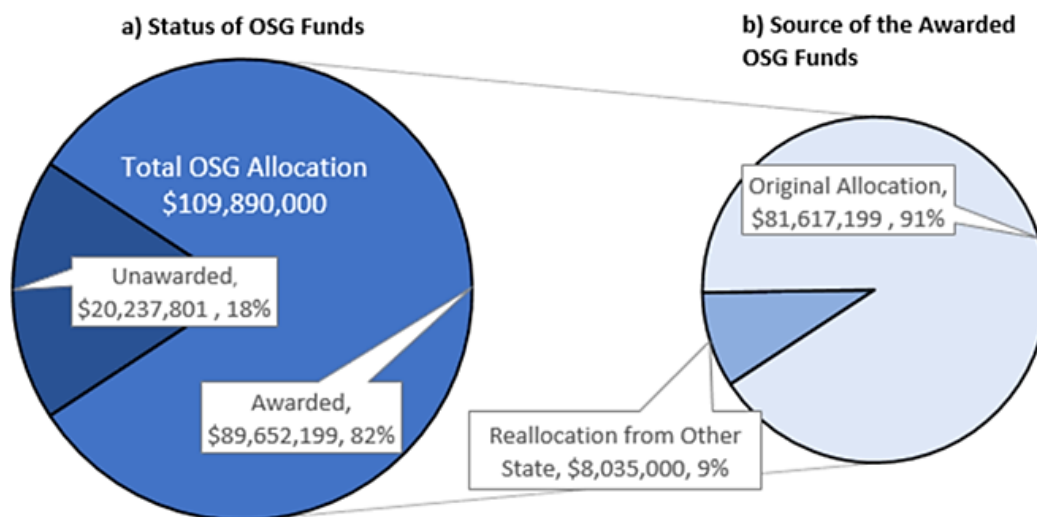
centrally, and it did not implement control steps to ensure that OSG grant applications were adequately reviewed by the regions. Finally, the EPA did not issue guidance to the regions in a timely manner on the cost-share requirement imposed by the IJA.

Some of the EPA’s management lapses—a lack of transparency and accountability and an ineffective control—increased the risk for fraud, waste, and abuse within the OSG Program. Most importantly, the approximately \$20 million in unawarded OSG funds were funds that potentially could be put to better use and led us to conclude that needed infrastructure projects may have gone unfunded. The unawarded funds also may lead the public and Congress to conclude that additional funding is not urgently needed.

The OSG Program Had Funds that Were Unawarded

As shown in Figure 2, we found that approximately \$20 million, or about 18 percent, of the approximately \$110 million in OSG funding allocated to the states for fiscal years 2020 through 2022 remained unawarded as of January 10, 2024. The EPA had set a goal for when the funds should be awarded. In its June 2021 allocation memorandum, the EPA advised that regions obligate funds to states by the end of the following fiscal year or the funds could be rescinded by Congress or awarded to another state in the region. The challenge of not awarding OSG grants in a timely manner was widespread, with six of the ten EPA regions not awarding all OSG funding, as shown in Table 4. Regions 7 and 8 had not awarded over 70 percent of their funds in a timely manner.

Figure 2: a) Status of OSG funds for fiscal years 2020 through 2022; b) the source of the awarded OSG funds, as of January 10, 2024



Source: OIG summary of OSG data. (EPA OIG image)

Table 4: Unawarded OSG funds allocated to states for fiscal years 2020 through 2022 by EPA regions, as of January 10, 2024

EPA region	Amount allocated to states within the region (\$)	Amount of unawarded funds (\$)	Unawarded funds (%)	Number of states with unawarded funds
1	8,457,000	0	0	0
2	14,766,000	2,642,000	18	2
3	12,465,000	4,258,000	34	5
4	12,961,000	0	0	0
5	18,412,000	772,000	4	1
6	9,866,000	3,686,001	37	1
7	7,873,000	5,660,000	72	3
8	3,893,000	3,219,800	83	6
9	16,414,000	0	0	0
10	4,783,000	0	0	0
Total	109,890,000	20,237,801	18	18

Source: OIG summary of OSG funds. (EPA OIG table)

As detailed in Table 5, four regions have reallocated a total of more than \$8 million in OSG funds from states that did not apply for funding. Regions 3, 5, 7, and 8 had not reallocated unawarded OSG funds to other states in the region, and Regions 2 and 6 had not reallocated all of their unawarded funds.

Table 5: Reallocation of fiscal years 2020 through 2022 OSG funds

EPA region	Reallocated amount (\$)	Declining states	Receiving states	Date of reallocation
2	337,000	U.S. Virgin Islands	Puerto Rico	December 13, 2023*
4	3,867,000	Florida, South Carolina	Alabama, Georgia, Kentucky, Mississippi, North Carolina, Tennessee	July 11, 2023
6	2,382,000	Texas	Arkansas, New Mexico, Oklahoma	July 13, 2023
9	884,000	Arizona, Hawaii	American Samoa, Guam, Northern Mariana Islands	July 18, 2022
9	565,000	Arizona, Hawaii	Guam, Northern Mariana Islands	July 6, 2023
Total	8,035,000	—	—	—

Source: OIG summary of EPA reallocation memorandums. (EPA OIG table)

* Region 2 awarded funds to Puerto Rico on September 27, 2023, before the reallocation memorandum was signed on December 13, 2023.

Causes of Funding Delays

Several factors resulted in delays in awarding OSG funding to states, including state adoption of the program; the EPA's management of the program; and, as reported by the EPA, supply chain challenges compounded by the coronavirus pandemic. The two factors discussed below include state adoption of the OSG Program and EPA management of the OSG Program.

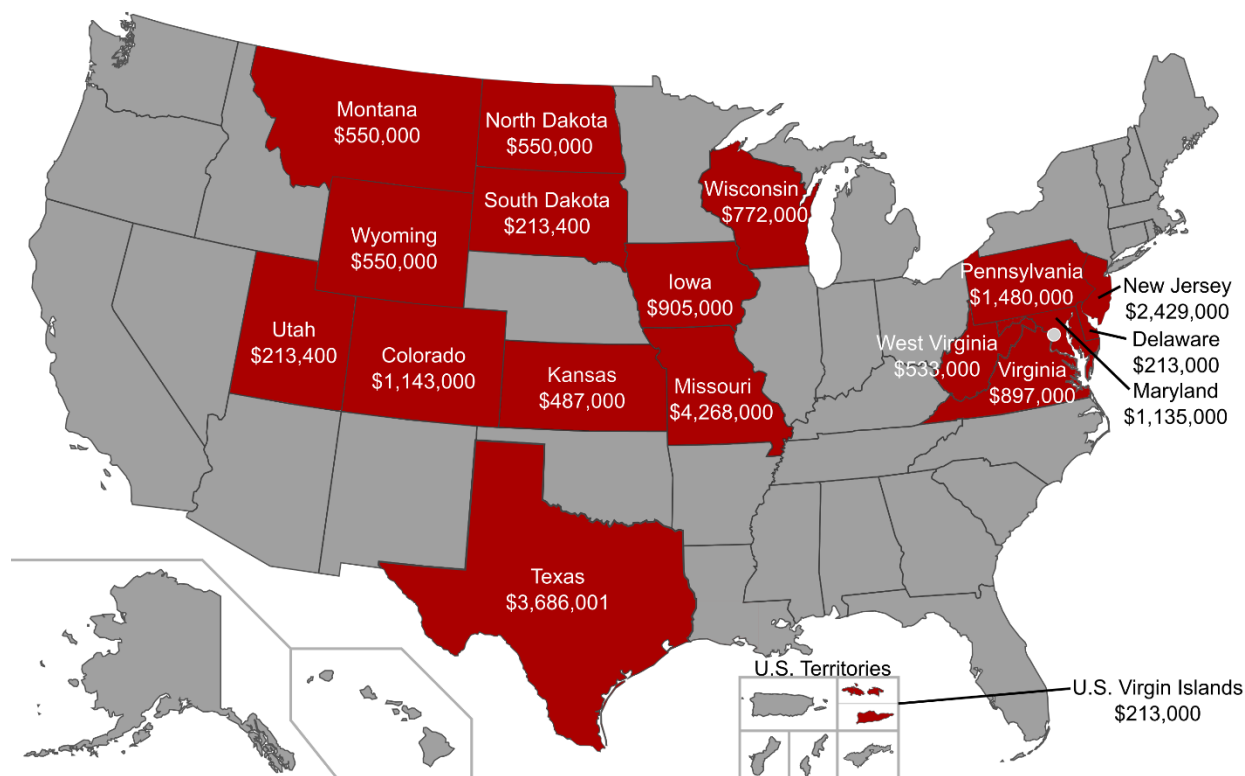
According to the EPA, some states did not apply for OSG funds because the available funds were not enough to justify dedicating personnel and other resources to running the OSG Program, even with 4 percent of the grants available to states to set aside for administrative costs. Project officers reported that states did not want the administrative workload of an additional program because of the already increased workload from IIJA-related funding for the Clean Water State Revolving Fund. The EPA also reported that some states delayed applying for funds, intending to bundle together OSG funding from a couple of years. The EPA endorsed this bundling practice; however, the practice led to federal funds sitting idle. Project officers also reported that finding projects eligible to receive OSG funding was an issue. However, under section 221 of the Clean Water Act, a wide range of projects that address sewer overflow and stormwater concerns are eligible for OSG funding.

The EPA's management of the OSG Program also contributed to delays in awarding grants to states. We found that the national OSG Program office did not provide guidance to the regions on how to reallocate the OSG funds that states did not apply for. If the national OSG Program office had provided clear instructions to the regions on awarding and reallocating funds in a timely manner, the regions may have reallocated much of the unawarded OSG funds to states that were prepared to award grants to municipalities.

Effects of Unawarded Funds

State reluctance to apply for OSG funds and the EPA's poor management of the program had several effects. Most importantly, as of January 10, 2024, a large portion—approximately 18 percent—of OSG funding for fiscal years 2020 through 2022 remained unawarded. This was widespread, as OSG funds allocated to 18 states remained unawarded, as shown in Figure 3 and Table 4. The approximately \$20 million in unawarded funds are funds that potentially could be put to better use, meaning that needed infrastructure projects remain unfunded, and give the impression that additional funding is not needed. For example, the town of Berlin, New Hampshire, is using its awarded OSG funds for a project to reduce stormwater flows to its wastewater collection system, resulting in reduced overflow discharges; other communities may benefit from similar projects.

Figure 3: Unawarded OSG funds for fiscal year 2020 through 2022, as of January 10, 2024



Source: OIG map using EPA data. (EPA OIG image)

The national OSG Program’s lack of strategy or guidance on reallocating unawarded funds meant that the regions were left to develop their own approach to reallocation, resulting in regionally variable results. Some regions efficiently executed strategies and reallocated some of or all untapped funds. For example, Regions 6 and 9 reallocated unawarded funds to financially distressed communities.

Another region, Region 2, reallocated funds declined by the U.S. Virgin Islands, to Puerto Rico, with the condition that a later allocation to Puerto Rico would be reduced by the reallocated amount and given to the U.S. Virgin Islands after it was ready to implement the OSG Program. This creative reallocation strategy is consistent with the EPA’s policy to award grants in a timely manner but differs from the strategy taken in other regions where the reallocated funds were awarded to states unconditionally.

Other regions did not follow the EPA’s policy to award grants in a timely manner and, as of January 10, 2024, had not reallocated unawarded fiscal years 2020 through 2022 funds. Without national guidance on reallocation, the national OSG Program allowed regions to not award OSG funds and leave projects unfunded.

The EPA Has Not Delivered Its Report to Congress

As of January 2025, the EPA had yet to meet its statutory requirement to submit a report to Congress that documented implementation of the OSG Program. The IIJA required that the EPA submit a report describing grant recipients, sources of funds for cost-share requirements, and grant amounts made

available under the program to the Committee on Environment and Public Works of the Senate and the Committee on Transportation and Infrastructure of the House of Representatives by November 15, 2023.

The EPA Lacked Data Collection and Staff Resources

The EPA did not submit a report to Congress partly because it did not have an effective mechanism in place to gather information on the OSG Program's progress. In addition, the EPA reported to us that it had staffing issues with the OSG Program because it prioritized meeting the demands imposed by IJJA-funded programs. These data collection and staff resource limitations made it difficult for the EPA to timely conduct the analysis needed to create the statutorily mandated report to Congress for the OSG Program.

Outside of the requirements for the annual and final performance reports, the EPA had no additional requirements for states to regularly report on the status of OSG projects. Some regional project officers took the initiative to regularly connect with state OSG Program representatives, mostly through informal phone calls and emails and during state revolving fund-related meetings. Project officers told us that states would informally give them status information on OSG projects that was not included in state annual reports. However, the EPA did not have a way to centrally capture this status information. In addition, not all project officers maintained the same level of contact with state representatives and only became aware of OSG project updates after receiving the state's annual report.

According to the national program manager, OSG administrative funds were insufficient to contract a software developer to design a reporting system to be used by the states to report basic project information, as the EPA has for the state revolving fund programs. The EPA reported to us that, as of February 2024, the OSG Program had about 46 percent remaining from the \$1.61 million in fiscal years 2020 through 2023 appropriations available to the EPA for administering the OSG Program. The EPA reported in December 2024 that it had budgeted all the OSG administrative funding for implementation needs, such as providing technical support to states in standing up the OSG Program.

The EPA also reported to us that the EPA's existing electronic grant data storage platforms—the Next Generation Grants System and the EPA Grants Files—were sufficient, considering the size of the OSG Program. According to EPA policy, all grant documents should be loaded into these systems. However, we found that the regional project officers for the OSG Program did not consistently use the two existing data storage platforms to store OSG documents. States should have filed annual reports with the EPA for eight out of the 18 OSG grants we reviewed, as of August 1, 2024, based on the grant award dates. However, we found annual reports for only two grants in one of the two data storage platforms.

Project officers told us that they kept OSG files in their regional web-based collaborative platforms or on local EPA devices. This meant the national program manager did not have easy access to information on the progress of grants, such as the performance information found in states' annual reports. One project officer told us that the sharing of best practices and other information among the regions was

hampered because of the lack of a centralized database. The EPA also stated that it was busier with other programs, including the state revolving fund programs, following the passage of the IIJA.

In January 2024, the EPA created a site on a web-based collaborative platform to respond to our requests for documents, such as annual reports for the 18 grants we reviewed. This established a centralized, national-level storage location for OSG files. The EPA is using this document library as a resource to develop the report to Congress.

The Delays in Reporting OSG Progress Created the Appearance of a Lack of Transparency and Accountability

By not providing a report to Congress in a timely manner, the EPA created the appearance of a lack of transparency and accountability and left the public and Congress uninformed of the progress within the OSG Program. In addition, as of January 2025, the EPA's OSG Program website did not include information on progress made and outputs and outcomes achieved by the program. This lack of reporting on OSG Program progress affected community and congressional awareness of the program and increased the risk of fraud, waste, and abuse by reducing transparency and accountability within the program.

The Regional Reviews Were Poorly Documented

We found that regional project officers did not record sufficient justification for 69 percent of the merit review worksheets for the grants we examined.⁵ This was a problem for four of the six regions that awarded the grants we examined. Based on the review of the application, the project officer was to verify that the applicant met program standards by completing a merit review worksheet. The OSG merit review worksheet included questions that the reviewer answered with a yes or no response. However, the worksheet also required that the reviewer include a narrative response for each question. Most of the worksheets that we examined were missing these narrative responses.

The EPA Lacked an Effective Control Mechanism

The lack of documentation occurred because the EPA lacked an effective control mechanism to ensure that project officers appropriately completed merit review worksheets for OSG grant applications. The Government Accountability Office's *Standards for Internal Control in the Federal Government* directs management to establish and maintain effective control mechanisms. Once a project officer completed the merit review worksheet, the project officer created a funding recommendation and forwarded the package to the region's grant office. Grant specialists then reviewed the application for completeness. As so many merit review worksheets for the awarded grants we examined were incomplete, we concluded that the regional grant specialists did not serve as an effective control for the merit review process because they did not ensure that the project officers fully documented their reviews.

⁵ As a merit review is not required for incremental awards, the regional project officer did not complete a worksheet for two of the 18 grants we examined. That means we examined 16 merit review worksheets.

In addition, the national program office did not serve as a control for the regional grant operations. Instead, the national program office relied on the regional project officer to review the state's application and oversee the state's OSG program. We also found that communication between the national program office and the regions could be improved. Outside of monthly state revolving fund meetings in which the smaller OSG Program might be included, the national program office did not meet regularly with regional OSG staff. In some cases, the project officer contacted the national program manager with programmatic questions, but this contact was not required.

The EPA Poorly Documented the Review Process

Evaluation of grant applications is an essential part of the EPA's assessment of whether proposed projects meet the OSG Program's goals. We found that the EPA's merit review process for the OSG Program was poorly documented, which made it difficult to determine whether the program will meet its goals. The lack of an effective control within the grant review process increases the risk for fraud, waste, and abuse in the awarding of funds.

Nonfederal Cost Share Imposed on Grant to Benefit Rural and Financially Distressed Communities

In our examination of whether the EPA properly oversaw requirements imposed by the IIJA, we found that one of the 18 OSG grants we examined imposed a nonfederal cost share in a situation where both communities to benefit from the grant were rural or financially distressed. Pursuant to Clean Water Act section 221(d)(2), a provision added by the IIJA in November 2021, the EPA is to work with states to the maximum extent practicable to prevent the nonfederal cost-share requirement from being passed on to rural or financially distressed communities. In May 2022, Region 7 awarded funding to Nebraska (OSG Grant SO-97792201-0), which then issued subawards for infrastructure projects in two financially distressed communities, with one being located within a large municipality and the other in a rural area. The award required the large municipality to provide the 20 percent nonfederal cost share for the entire grant to the state. This cost share was \$220,500, of which 15 percent went to cover the cost share for the rural community.

The EPA Took One Year to Issue Guidance on IIJA Requirements

The amendments to the OSG Program made in November 2021 by the IIJA became effective immediately. However, the EPA took one year to issue its guidance on the amendments in its memorandum, *Amendments to the Sewer Overflow and Stormwater Reuse Municipal Grants Program and Allocation of Federal Fiscal Year 2022 Funding*. In this November 2022 memorandum, the EPA provided flexibility with the nonfederal cost-share requirement, including a scenario where "a state uses all of their grant to fund projects in rural communities or financially distressed communities." In that scenario, no nonfederal contribution would be required. However, when Region 7 awarded the OSG funds to Nebraska in a situation where all grant activities would be in rural or financially distressed communities, it imposed the cost-share burden. The delay in issuing the memorandum meant that the region was left without guidance on implementing the IIJA requirements, including the nonfederal

cost-share requirement. We also found that the EPA had no mechanism in place to ensure grants met the new requirements. To comply with the cost-share flexibility described in the EPA's November 2022 memorandum, Region 7 would need to amend the grant to Nebraska to remove the cost-share requirement.

The Effects of Cost-Share Requirement Implementation

Because the EPA did not issue guidance in a timely manner and had no mechanism in place to ensure that grants met the new requirements, the EPA and state sought a cost share that did not conform with the guidance given in the November 2022 memorandum. Region 7 should amend Nebraska's grant agreement to remove the cost-share burden, so that the municipality can determine how best to use its resources.

In addition, there may be other subrecipients, outside of those that received awards from the grants we reviewed, that have been similarly burdened in a manner that is inconsistent with the flexibilities the EPA described in its November 2022 memorandum. The EPA would benefit from reviewing all OSG grants awarded after the passage of the IIJA to ensure that the cost-share requirements were imposed consistent with its guidance, particularly for those grants awarded between the passage of the IIJA and the EPA's issuance of guidance on the IIJA requirements.

Conclusions

The approximately \$20 million in unawarded fiscal years 2020 through 2022 OSG funds means that needed infrastructure projects may have gone unfunded and gives the impression that additional funding is not urgently needed. The four problems we identified with the EPA's management of the OSG Program hindered the EPA's ability to address critical sewer overflow and stormwater infrastructure needs. Current and future appropriations are at risk of fraud, waste, and abuse if the EPA does not standardize and update its processes for implementing and reporting on the OSG Program. Improvements to the administration and oversight of the OSG Program should improve the EPA's ability to award OSG funds in a timely manner and may positively affect the OSG Program's long-term performance as a critical program that supports the sewer overflow and stormwater infrastructure needs of communities across the country.

Recommendations

We recommend that the assistant administrator for Water:

1. Update the implementation guidance for the Sewer Overflow and Stormwater Reuse Municipal Grants Program to include procedures to award and reallocate funds in a timely manner, and work with regions to accelerate the award of program funds.

2. Improve program reporting in the Sewer Overflow and Stormwater Reuse Municipal Grants Program by:
 - a. Completing the required report to Congress.
 - b. Populating established data storage platforms with information to facilitate reporting on the program, such as that required by Congress.
 - c. Establishing controls to ensure that in the future regions post all program grant files, including annual and final reports, to the appropriate established electronic mechanism.
 - d. Updating the program implementation guidance to include electronic document storage requirements.
3. Implement control steps to ensure that grant applications for the Sewer Overflow and Stormwater Reuse Municipal Grants Program are adequately reviewed. This may include updating guidance provided to the regions; establishing procedures for verifying cost-share requirements; and holding regular, program-specific collaborative meetings between headquarters and regional program personnel.
4. Examine Sewer Overflow and Stormwater Reuse Municipal Grants Program grants awarded prior to the EPA's issuance of guidance in November 2022, to determine whether grants align with the nonfederal cost-share flexibilities described in the guidance, and amend grants, if appropriate.

We recommend that the regional administrator for Region 7:

5. Amend the grant to Nebraska (SO-97792201-0) to remove the cost-share requirement in order to comply with the cost-share requirement imposed by the Infrastructure Investment and Jobs Act and the flexibility described in the EPA's November 2022 guidance memorandum, *Amendments to the Sewer Overflow and Stormwater Reuse Municipal Grants Program and Allocation of Federal Fiscal Year 2022 Funding*.

Agency Response and OIG Assessment

The Office of Water, in coordination with Region 7, provided its response to our draft report on December 19, 2024. The response is in Appendix B. The Agency also provided technical comments on our draft report, and we revised the report where appropriate.

The Agency requested that we update our analyses of the EPA's progress in awarding OSG funds to include recently awarded grants. The findings we present in this report resulted from our analyses of data retrieved from the EPA's grants database on January 10, 2024, near the start of our audit. To report our audit results in a timely manner, we declined to update and recreate the complete scope of our analyses. However, where it was possible and efficient to do so, we updated some analyses. We present the results of those updated analyses in this section.

On December 23, 2024, we retrieved grant information available in the EPA databases for the OSG grants that the EPA awarded to states for fiscal year allocations 2020 through 2023. Because nearly 15 months had passed since the end of fiscal year 2023, we include the fiscal year 2023 allocation in our updated analyses. We found that the EPA had accelerated its pace of awarding OSG grants, with \$15.4 million left unawarded out of \$159 million allocated to states, or nearly 10 percent. Six regions—Regions 1, 3, 4, 5, 9, and 10—had awarded all funds, and Region 2 had approximately 3.7 percent of funds left unawarded. These updated results show improvement over the results presented in Table 4 of this report. However, three regions—Regions 6, 7, and 8—have approximately 29, 50, and 82 percent of funds left unawarded, respectively. These large percentages of unawarded funds show that improvements in the Agency’s management of the OSG Program are still needed.

In its response to our draft report, the Agency did not concur with Recommendation 1, stating that while it “agrees with the sentiments of the OIG recommendation, the Office of Water finds the information leading to this recommendation is not accurate, as awards have accelerated” and that the Office of Water would agree with the recommendation if we were to update our analysis of the EPA’s progress in awarding OSG funds. We presented some updated analyses in this section of the final report as a means of initiating resolution with the Office of Water on Recommendation 1.

The Agency concurred with Recommendations 2, 3, 4, and 5. We accept the Agency’s proposed corrective actions as meeting the intent of the recommendations. The Agency provided acceptable estimated completion dates.

Status of Recommendations and Potential Monetary Benefits

Rec. No.	Page No.	Recommendation	Status*	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	16	Update the implementation guidance for the Sewer Overflow and Stormwater Reuse Municipal Grants Program to include procedures to award and reallocate funds in a timely manner, and work with regions to accelerate the award of program funds.	U	Assistant Administrator for Water	—	\$20,238
2	17	Improve program reporting in the Sewer Overflow and Stormwater Reuse Municipal Grants Program by: <ul style="list-style-type: none"> a. Completing the required report to Congress. b. Populating established data storage platforms with information to facilitate reporting on the program, such as that required by Congress. c. Establishing controls to ensure that in the future regions post all program grant files, including annual and final reports, to the appropriate established electronic mechanism. d. Updating the program implementation guidance to include electronic document storage requirements. 	R	Assistant Administrator for Water	5/31/25	—
3	17	Implement control steps to ensure that grant applications for the Sewer Overflow and Stormwater Reuse Municipal Grants Program are adequately reviewed. This may include updating guidance provided to the regions; establishing procedures for verifying cost-share requirements; and holding regular, program-specific collaborative meetings between headquarters and regional program personnel.	R	Assistant Administrator for Water	5/31/25	—
4	17	Examine Sewer Overflow and Stormwater Reuse Municipal Grants Program grants awarded prior to the EPA's issuance of guidance in November 2022, to determine whether grants align with the nonfederal cost-share flexibilities described in the guidance, and amend grants, if appropriate.	R	Assistant Administrator for Water	9/30/25	—
5	17	Amend the grant to Nebraska (SO-97792201-0) to remove the cost-share requirement in order to comply with the cost-share requirement imposed by the Infrastructure Investment and Jobs Act and the flexibility described in the EPA's November 2022 guidance memorandum, <i>Amendments to the Sewer Overflow and Stormwater Reuse Municipal Grants Program and Allocation of Federal Fiscal Year 2022 Funding</i> .	R	Regional Administrator for Region 7	3/31/25	—

* C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

Sewer Overflow and Stormwater Reuse Municipal Grants

OSG awards from fiscal year allocations 2020 through 2022 to states, as of January 10, 2024

Region	State	Grant number	Award date	Awarded amount (\$)
1	Connecticut	SO-09000522-0	9/29/22	1,461,000
1	Connecticut	SO-09000523-0*	8/28/23	911,000
1	Maine	SO-23000522-0	8/8/22	415,000
1	Maine	SO-23000523-0	9/6/23	252,000
1	Massachusetts	SO-25000522-0	7/29/22	1,744,000
1	Massachusetts	SO-25000523-0	8/23/23	1,097,000
1	New Hampshire	SO-33000522-0	8/4/22	649,000
1	New Hampshire	SO-33000523-0	2/28/23	400,000
1	Rhode Island	SO-00A00970-0	6/15/22	605,000
1	Rhode Island	SO-44000523-0*	8/31/23	373,000
1	Vermont	SO-50000522-0	7/26/22	337,000
1	Vermont	SO-50000523-0	8/14/23	213,000
Region 1 Total	—	—	—	8,457,000
2	New Jersey	SO-96212900-0	9/29/22	3,851,000
2	New York	SO-96212800-0	9/27/22	4,302,000
2	New York	SO-96227700-0	9/21/23	2,708,000
2	Puerto Rico	SO-96238222-0	8/17/22	600,000
2	Puerto Rico	SO-96231300-0	9/27/23	663,000
Region 2 Total	—	—	—	12,124,000
3	District of Columbia	SO-96389901-0	9/15/21	886,000
3	District of Columbia	SO-95308201-0	2/27/23	551,000
3	Delaware	SO-96393901-0	6/24/22	337,000
3	Maryland	SO-95302501-0	8/22/22	1,798,000
3	Pennsylvania	SO-96391401-0	9/29/21	2,366,000
3	Virginia	SO-96393601-0	5/5/22	1,416,000
3	West Virginia	SO-95302401-0	9/2/22	853,000
Region 3 Total	—	—	—	8,207,000

Region	State	Grant number	Award date	Awarded amount (\$)
4	Alabama	SO-02D44123-0	4/19/23	1,123,000
4	Alabama	SO-02D44123-1	8/24/23	644,500
4	Georgia	SO-02D69322-0	9/26/23	2,253,500
4	Kentucky	SO-02D68722-0	9/21/23	2,974,500
4	North Carolina	SO-02D64623-0	9/14/23	2,086,500
4	Tennessee	SO-02D35922-0	9/30/22	1,023,000
4	Tennessee	SO-02D65323-0	9/11/23	1,292,500
4	Mississippi	SO-02D69722-0	9/6/23	1,563,500
Region 4 Total	—	—	—	12,961,000
5	Illinois	SO-00E03292-0	9/30/22	1,803,000
5	Illinois	SO-01E03292-0*	9/30/23	1,116,000
5	Indiana	SO-00E03234-0	9/8/22	2,062,000
5	Indiana	SO-01E03234-0*	9/11/23	1,299,000
5	Michigan	SO-00E03235-0	9/1/22	1,039,000
5	Michigan	SO-01E03235-0*	9/5/23	646,000
5	Minnesota	SO-00E03236-0	8/17/22	500,000
5	Minnesota	SO-01E03236-0*	9/22/23	313,000
5	Ohio	SO-00E03279-0	9/30/22	4,682,000
5	Ohio	SO-01E03279-0*	9/23/23	2,951,000
5	Wisconsin	SO-00E03237-0	9/21/22	1,229,000
Region 5 Total	—	—	—	17,640,000
6	Arkansas	SO-02F43501-0	9/5/23	1,606,373
6	Louisiana	SO-02F00501-0	9/21/21	962,000
6	Louisiana	SO-02F42501-0	8/30/23	614,000
6	New Mexico	SO-01F95101-0	9/1/21	337,000
6	New Mexico	SO-02F26401-0	8/14/23	813,000
6	Oklahoma	SO-02F00101-0	9/20/21	554,000
6	Oklahoma	SO-02F31101-0	9/12/23	1,293,626
Region 6 Total	—	—	—	6,179,999
7	Kansas	SO-97790201-0	9/30/21	777,000
7	Nebraska	SO-97792201-0	5/11/22	882,000
7	Nebraska	SO-96709101-0*	8/22/23	554,000
Region 7 Total	—	—	—	2,213,000

Region	State	Grant number	Award date	Awarded amount (\$)
8	South Dakota	SO-96800221-0	2/3/22	198,000
8	South Dakota	SO-96800221-1	4/8/22	138,600
8	Utah	SO-96800231-0	8/9/22	336,600
Region 8 Total	—	—	—	673,200
9	California	SO-98T40501-0	8/18/22	7,167,000
9	California	SO-98T70701-0	9/7/23	4,528,000
9	Guam	SO-98T45501-0	9/20/22	1,000,000
9	Guam	SO-98T45501-1	9/18/23	617,500
9	Nevada	SO-98T39801-0	8/23/22	485,000
9	Nevada	SO-98T39801-1	9/11/23	310,000
9	Northern Mariana Islands	SO-98T45801-0	9/20/22	850,000
9	Northern Mariana Islands	SO-98T45801-1	8/30/23	575,500
9	American Samoa	M-00914019-8†	8/10/22	482,000
9	American Samoa	M-00914024-0†	8/11/23	399,000
Region 9 Total	—	—	—	16,414,000
10	Idaho	SO-02J41901-0	9/1/23	550,000
10	Oregon	SO-02J18101-0	9/21/22	1,010,000
10	Oregon	SO-02J18101-1	9/25/23	638,000
10	Washington	SO-02J19501-0	9/21/22	1,241,000
10	Washington	SO-02J40401-0	7/21/23	794,000
10	Alaska	SO-02J19001-0	9/21/22	337,000
10	Alaska	SO-02J19001-1	5/1/23	213,000
Region 10 Total	—	—	—	4,783,000
Total	—	—	—	89,652,199

Source: EPA grant information. (EPA OIG table)

* This grant included fiscal years 2022 and 2023 funds. We included only the fiscal year 2022 portion in the “Awarded amount (\$)” column.

† The OSG funds were combined with other grant funds.

Agency Response to Draft Report



OFFICE OF WATER
WASHINGTON, D.C. 20460

December 19, 2024

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Report: *The EPA Left \$20 Million Unawarded in the Sewer Overflow and Stormwater Reuse Municipal Grants Program*, OA-FY24-0030, November 19, 2024

FROM: Bruno Pigott, Principal Deputy Assistant Administrator For: **Best-Wong, Benita** Digitally signed by Best-Wong, Benita
Date: 2024.12.19 10:03:53 -05'00'

TO: Sean W. O'Donnell
Inspector General

Thank you for the opportunity to provide comments on the Office of Inspector General's draft report: *The EPA Left \$20 Million Unawarded in the Sewer Overflow and Stormwater Reuse Municipal Grants Program*, OA-FY24-0030, dated November 19, 2024. The following is a summary of the U.S. Environmental Protection Agency's overall position on the report, followed by its position on the draft report's recommendations. This response has been coordinated with Region 7.

AGENCY'S OVERALL POSITION

The draft report contains four recommendations for the Office of Water and one recommendation for Region 7. The agency disagrees with one recommendation and agrees with four recommendations.

AGENCY RESPONSE TO OVERALL REPORT

This draft OIG report, and its title, are outdated, inaccurate, and misleading. The report did not include the necessary context for explaining the Sewer Overflow and Stormwater Reuse Municipal Grants, or OSG, the program's implementation timing and did not include updated figures in the report summary. The period of this report falls during the COVID-19 Global

Pandemic and the *Infrastructure Investment and Jobs Act* rollout, both of which created a challenging time for states to find the capacity to take on additional administrative responsibilities. Many states had asked the EPA for additional time to accept their OSG awards and to allow them to bundle multiple year funds into single grants to reduce the administrative workload and to save the state money. The EPA agreed to this plan and used this strategy to support the states. This important context was omitted from the report. Additionally, this report examines program data that is almost a year old. Since this audit began, close to \$8 million dollars of the identified unawarded amount in the report has been awarded. This report should acknowledge the progress made during this report's development and adjust the title and summary to reflect updated balances to provide an accurate assessment to Congress and the public. With its missing context, outdated figures, and failure to acknowledge the agency's decision to work with the states in an unprecedented time of American public health disruption, parts of this draft report do not accurately convey the facts and are outdated.

AGENCY RESPONSE TO RECOMMENDATIONS

The draft report makes the following recommendations to the Assistant Administrator for Water:

OIG Recommendation 1: Update the implementation guidance for the Sewer Overflow and Stormwater Reuse Municipal Grants Program to include procedures to award and reallocate funds in a timely manner, and work with regions to accelerate the award of program funds.

EPA Response to OIG Recommendation 1 – Disagree

While the Office of Water agrees with the sentiments of the OIG recommendation, the Office of Water finds the information leading to this recommendation is not accurate, as awards have accelerated in this program while using existing procedures since this report was developed. If the information leading to this recommendation was updated, the Office of Water would agree with the recommendation. The Office of Water agrees to continue updating the guidance and expanding our existing procedures to reallocate funds. The Office of Water agrees to continue supporting the regions to make progress in awarding available funds by September 30, 2025.

OIG Recommendation 2: Improve program reporting in the Sewer Overflow and Stormwater Reuse Municipal Grants Program by:

- a. Completing the required report to Congress.
- b. Populating established data storage platforms with information to facilitate reporting on the program, such as that required by Congress.
- c. Establishing controls to ensure that in the future regions post all program grant files, including annual and final reports, to the appropriate established electronic mechanism.
- d. Updating the program implementation guidance to include electronic document storage requirements.

EPA Response to OIG Recommendation 2 – Agree

The agency agrees and will deliver the report to Congress and make progress on parts ‘b-d’ by May 31, 2025.

OIG Recommendation 3: Implement control steps to ensure that grant applications for the Sewer Overflow and Stormwater Reuse Municipal Grants program are adequately reviewed. This may include updating guidance provided to the regions; establishing procedures for verifying cost-share requirements; and holding regular, program-specific collaborative meetings between headquarters and regional program personnel.

EPA Response to OIG Recommendation 3 – Agree

The Office of Water agrees with the intent of OIG’s recommendation as the Office of Water already has control steps in place. The regions, as well as the grants office, rigorously review OSG grant applications, and as we have done previously, the Office of Water will continue to iteratively provide updates to our existing guidance to the regions to support implementation activities such as cost share verification. We will work to complete the next updates by May 31, 2025. Additionally, the Office of Water agrees to continue our previously regularly scheduled collaborative meetings between headquarters and regional program personnel.

OIG Recommendation 4: Examine Sewer Overflow and Stormwater Reuse Municipal Grants program grants awarded prior to the EPA’s issuance of guidance in November 2022, to determine if grants align with the nonfederal cost-share flexibilities described in the guidance, and amend grants, if appropriate.

EPA Response to OIG Recommendation 4 – Agree

The Office of Water agrees and will review awards during this period and make any necessary adjustments by September 30, 2025.

The draft report makes the following recommendation to the Regional Administrator for Region 7:

OIG Recommendation 5: Amend the grant to Nebraska (SO-97792201-0) to remove the cost-share requirement in order to comply with the cost-share requirement imposed by the Infrastructure Investment and Jobs Act and the flexibility described in EPA’s November 2022 guidance memorandum.

EPA Response to OIG Recommendation 5 – Agree

Region 7, in coordination with the Office of Water, agrees with the finding and recommendation and will amend the noted grant in Quarter 2 of FY25, or by March 31, 2025.

CONTACT INFORMATION

Again, we greatly appreciate this opportunity to provide comments on the draft report. If you have any questions or would like to discuss this response in greater detail, please contact me or your staff may contact the Office of Water's Audit Follow-Up Coordinator, Carla Hagerman, at Hagerman.Carla@epa.gov.

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U.S. Environmental Protection Agency

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