

Audit of Procurement Risk Related to Construction Bidding Processes for Clean Water State Revolving Fund Projects

April 8, 2026 | Report No. 26-P-0022



Abbreviations

C.F.R.	Code of Federal Regulations
CWSRF	Clean Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
IIJA	Infrastructure Investment and Jobs Act
OIG	Office of Inspector General
U.S.C.	United States Code

Cover Image

A water works crew repairing a broken main in Washington, D.C. On a road covered with water, a large triangular orange sign states, "Road Closed Ahead." Two orange traffic cones are next to the sign, and behind and around the sign are construction vehicles and equipment. (EPA OIG image)

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OFFICE OF INSPECTOR GENERAL
U.S. ENVIRONMENTAL PROTECTION AGENCY

April 8, 2026

MEMORANDUM

SUBJECT: Audit of Procurement Risk Related to Construction Bidding Processes for Clean Water State Revolving Fund Projects
Report No. 26-P-0022

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

TO: Jessica L. Kramer, Assistant Administrator
Office of Water

The U.S. Environmental Protection Agency Office of Inspector General performed this audit to determine whether the EPA's annual appropriations and Infrastructure Investment and Jobs Act, or IIJA, funds in the Clean Water State Revolving Fund, or CWSRF, Program are at risk from procurement fraud related to construction bidding processes. The project number for this audit was [OA-FY25-0062](#). Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

This audit supports this EPA mission-related effort:

- Ensuring clean and safe water.

A response to this report is not required because the report contains no recommendations. If your office submits a response, however, it will be posted on the OIG's website, along with our memorandum commenting on the response. The response should be provided as an Adobe PDF file that complies with the requirements of section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that your office does not want released to the public; if the response contains such data, your office should identify the data for redaction or removal along with corresponding justification.

We will post this report to our website at www.epa.gov/oig.

Background

The EPA is responsible for providing oversight of the CWSRF Program, which is a federal-state partnership that provides low-interest loans and other low-cost financing to public, private, or nonprofit entities for a wide range of water infrastructure projects. According to the EPA, the CWSRF Program has

provided about \$181 billion to all 50 states and Puerto Rico since its creation in 1987 through fiscal year 2024.¹

The state revolving fund programs, which include the CWSRF and Drinking Water State Revolving Fund Programs, are the largest at the EPA. Enacted in November 2021, the IIJA significantly increased congressional appropriations to strengthen the nation’s drinking water and wastewater systems, providing approximately \$43 billion in additional funds over five years through the state revolving funds. A considerable amount of that funding flows through the CWSRF Program, as shown in Table 1.

Table 1: CWSRF appropriations by fiscal year

Appropriation	2022 (\$)	2023 (\$)	2024 (\$)	2025 (\$)	2026 (\$)	Total (\$)
Annual baseline*	1.195 billion	776 million	844 million	1.639 billion	746 million	5.200 billion
IIJA general supplemental	1.902 billion	2.202 billion	2.403 billion	2.603 billion	2.603 billion	11.713 billion
IIJA emerging contaminants	100 million	225 million	225 million	225 million	225 million	1.000 billion
Total	3.197 billion	3.203 billion	3.472 billion	4.467 billion	3.574 billion	17.913 billion

Source: Annual and IIJA CWSRF appropriations acts for fiscal year 2022 through 2026. (EPA OIG table)

Note: All figures have been rounded.

* With the exception of fiscal year 2025, the annual baseline amounts have been reduced by congressionally directed spending and community project funding amounts, commonly referred to as earmarks.

The state CWSRF programs function through a revolving loan structure, with states receiving capitalization grants from the EPA. States then award funds from their CWSRF primarily in the form of loans to subrecipients, who repay the principal and interest back to the CWSRF, thereby “revolving” the funds for future subrecipients. States select which projects to fund and determine the types and amounts of CWSRF assistance, such as loans, refinancing, debt purchases, and subsidies like loan forgiveness or grants. In addition, states specify their own interest rates, fees, and repayment periods and can customize terms to benefit their subrecipients.

EPA Oversight

The EPA regards the state-administered CWSRF programs as mature and well-established loan programs. The EPA has determined that fraud is a low risk to the CWSRF Program as a whole, with risk mitigation achieved through statutorily and regulatorily required annual program evaluations of the state CWSRF programs.² Despite the significant increase in appropriations from the IIJA, the Agency has maintained its determination that fraud is a low risk to the CWSRF Program.

The EPA’s policies also provide for annual program evaluations to determine the state CWSRF programs’ compliance with the terms of the capitalization grant agreements and to assess their success in

¹ Hereafter, for simplicity, our use of “states” in this report encompasses Puerto Rico. The CWSRF Program also provides direct grant funding for other U.S. territories and the District of Columbia.

² 33 U.S.C. § 1386(e); 40 C.F.R. § 35.3165(c)(1).

implementing program activities. Each annual program evaluation involves the EPA conducting an on-site interview with state CWSRF program personnel, reviewing and verifying program documents, examining a selected number of project files, and testing transactions. The EPA then provides each state with a written program evaluation report summarizing the results of the evaluation.

State Management

The EPA provides considerable discretion to the states in shaping and administering their CWSRF programs. Still, they must operate within the parameters established by the Clean Water Act and adhere to other applicable federal statutes and regulations. Because of the flexibilities afforded, state management of the CWSRF programs is crucial, although it generally focuses on compliance with established program requirements.³ As state laws and regulations for the state CWSRF programs vary across the country, there is no standard set of requirements related to the bidding process for water infrastructure construction projects, as further discussed below.

Procurement Standards for Nonfederal Entities

The federal procurement process is the life cycle of obtaining goods and services, from identifying a need to making the final payment. To ensure fairness, a primary component of the procurement process is the bidding process, which allows bidders an equal opportunity to compete for a contract. During the bidding process, an entity solicits bids, or quotes, from other entities to deliver the needed good or service and then makes a selection based on the bids received. The end of the bidding process typically results in the award of a contract.

The Office of Management and Budget's "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," more often referred to as the Uniform Guidance, is codified in 2 C.F.R. part 200 and was adopted by the EPA.⁴ The Uniform Guidance establishes standard administrative requirements, cost principles, and audit requirements for federal awards to nonfederal entities. Subpart D of the Uniform Guidance sets forth procurement standards, such as providing for full and open competition and awarding contracts to the lowest responsive and responsible bidder. These procurement standards also specify that the preferred method for construction procurements is sealed bids when conditions are appropriate. As noted in the Uniform Guidance, the sealed bids are considered feasible when complete project specifications are available, two or more responsible bidders are willing and able to compete, and the procurement lends itself to a selection based principally on price.

The Uniform Guidance generally applies to grant awards and grant subawards, which are funds that grant recipients pass on to other entities to contribute to the goals and objectives of the primary awards. For a grant subaward, typically the primary grant recipient is referred to as a pass-through entity, while the recipient of pass-through funds is referred to as a subrecipient. The Uniform Guidance, however,

³ See the following report for additional information on subrecipient monitoring: EPA Off. of Inspector Gen., 25-P-0030, Audit of the EPA's Oversight of State Subrecipient Monitoring in the Clean Water State Revolving Fund Program (2025).

⁴ 2 C.F.R. § 1500.2.

applies to *loans* made by grant recipients only in limited circumstances. Notably, the procurement standards in subpart D of the Uniform Guidance do not apply to loans made by grant recipients. As a result, the Uniform Guidance procurement standards apply to state CWSRF subrecipients only when a CWSRF subrecipient is awarded additional subsidy as a grant using federal funds. This means that the EPA has limited authority over how CWSRF subrecipients that receive funding in the form of loans manage and conduct their construction bidding processes.

What is procurement fraud?

In our [brochure](#) titled *Fraud, Waste, and Abuse: Prevention, Detection, and Reporting for Federal, State, Local, and Tribal Administrators*, we define fraud as “a false representation about a material fact. It is any intentional deception designed to deprive the United States, or EPA, unlawfully of something of value or to secure from the United States, or EPA, for an individual, a benefit, privilege, allowance, or consideration to which he or she is not entitled.” The brochure outlines several fraud risk indicators and common fraud schemes in the procurement and bidding process, such as bribery, gratuities, and kickbacks; conflicts of interest and ethics violations; and unbalanced bidding.

Responsible Offices

The EPA Office of Water is responsible for implementing the Clean Water Act and works with the EPA regional offices to provide guidance, perform oversight, and facilitate communication. Within the Office of Water, the Office of Wastewater Management supports the Act by promoting effective and responsible water use and wastewater management, as well as by encouraging the protection and restoration of watersheds. The CWSRF Program is implemented by the State Revolving Fund Branch, which is part of the Water Infrastructure Division within the Office of Wastewater Management.

Scope and Methodology

We conducted this performance audit from April 2025 to January 2026 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.⁵ 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 that we found are discussed in this report. Because our audit was limited to the internal control components deemed significant to our audit objective, it may not have disclosed all internal control deficiencies that may have existed at the time of the audit.

⁵ 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 answer our audit objective, we reviewed relevant federal and state statutes and regulations, Agency policies and guidance documents, and the EPA’s annual risk assessment of the CWSRF Program for fiscal year 2023. We assessed requirements from the Clean Water Act; the EPA’s regulations at 40 C.F.R. part 35, subpart K, “State Water Pollution Control Revolving Funds”; the Uniform Guidance at 2 C.F.R. part 200; and the EPA’s supplemental regulations to the Uniform Guidance at 2 C.F.R. part 1500.

We judgmentally selected Missouri in EPA Region 7, Washington in EPA Region 10, and Wisconsin in EPA Region 5 for in-depth analysis based on our prior audit work, their CWSRF appropriations, and their CWSRF program features. We reviewed relevant procurement authorities for those three states, including state-level statutory and regulatory requirements. To more closely examine a state CWSRF program, we initially focused on Missouri, interviewing its CWSRF program officials, reviewing its CWSRF program policies and procedures relevant to bidding processes, and evaluating select CWSRF project files from fiscal year 2023. Based on what we learned in Missouri, we decided to not perform in-depth work in Washington or Wisconsin and instead performed a cursory assessment of all 51 state CWSRF program websites.

Results

Federal dollars flowing through the CWSRF Program are at risk of procurement fraud in the construction bidding process. This risk primarily stems from two factors. First, the CWSRF Program’s structure as a partnership between the EPA and the states means that the states are primarily responsible for administering the state-level programs and projects. Second, the Uniform Guidance provides that loans from a pass-through entity to a subrecipient, such as loans made under a state revolving fund program, are not subject to the procurement standards. Accordingly, it is left to the states to ensure that the procurement and construction bidding processes adhere to applicable state laws for collusion and anticompetitive practices. Additionally, the varying state laws mean that there is no consistent management of state CWSRF programs to ensure that fraud risk indicators are addressed during the construction contract award process.

What are collusion and anticompetitive conduct?

Collusion and anticompetitive conduct that subvert the competitive bidding process include:

- Bid rigging: Two or more firms agree to bid in such a way that a designated firm submits the winning bid.
- Price fixing: Two or more competing sellers agree on what prices to charge, such as by agreeing that they will increase prices a certain amount or that they won’t sell below a certain price.
- Customer or market allocation: Two or more firms agree to split up customers, such as by geographic area, to reduce or eliminate competition.

These agreements are generally secret, and the participants defraud customers by holding themselves out as competitors despite their agreement not to compete. They harm consumers and taxpayers by causing them to pay more for products and services and by depriving them of other byproducts of true competition.

—The U.S. Department of Justice Antitrust Division’s web page

As described previously, the CWSRF Program provides flexibility to the states for administering their programs within the parameters established by the Clean Water Act regulations and EPA policies. While

the EPA conducts annual program evaluations of the state CWSRF programs to ensure compliance with these parameters, the Agency does not, as part of these evaluations, assess the totality of the bidding processes for procuring construction for CWSRF projects. The EPA does assess the parts of the bidding process that are subject to program requirements, such as the technical elements of bids, procurements, and construction contracts. As such, when it reviews project files during the annual program evaluations, the EPA confirms that bid announcements were published and that bid specifications incorporate federal requirements, such as Davis-Bacon wage determinations and American Iron and Steel requirements. However, the EPA does not review the bid selection process, as there is not a statutory or regulatory requirement to evaluate state procurement processes. Consequently, each state has discretion on whether to identify and address potential indicators of fraud in the bidding process for CWSRF construction projects.

Also as described previously, the Uniform Guidance's procurement standards apply only to *grants* funded by federal funds, not to loans like those awarded under state revolving fund programs. Although states award most of their CWSRF funding as loans, the IJA does mandate that 49 percent of its capitalization grant funding be provided as a subsidy, either through principal forgiveness or grants. Similarly, the Clean Water Act requires that, to the extent that there are sufficient applications, a minimum of 10 percent of a capitalization grant be provided as additional subsidization, with a cap of 30 percent. Grants provided as additional subsidies would be subject to the Uniform Guidance procurement standards. However, most states prefer to offer additional subsidies through principal forgiveness on loans, which are exempt from the Uniform Guidance procurement standards. Therefore, any standards for procuring construction for CWSRF projects, as well as the level of oversight provided for the awards, are up to the states.

For example, in Missouri, laws governing the state revolving fund programs provide that an engineer or architect with whom a CWSRF subrecipient has contracted for a construction project must assist in the bidding process, including reviewing bids and making award recommendations. Additionally, as a general rule, it is the responsibility of CWSRF loan subrecipients and their contractors to ensure that they are abiding by the appropriate state laws governing fairness in competitions for construction contracts. According to the Missouri state program officials with whom we met, the state does not consider itself to be a party to the contract; rather, the state considers the construction contract to be between the subrecipient and the contractor performing the work.

While it appears that most states, including Missouri, conduct some level of compliance activity, such as reviewing bid tabulations or providing award concurrence, they focus on ensuring that CWSRF programmatic requirements are fulfilled rather than on assessing risks within the bidding process. The 51 state CWSRF program websites show that the state CWSRF programs vary in their approaches to the bidding process for water infrastructure construction projects. While our assessment was not comprehensive, we did observe a common theme across state programs: The responsibility for the bidding process is typically assigned to the CWSRF subrecipient's attorney or the engineer hired by the subrecipient for the project.

Fraud in the procurement process is an ongoing issue. Prior oversight reports have emphasized the challenges in procurement fraud prevention when quality data are lacking. OIG Report No. [24-N-0027](#), *Management Implication Report: The EPA Has Insufficient Internal Controls for Detection and Prevention of Procurement Collusion*, issued March 12, 2024, highlighted that a lack of structured procurement data collection and proactive data analytics significantly hinders the ability to detect and prevent fraud arising from collusive contractor behavior, such as bid rigging, price fixing, or other anticompetitive practices. A 2024 report by the Government Accountability Office also identified several factors associated with heightened risk of fraud,⁶ including reliance on self-certification; expansions or major changes in program funding; and payment or eligibility decisions made outside the Agency, such as those made by state governments. Other oversight reports have expressed concerns regarding the effectiveness of self-certification as an oversight mechanism because of the lack of verification, including our *Management Implication Report: Mitigation of Grant Fraud Vulnerabilities*, dated March 30, 2023.

What is self-certification?

As described by the Uniform Guidance at 2 C.F.R. § 200.325 with respect to self-certification for procurement requirements, under a self-certification procedure, “the Federal agency or pass-through entity may rely on written assurances from the recipient or subrecipient that it is complying with the [applicable procurement] standards The recipient or subrecipient must cite specific policies, procedures, regulations, or standards as complying with these requirements and have its system available for review.”

Conclusion

The issues we identified in our audit present a challenge for the Agency’s oversight of CWSRF Program funds, which we similarly noted in OIG Report No. [24-N-0027](#). Procurement fraud, including actions that undermine a competitive bidding process, can artificially raise project costs. This, in turn, reduces the number of infrastructure projects that can be completed to benefit local communities. As stated in a May 2025 memorandum, the EPA has reaffirmed its commitment to working collaboratively with the state revolving fund programs and emphasized the importance of its partnership with states for the investment of billions of dollars flowing through the state revolving funds.⁷ The continued collaboration and partnership between the EPA and the states could facilitate an exchange of ideas on how states can enhance oversight of the construction bidding process for state revolving fund projects. However, a lack of statutory criteria or regulatory authority means that there is no requirement-based recommendation that we can make for the EPA to incorporate mechanisms to oversee state-level CWSRF bidding processes for the purpose of preventing fraud, waste, and abuse. As a result, we make no recommendations to address our findings. Instead, we are notifying you of our concerns so that the Agency may take whatever steps it deems appropriate. If it is decided that it is appropriate for your office to take or plan to take action to address these matters, we would appreciate notification of that action.

⁶ U.S. Gov’t Accountability Off., [GAO-24-105833](#), *Fraud Risk Management 2018-2022 Data Show Federal Government Loses an Estimated \$233 Billion to \$521 Billion Annually to Fraud, Based on Various Risk Environments* (2024).

⁷ EPA, *State Revolving Funds: Back to Basics, Back to Business* (2025).

Agency Response

Although not required since the report contains no recommendations, the Agency provided a formal response to our draft report, which we include in Appendix A.

Agency Response to the Draft Report



ASSISTANT ADMINISTRATOR FOR WATER

WASHINGTON, D.C. 20460

February 9, 2026

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Draft Report, Project No. OA-FY25-0062, *Audit of Procurement Risk Related to Construction Bidding Processes for Clean Water State Revolving Fund Projects*, dated January 5, 2026

FROM: Jessica L. Kramer Jessica Kramer Digitally signed by Jessica Kramer
Date: 2026.02.09 15:19:38 -05'00'

TO: Nicole N. Murley, Acting Inspector General
Office of the Inspector General

Thank you for the opportunity to review and respond to the U.S. Environmental Protection Agency's Office of Inspector General draft report titled, *Audit of Procurement Risk Related to Construction Bidding Processes for Clean Water State Revolving Fund Projects*, OA-FY25-0062, dated January 5, 2026.

As part of its robust oversight, the EPA implements an annual review process to help provide reasonable assurance that states are adequately monitoring subrecipients of funds distributed via the Clean Water State Revolving Fund Program, including Infrastructure Investment and Jobs Act funds. Additionally, the EPA provides CWSRF program guidance through various trainings, documents, and ongoing communications that supports the states in monitoring the subrecipients in their state CWSRF programs.

The Office of the Inspector General acknowledges that the EPA is following all statutory and regulatory requirements regarding procurement. This includes the requirements promulgated by the Uniform Grant Guidance, which serves as the standard for all federal loan programs. It is also important to note that the Clean Water Act puts the states at the forefront when it comes to managing the CWSRF programs. Given this clear congressional intent, the EPA continues to balance the need of providing effective oversight of the substantial federal investment with allowing the states the needed flexibility to structure day-to-day operation to best meet programmatic needs.

The EPA has no technical comments on the draft report.

CONTACT INFORMATION

If you have any questions regarding this response, please contact the Office of Water Audit Follow-up Coordinator, Carla Hagerman, at Hagerman.Carla@epa.gov.

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