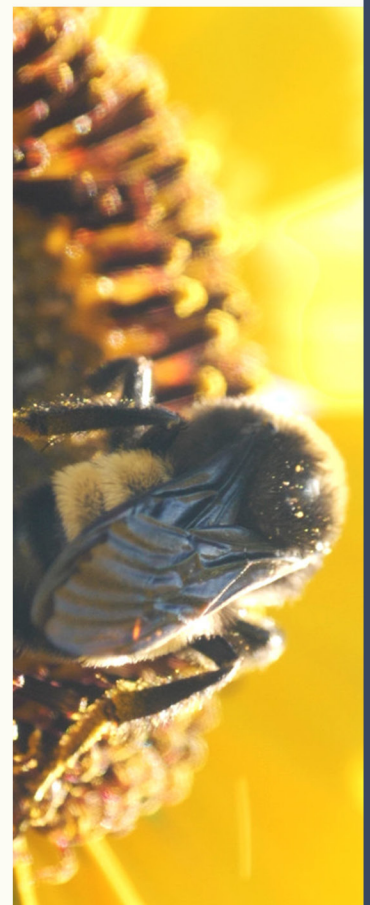




U.S. Department of Agriculture Office of Inspector General



Administration of Water and Waste Program Grants

Audit Report 09601-0001-22

OIG reviewed RUS' administration of grants for the Water and Waste Disposal Loan and Grant program.

OBJECTIVE

Our objective was to evaluate RUS' use of funds for Water and Waste program grants. Specifically, we determined whether: (1) project scoring by RUS officials resulted in funding the neediest projects; and (2) grants were awarded to projects serving a rural area.

WHAT OIG FOUND

The U.S. Department of Agriculture's Rural Utilities Service (RUS) provides infrastructure or infrastructure improvements to rural communities. RUS' Water and Environmental Programs (WEP) help fund the construction of water and waste facilities for rural communities. WEP's Water and Waste Disposal Loan and Grant (WWD) program provides loan and grant funding for projects serving households and businesses in eligible rural areas.

REVIEWED

We reviewed laws, regulations, and other published guidance; reviewed and evaluated RUS' processes related to project application scoring and rural area requirements; interviewed RUS officials; and reviewed 15 grants awarded in fiscal year 2020.

We found that the processes RUS used to score WWD projects and award grants serving rural areas were reasonable. Specifically, we determined that RUS scored grant projects appropriately and therefore provided funding to the neediest projects in rural communities. Furthermore, we found that RUS awarded grants to projects that served a rural area.

We did not identify any issues that would warrant recommendations; therefore, we are not making any recommendations in this report. The agency did not provide a written response.

RECOMMENDS

No recommendations were made in this report.



OFFICE OF INSPECTOR GENERAL

United States Department of Agriculture



DATE: November 1, 2023

**AUDIT
NUMBER:** 09601-0001-22

TO: **Andrew Berke**
Administrator
Rural Utilities Service

ATTN: **Angilla Denton**
Chief Risk Officer
Rural Development

FROM: **Janet Sorensen**
Assistant Inspector General for Audit

SUBJECT: Administration of Water and Waste Program Grants

This report presents the results of the subject review. We are not making any recommendations in this report. No further action by your staff is required.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (<https://usdaoig.oversight.gov>) in the near future.

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Background and Objectives

Background

The U.S. Department of Agriculture’s (USDA) Rural Utilities Service (RUS) provides infrastructure or infrastructure improvements to rural communities. RUS’ Water and Environmental Programs (WEP) provide funding for the construction of water and waste facilities in small rural communities.

The WEP’s largest funded program, the Water and Waste Disposal Loan and Grant (WWD) program, provides loan and grant funding for the following types of projects that serve households and businesses in eligible rural areas.¹

Figure 1: Types of WWD Projects.



The WWD program is administered by national office staff in Washington, DC, and a network of field staff in each State. The RUS Administrator allocates WWD funds each fiscal year (FY) to individual States and the national office maintains a reserve to fund projects.² The goal of the WWD program is to provide funding for water and waste projects serving the most “financially needy” rural communities.³ For FY 2020, RUS awarded 362 WWD grants totaling more than \$430.3 million.⁴ These grants were awarded to projects in 49 States.

¹ The WWD program is authorized under the Consolidated Farm and Rural Development Act, as amended through Pub. L. No. 115–334 (2018). Eligible applicants for the program include public bodies, such as municipalities, counties, and other political subdivisions; nonprofit cooperatives and corporations; Indian tribes on Federal and State reservations; and other Federally recognized tribes.

² The methodology and formulas used for the allocation of program funds are described in 7 C.F.R. §1780.18.

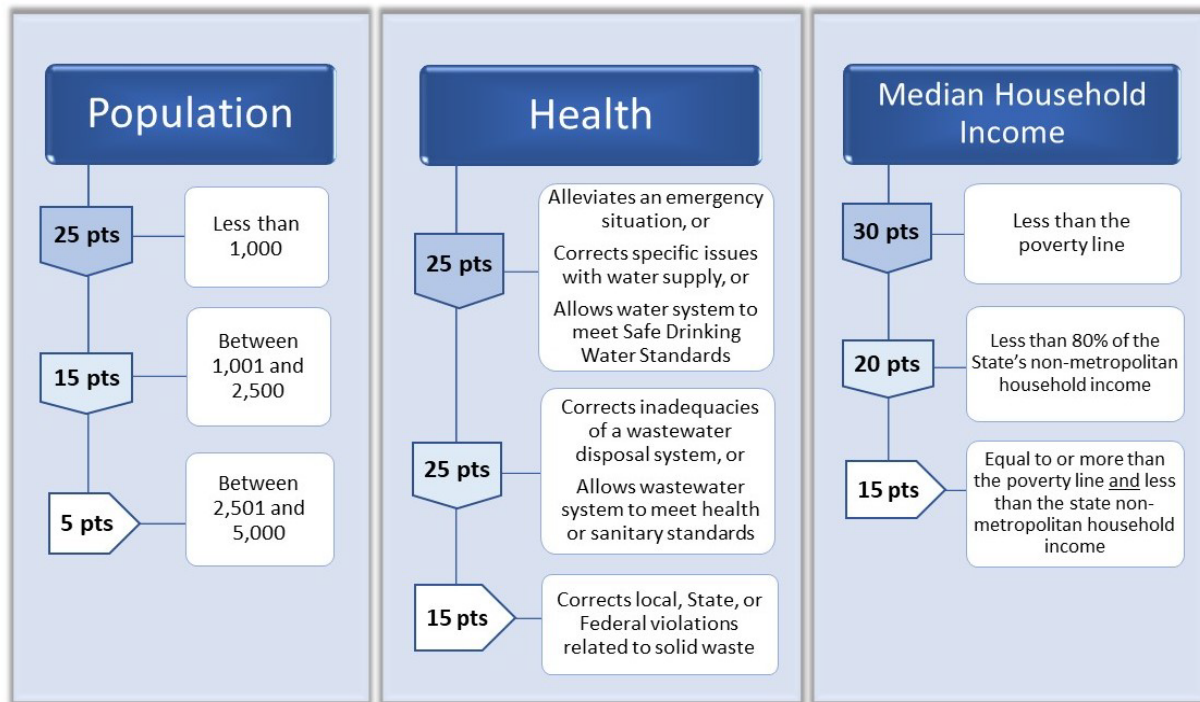
³ 7 C.F.R. §1780.2.

⁴ This includes grants awarded only for water and waste disposal construction projects. Grants for other purposes such as technical assistance, planning, or training are not included.

To be eligible, WWD projects must serve a rural area. Program regulations define *rural area* as any area not in a city or town with a population over 10,000 inhabitants.⁵ RUS obtains figures for the service area population from the most recent decennial Census of the United States.⁶ Facilities financed by RUS may be in non-rural areas. However, grant funds may be used to finance only that portion of the facility serving a rural area, regardless of facility location.⁷ Further, only the rural populations served by the project are counted for eligibility purposes.⁸

Federal regulations establish the priorities that RUS officials must consider when ranking project applications to receive WWD funding.⁹ RUS reviews an applicant’s funding proposal and awards points using a project scoring sheet.¹⁰ RUS’ established priorities from this scoring sheet are outlined in the figures below.

Figure 2: WWD Project Scoring Priorities: Population, Health, and Median Household Income.



⁵ 7 C.F.R. §1780.3.

⁶ If the applicable population figure cannot be obtained from the most recent decennial Census, the agency will determine the applicable population figure based on available population data.

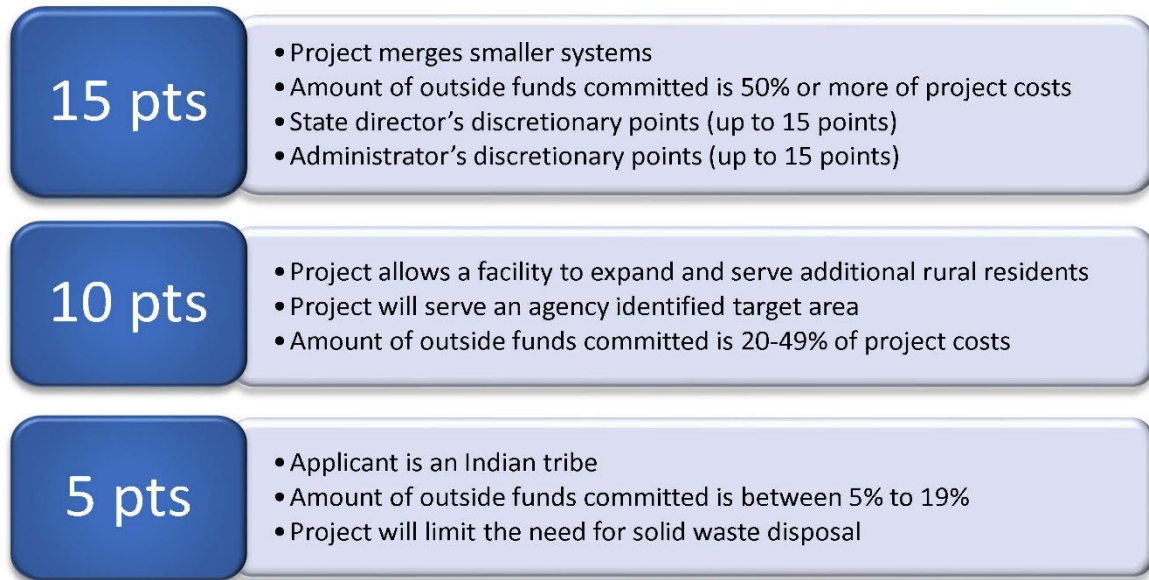
⁷ 7 C.F.R. §1780.7.

⁸ The Agriculture Improvement Act of 2018, Pub. L. No. 115-334, 132 Stat. 4748, enables RUS to exclude from the population total the first 1,500 individuals who reside in housing located on a military base. In addition, the Further Consolidated Appropriations Act of 2020, Pub. L. No. 116-94, 133 Stat. 2647 (2019), allows RUS to exclude incarcerated individuals from the rural population calculation.

⁹ 7 C.F.R. §1780.17.

¹⁰ RUS Bulletin 1780-1, “Water and Waste Project Selection Criteria.”

Figure 3: WWD Project Scoring Priorities: Other Priorities and Discretionary Points



The required scoring criteria are designed to give priority to the neediest projects. For example, more points are awarded to projects that serve areas with smaller populations and lower incomes, or to projects that address major health concerns. Program funds are normally awarded to the highest scoring projects; however, a lower scoring project may receive priority over a higher scoring project if the higher scoring project is unfeasible or requires more funds than a State is allocated.

Objective

Our objective was to evaluate RUS' use of funds for Water and Waste program grants. Specifically, we determined whether: (1) project scoring by RUS officials resulted in funding the neediest projects; and (2) grants were awarded to projects serving a rural area.

In relation to our objective, we found the processes used by RUS for scoring projects and awarding grants that serve rural areas to be reasonable. Of the grant projects reviewed, we did not identify any reportable issues that indicated grant projects were not properly scored or awarded in non-rural areas.

Section 1: RUS Selection of Water and Waste Program Grants

We determined that the processes RUS used to score WWD projects and award grants serving rural areas were reasonable. We selected two sets of samples and reviewed associated documentation to assess these processes.

RUS Project Scoring

From the 362 grants obligated in FY 2020, we randomly selected 10 to assess whether RUS scored projects in accordance with its program guidance and, therefore, funded the neediest projects. Specifically, we evaluated if RUS had sufficient justification for the scores noted on its project scoring sheets. We reviewed the supporting evidence in the grant files to validate the number of points awarded to each project. For example, if a project received 25 points for serving a rural area of 1,000 people or less, we assessed population data from the U.S. Census Bureau for the proposed project's service area to ensure the score received on the project's scoring sheet was accurate. We determined that RUS provided sufficient justification for the number of points awarded to each project we reviewed and therefore appropriately scored proposals to fund the neediest projects in rural communities.

Projects Serving Rural Areas

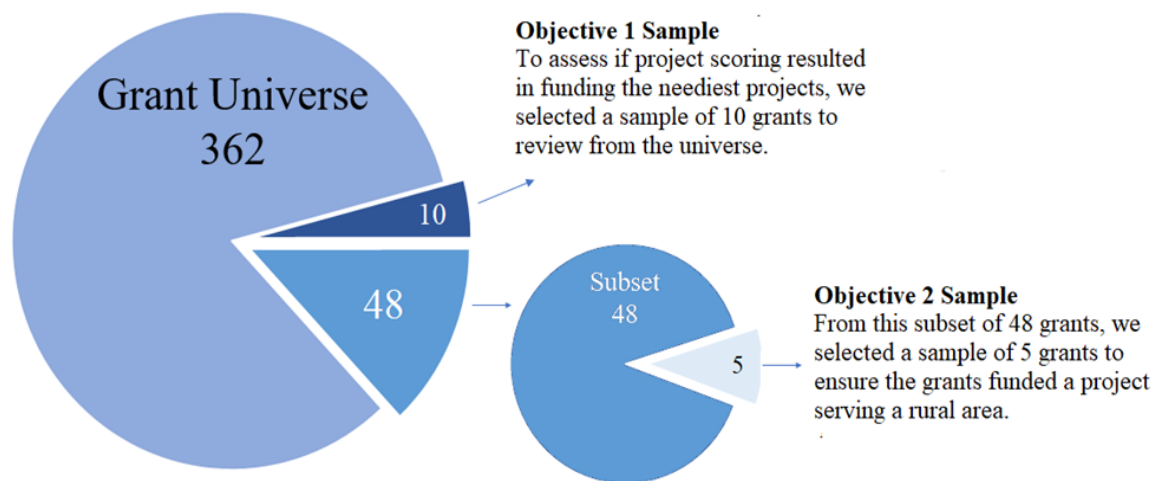
Of the 362 grants obligated in FY 2020, we identified 48 that either exceeded the 10,000-person threshold requirement or were in areas with no available Census population data. From those 48 grants, we randomly selected 5 to determine if the grants funded projects serving a rural area as defined by RUS. We used U.S. Census information for the project's service area, as well as the actual service area described in the project's preliminary engineering report. We concluded that all 5 grants were awarded to projects that served rural areas.

Scope and Methodology

We audited RUS' project scoring and compliance with rural area requirements for grants awarded under the WWD. Our audit focused on WWD grants awarded during FY 2020. We reviewed information from RUS' national office in Washington, DC, and multiple field offices throughout the United States.¹¹ We performed this audit between September 2021 and October 2023.

We selected two sets of samples related to our objectives. The Objective 1 sample was a random selection of 10 grants from the 362 WWD grants obligated in FY 2020, totaling more than \$430.3 million. The Objective 2 sample was a random selection of 5 grants from a subset of 48 grants.¹² (see Figure 4).

Figure 4: FY 2020 WWD Grant Universe & Samples.



To accomplish our objectives, we:

- Reviewed laws, regulations, and program guidance pertaining to the WWD application scoring process and rural area requirements;
- Interviewed RUS national office personnel;
- Identified and evaluated internal controls for the WWD application scoring process and rural area requirements;
- Gained an understanding of the existence, relationship, impact, and pervasiveness of information systems and related internal controls within the context of the engagement objectives;
- Obtained the universe of WWD grants obligated during FY 2020;

¹¹ We obtained grant information from field offices in Louisiana, Maine, Maryland, Mississippi, Nebraska, Nevada, New York, Oklahoma, Rhode Island, Texas, and Wisconsin.

¹² We matched population data to the universe of WWD grants to identify the subset of 48 grants. Specifically, we identified 28 grants located in areas exceeding the 10,000-person threshold requirement and 20 grants located in areas with no available Census population data.

- Reviewed documentation for selected grants to substantiate the priority scoring on RUS Bulletin 1780-1;
- Evaluated the service area population for selected grants using population data from the U.S. Census Bureau and service area information from the projects' preliminary engineering reports; and
- Informed relevant agency officials about the results of our fieldwork.

We assessed internal controls significant to the audit objectives, including controls defined in the United States Government Accountability Office (GAO) Standards for Internal Control in the Federal Government.¹³ Specifically, we evaluated two of GAO's internal control components and four underlying principles as listed below:

Component	Principle
Control Environment	Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
Control Environment	Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
Control Activities	Management should implement control activities through policies.
Control Activities	Management should design control activities to achieve objectives and respond to risks.

Because our review was limited to the internal control components and underlying principles listed above, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

We reviewed information from the Rural Development's Commercial Program Application Processing System to corroborate information from our sampled grants as needed. However, we did not solely rely on or verify information in any agency information system. We also make no representation regarding the adequacy of any agency computer system, or the information generated from it, because evaluating the effectiveness of information systems or information technology controls was not one of the audit's objectives.

We conducted this performance audit 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our conclusions with agency officials. The agency did not provide a written response to this report.

¹³ GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Sept. 2014).

Abbreviations

FY	fiscal year
GAO	Government Accountability Office
OIG	Office of Inspector General
RUS	Rural Utilities Service
USDA	United States Department of Agriculture
WEP	Water and Environmental Programs
WWD	Water and Waste Disposal Loan and Grant Program

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