



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

JAN 13 2020

OFFICE OF WATER

**MEMORANDUM**

**SUBJECT:** 2019 Region 4 Review of the Drinking Water State Revolving Fund

**FROM:** Nick Chamberlain, Acting National DWSRF Manager  
Infrastructure Branch, Drinking Water Protection Division  
Office of Ground Water and Drinking Water

A handwritten signature in black ink, appearing to read "Nick Chamberlain", written over the printed name.

**TO:** Jeaneanne Gettle, Division Director  
Water Division  
Region 4

This memorandum summarizes EPA Headquarters' 2019 review of the Region 4 Drinking Water State Revolving Fund (DWSRF) program. Our review was conducted by HQ DWSRF team members Howard Rubin and Bradley Raszewski and HQ Drinking Water Program staff Alyssa Edwards and Matthew Reed on December 9, 2019. National DWSRF priorities were discussed and the Region's program oversight evaluated.

The DWSRF program is the federal government's largest financial investment in drinking water infrastructure and public water system capacity-building activities. In state fiscal year 2019 alone, the DWSRF infrastructure loan program impacted the lives of nearly 59 million Americans, returning systems to Safe Drinking Water Act compliance and renewing systems with aging infrastructure. And many more Americans benefited from the DWSRF's non-infrastructure capacity development, operator certification, and source water protection activities.

The DWSRF, Capacity Development, and Operator Certification programs were established concurrently in the 1996 Amendments to the Safe Drinking Water Act. Congress mandated that the EPA withhold portions of a state's DWSRF capitalization grant if certain capacity development and operator certification requirements are not met (SDWA §1452(a)(1)(G)).

Through our review this year, HQ observed that Region 4 is effectively overseeing their eight state DWSRF programs. The Region is knowledgeable about state challenges and efforts to manage those challenges. Region 4 is actively engaged with the Public Water System Supervision (PWSS) and enforcement programs, highlighting communities that are in dire need of assistance. Major

observations and details for the Region 4 EPA DWSRF program and eight state DWSRF programs are listed below.

### **National DWSRF Priorities**

1. ***Achieve fullest utilization of funds through dynamic cash flow modeling.***
  - a. Model inflows and outflows of monies in federal capitalization grants, state match, principal repayments, interest earnings, and leveraged funds to maximize DWSRF resources available to water systems.
  - b. Continue maintenance of minimal federal ULOs.
  - c. Engage, as appropriate, in financial leveraging through the bond market and/or Water Infrastructure Finance and Innovation Act (WIFIA) to expand the reach of DWSRF program benefits.
2. ***Market DWSRF opportunities to water systems.***
  - a. Increase drinking water utility capital investment by working with state Public Water System Supervision (PWSS) program, water industry and associations, and water systems of all sizes to understand water systems' needs and opportunities available through the DWSRF.
  - b. Convey that the DWSRF helps water systems both achieve and maintain SDWA compliance, as well as address other drinking-water related threats to public health.
3. ***Employ both the DWSRF loan fund and set-asides as SDWA compliance tools.***
  - a. Work with state PWSS program to prioritize loan and/or set-asides' assistance to water systems out of compliance with SDWA, depending on water systems' needs.
  - b. Engage with SDWA-compliant water systems to ensure they have resources to *maintain* their compliance.
4. ***Safeguard the program's public trust through fiscal controls and accountability.***
  - a. While successfully engaging in practices listed above, ensure that proper internal financial controls remain in place through regular reviews and audits. Ensure that these controls address a broad array of financial risks.
  - b. Communicate the program's financial integrity and public health results to the public.

### **Region 4 DWSRF Program Oversight**

- Oversight of Capacity Development programs are being met.  
The Region is providing Capacity Development program oversight and making the statutorily-required DWSRF withholding determinations.
- Oversight of the Operator Certification program is being thoroughly conducted and the Regional coordinator is commended for her efforts. The Region reviewed all its state Operator Certification Annual Reports, followed up with states when needed, and thoroughly documented the withholding decisions.
- Region 4 is effectively overseeing the eight state DWSRF programs. The Region maintains adequate communication with all eight state programs. Furthermore, the Region has been in frequent communication about Regional findings and areas of concern. HQ commends the Region's efforts to prioritize communication with state programs.
- ***HQ Observation:*** EPA HQ notes that the Region lost two experienced staff over the year. Region 4 staffing tends to be relatively lower than other Regions to begin with, so this is a concern. The Region informed us that two replacement staff are expected to be hired, although they are new to the program and will require training. EPA HQ recommends the Region send

these staff to one or more of the annual trainings we provide and work with EPA HQ to either schedule a training in Region 4 or ensure travel funds are available to attend training in another Region.

- **HQ Observation:** EPA HQ notes that Region 4 cited internal control concerns on several state PERs, and one state audit echoed these concerns. Region 4 deserves recognition for their diligence on these issues, for elevating these as concerns, and for the follow up working being undertaken.
- **HQ Observation:** Region 4 has worked closely with states where those states' metrics are cause for concern. The status of key metrics in each state was discussed and the Region was able to provide detailed background concerning drivers, actions taken, and anticipated next steps. For Region 4 states, even those with below average metrics tended to be demonstrating improvement.
- HQ is concerned about the low level of staffing at present.
  - The Region's DWSRF program has 1 FTE overseeing 8 state DWSRF programs, or 0.14 FTE per state DWSRF program. This is well below the national average estimate of 0.51 FTE per state DWSRF program and is a concern. *See Table 1 below.*

**Figure 1: 2019 Region 4 DWSRF Staff**

Staff Name	Job Function	State	Estimated % of Time on DWSRF	Total DWSRF FTE Estimation	# of State DWSRF Programs Overseen	DWSRF FTE per State
Chris Thomas	Branch Chief	n/a	10%	1.14	8	.14 (estimated national average = .51)
Johnnie Purify	Section Chief	n/a	10%			
Tom Cooney	SAP and SRF Coordinator	n/a	44%			
Sheryl Parsons	Project Officer;	All states and all CWSRF	50%			

### Region 4 DWSRF State Programs

#### Alabama

- Alabama's set-aside ULO is notable higher than the national average and among the highest in the nation. The Region and state are aware of this issue. Alabama only took from the Administrative set-aside in 2019. The state has been informed that if the exist the allowable threshold to spend down set-aside funds they will have to transfer those funds to the DWSRF loan fund.
- Alabama's cash to disbursements ratio is 4.4 in 2019 compared to a national average of 2.8. This indicates a high cash balance for the state. EPA HQ notes that 2019 did see a large jump in cash disbursed to projects. Region 4 believes that Alabama's move to funding broader borrower capital improvement plans will continue this trend.

### Georgia

- Region 4's PER noted a need to improve internal controls in the state. Region 4 has discussed the issue in detail with the state and cited a need for financial staff to review invoices before payment. Region 4 also noted that the internal auditor for the DWSRF reports to the head of the Finance Agency where the auditor's finding occurred, creating a potential conflict. We commend Region 4 for this oversight.
- Georgia's cash to disbursement ratio of 4.6 is high compared to the national average of 2.8. EPA HQ notes that Georgia has shown an improving trend and had notable lending in 2019.

### South Carolina

- Region 4 cited a need to improve state internal controls. The Region found that a set-aside draw was paid with no documentation. The Region found the state uncooperative and followed the proper process for resolution. The Region cited some changes to state internal controls have already been made.
- The state's cash to disbursement ratio is 1.9 compared to a national average of 2.8. This indicates that the state is recycling cash at an above average rate.
- The State has not adopted FIFO for grants due to state concerns about accounting for subsidy. EPA sees adopting a FIFO system for draws from grants to be a best practice.

### Florida

- Florida has a cash to disbursement ratio of 4.4, compared to a national average of 2.8. While higher than the average, this is a big drop for the state over previous years. The state seems to have had very high disbursements in 2019 and 3 of the past 4 years saw very high lending. In the past the state pointed to a challenge with competing grants from the state legislature. Region 4 found that the state DWSRF has improved communication with the state legislature and has better coordinated those two programs.

### Kentucky

- Kentucky's fund utilization rate is notable below average (87.2% compared to a national average of 95.3%) and the Region cites this in their PER. Similarly, the state lags in cash to disbursements ratio (4.8 compared to 2.8 nationally) and ULO (9.2% compared to 5.9% as of 11/1/19). 2019 saw high lending for the state, an indication that these metrics may improve.

### Mississippi

- The Mississippi program audit noted adjustments needed to be made to the programs financial statement (mostly in terms of how subsidy was captured). It also noted concerns about segregation of duties in that it seems the state financial statement was prepared by someone at DOH that is not familiar with the operation of the program. The state concurred and noted that they planned to hire DWSRF specific accounting staff. Region 4 noted that they have communicated with the state about this and the state has hired an internal accountant.
- The cash to disbursements ratio for Mississippi is very high (9.4 compared to 2.8 nationally). Additionally, this is an increase from the previous 2 years. The amount of cash on hand indicates considerable capacity for greater lending by the state and unrealized potential to protect public health.

North Carolina

- The Region has requested improved internal accounting for state set-aside accounts. This was spurred by concerns surrounding two large draws from the program for PWS funds in a short time from and a large negative draw shortly afterwards. The Region has indicated this will serve as a high-level topic on their next review.
- The state cash to disbursement ratio is 5.3 compared to a national average of 2.8. Of further concern is that the trend for this indicator has been negative over the past few years.

Tennessee

- The Region successfully uncovered an error in Tennessee's data reporting that was making the state's metrics look very poor. The state neglected to report that a significant amount in funds had been transfer from the DWSRF to the CWSRF. This transfer of funds notably improved the state's cash to disbursement metric and fund utilization metric.
- The State's unliquidated obligation rate was still high on 11/1/19 at 13%. The Region indicated that this is set-aside driven and that they have warned the state not to hold funds more then 18 months in set-aside accounts.

Thank you for providing information and staff time to assist in the review. You may contact me at (202) 564-1871 if you have any questions, suggestions or comments regarding the review.

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