



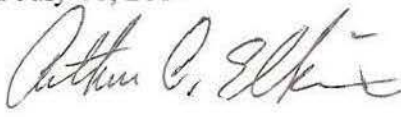
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

SEP 15 2014

THE INSPECTOR GENERAL

**MEMORANDUM**

**SUBJECT:** Response to Office of Inspector General Report No. 14-P-0318  
"Unliquidated Obligations Resulted in Missed Opportunities to Improve Drinking Water  
Infrastructure," dated July 16, 2014

**FROM:** Arthur A. Elkins, Jr.   
Inspector General

**TO:** Kenneth J. Kopocis  
Deputy Assistant Administrator  
Office of Water

We have reviewed your August 12, 2014, response to the subject report. Your response noted your concurrence with the recommendations, and it provided corrective action plans with milestones for completion. We agree with the planned corrective actions and included our evaluation of the proposed actions as attachment 1. As such, we are closing this report in our audit tracking system. Please track implementation of your corrective actions in the agency's Management Audit Tracking System until completed.

If you or your staff have any questions, please contact Kevin Christensen, acting Assistant Inspector General for Audit, at (202) 566-1007 or [christensen.kevin@epa.gov](mailto:christensen.kevin@epa.gov); or Janet Kasper, Director, Contracts and Assistance Agreements Audits, at (312) 886-3059 or [kasper.janet@epa.gov](mailto:kasper.janet@epa.gov).

Attachment

cc: Michael H. Shapiro, Principal Deputy Assistant Administrator, OW  
Kevin Christensen, Acting Assistant Inspector General for Audit  
Peter Grevatt, Director, Office of Ground Water and Drinking Water, OW  
Marilyn Ramos, Audit Follow-Up Coordinator, OW  
Janet Kasper, Director, Contracts and Assistance Agreement Audits

<b>OIG recommendation</b>	<b>Agency action(s) taken, ongoing, or planned</b>	<b>OIG analysis</b>	<b>Status</b>
Reduce unliquidated obligations (ULO) by: Working with states with high unliquidated obligations to use financial tools to project future cash flows to aid in liquidating balances by using those projections in planning for expending funds in a timely and efficient manner.	The EPA agrees with this recommendation and has issued its Unliquidated Obligations Reduction Strategy (April 14, 2014) identifying financial tools, including cash flow projection, for use by states to plan for drawing federal funds in a timely and efficient manner.	We accept the Office of Water's corrective action plan.	Closed with corrective action completed.
Reduce unliquidated obligations by: Quarterly providing to the regions a summary of states that have attended the cash flow analysis training and compare that with states not achieving the goals of the 2014 strategy to identify states that may need additional assistance.	The EPA agrees with this recommendation and conducted a webinar on "Cash Flow Analysis" for over 200 participants from states and regions on February 26, 2014, and recorded it for future electronic access. The EPA has a record of the states that participated in the webinar and will make that available to regions as well as updates to the list of states that will participate in the "Cash Flow Model" webinar to be offered on August 20, 2014. Since the April 2014 Strategy, the EPA has provided monthly ULO results to regions during the 1 <sup>st</sup> week of each month, and will continue to do so through September 2016, so that the results can be used to determine which states need additional assistance.	We accept the Office of Water's corrective action plan.	Closed with corrective actions pending.
Develop guidance for states on what projects are to be included on the fundable list, including a definition for "ready to proceed."	The EPA agrees with the recommendation. The ULO Reduction Strategy defines "ready to proceed" as prepared "to begin construction" and "are immediately ready, or poised to be ready, to enter into assistance agreements." If projects are not ready to proceed to construction and still need planning, the state may include projects on the fundable list that are ready to proceed to planning and design to enable them to be ready to proceed to construction in a future fundable list. The ULO Reduction Strategy was issued April, 14, 2014.	We accept the Office of Water's corrective action plan.	Closed with corrective action completed.

<p>Require that the EPA regions, when reviewing the capitalization grant application for states with high unliquidated obligation balances, ensure states have adopted the EPA's guidance on the definition of "ready to proceed" and use that definition in developing the fundable list.</p>	<p>The EPA agrees with the recommendation and will provide regions with a question to enable determination of whether states have adopted the definition of ready to proceed from the ULO Reduction Strategy and are using it to develop their fundable lists and will include the question in the Drinking Water State Revolving Fund State Review Checklist. (completion date of September 30, 2014) The EPA will also inquire of each region whether each state is using the definition in the development of its next fundable list. The EPA will check on inclusion of the definition in state fundable list development through September 30, 2015.</p>	<p>We accept the Office of Water's corrective action plan.</p>	<p>Closed with corrective actions pending.</p>
<p>Communicate to states having high unliquidated obligation balances that they should adopt the best management practice of having a well-organized process to ensure that projects on the fundable list are ready to proceed to loan execution within the current IUP year.</p>	<p>The EPA agrees with the recommendation. The EPA ULO Reduction Strategy (issued 4/14/14) cites six practices that states should employ to reduce ULO. Regions conduct annual reviews of states and document concerns of states not meeting program requirements and objectives. Special attention to ULO considerations will be a focus of these annual reviews through 2016, including onsite visits to select states.</p>	<p>We accept the Office of Water's corrective action plan.</p>	<p>Closed with corrective actions completed.</p>