



Environmental Protection Agency

Clean Water and Drinking Water State Revolving Funds ARRA Program Audit

Audit Period: July 1, 2010 to October 31, 2010



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Executive Summary

Background

The American Recovery and Reinvestment Act (ARRA), signed into law on February 17, 2009, include the following statement of purposes:

- To preserve and create jobs and promote economic recovery.
- To assist those most impacted by the recession.
- To provide investments needed to increase economic efficiency by spurring technological advances in science and health.
- To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.
- To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

The State of Ohio applied for over 90 ARRA programs with expected total grant awards to exceed \$8 billion during the next two years. These applications have been initiated by 21 state agencies in the form of formula, competitive, and discretionary grants. The grant awards are distributed in the following four spending categories:

- Countercyclical Funds: The two largest components of the State's budget that is exposed during a recession, while state revenues decline, are health care and education. The State has been awarded two formula grants (Medicaid and State Fiscal Stabilization) to assist the State's budget. The State Fiscal Stabilization Fund is primarily for education.
- Appropriated Funds: These grants represent additional funding for existing programs such as transportation, labor, and justice programs which will assist in job creation.
- Safety Net Funds: These grants provide relief for lower-income families in the form of supplemental nutrition assistance, child care, and extension of unemployment benefits.
- Economic Growth Funds: These awards focus on new technologies such as alternative energy, health information technology, broadband, and research initiatives.

The Ohio Environmental Protection Agency (EPA) has applied for four awards. This audit focused on the Clean Water and Drinking Water State Revolving Funds ARRA Programs which are formula grants. As of September 30, 2010, EPA had disbursed \$152,455,052 of the awarded \$220,623,100 for the Clean Water State Revolving Fund program and \$54,255,131 of the awarded \$58,460,000 for the Drinking Water State Revolving Fund program. A total of 882 jobs were reported (780 under Clean Water and 102 under Drinking Water) as of September 30, 2010.



The Clean Water State Revolving Fund (CWSRF) grant (CFDA¹ 66.458) is a formula grant awarded by the U.S. Environmental Protection Agency to fund wastewater infrastructure projects and actions to implement non point source water pollution management plans and estuary conservation/management plans. The Drinking Water State Revolving Fund (DWSRF) grant (CFDA¹ 66.468), also a formula grant awarded by the U.S. Environmental Protection Agency, is designed to protect public health by providing financial assistance to eligible public water systems to attain and maintain compliance with the Safe Drinking Water Act and Ohio statutes and regulations. EPA administers the CW/DWSRF and directs the Ohio Water Development Authority (OWDA) regarding their fiscal administration. Fiscal administration includes reviewing and approving requests for payments from recipients, executing federal draws, issuing payments to contractors, and fund reconciliation. This audit focused primarily on the operating effectiveness of subrecipient monitoring procedures and ARRA reporting for both programs. A previous OIA report covering additional audit objectives for these programs was issued on March 9, 2010.

During the audit, OIA identified opportunities for EPA to strengthen internal controls and improve business operations. A summary, along with detailed observations, have been provided. OIA would like to thank EPA staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

¹ Catalog of Federal Domestic Assistance



Scope and Objectives

OIA staff was engaged to perform assurance work related to the Clean Water and Drinking Water State Revolving Funds ARRA Program. This work was completed between October 1, 2010 and November 23, 2010. The scope of this audit included the following areas:

- Program administration and monitoring
 - Program oversight and monitoring
- Reporting
 - Financial reporting; and
 - Non-financial statistical reporting

The following summarizes the objectives of the review along with a conclusion on the effectiveness of management's internal controls.

Objective	Conclusion ²
Evaluate the effectiveness of the controls over ARRA subrecipient and vendor monitoring process for the program.	Well-Controlled
Evaluate the effectiveness of controls over complete, accurate, and timely reporting of ARRA financial and non-financial information.	Well-Controlled with Improvements Needed

² Refer to [Appendix A](#) for classification of audit objective conclusions.



Summary of Observations and Recommendations

The Summary of Observations and Recommendations includes only those risks which were deemed high or moderate. There were no high or moderate observations and recommendations.

Low risk observations and recommendations were discussed with individual agency management and are not part of this report. However, the low risk observations and recommendations were considered as part of the audit objective conclusions above.



Appendix A – Classification of Audit Objective Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Major Improvements Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.
Improvements Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Well-controlled with Improvements Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	State Audit Committee, Senior Management, Department Management
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency but not agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	State Audit Committee, Senior Management, Department Management
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Department Management, Senior Management (Optional), State Audit Committee (Not reported)