



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

OFFICE OF
WATER

May 1, 2001

DWSRF 01-04

MEMORANDUM

SUBJECT: Drinking Water State Revolving Fund (DWSRF) Regional Reviews

FROM: Charles Job, Chief /s/
Infrastructure Branch

TO: DWSRF Coordinators
Regions I - X

As you know, the role played by the Regions in management and oversight of the State DWSRF programs is a key component in maintaining a strong national DWSRF program. The oversight provided by Regional and Headquarters staff allows all of us working in the program to identify what is going well, where improvement should be sought, and how we can work together to promote national program priorities and address any issues that arise.

We have developed a *Regional Review Strategy* which provides an overall framework for Headquarters to conduct annual reviews of the management and oversight of the DWSRF program by the Regions. The *Strategy* describes the purpose of Regional reviews; general roles and responsibilities; types of reviews; and criteria for selecting Regions for review. The *Strategy* is one of three documents designed to provide a comprehensive framework for conducting annual reviews of the Regions.

The other two documents are the *Regional Review Plan* and the *Detailed Review Program*, both of which are prepared annually. The *Regional Review Plan* identifies the Regions to be reviewed and the scope of the reviews to be performed. We have worked closely with the Clean Water State Revolving Fund (CWSRF) program to identify the Regions to be reviewed in this fiscal year. The *Detailed Review Program* contains general program and financial questions we intend to ask on all of the reviews and the specific items and areas to be reviewed or tested in a Region. Copies of the *Regional Review Strategy*, the *FY 2001 Regional Review Plan*, and the *FY 2001 Detailed Review Program* are attached.

We are in the process of scheduling the Regional reviews in conjunction with the CWSRF program and hope to complete the reviews by the end of August. We look forward to your involvement in this review process. If you have any questions or comments please call me at (202) 260-7084 or Vinh Nguyen at (202) 260-0715/ Kimberley Roy at (202) 260-2794.

Attachments

cc: DWSRF Program Branch Chiefs, Regions I-X

DWSRF PROGRAM REGIONAL REVIEW STRATEGY

Introduction

The *Regional Review Strategy* establishes the comprehensive framework for Headquarters staff to conduct reviews of regional management and oversight of the State DWSRF programs. This *Strategy* describes the background on Headquarters and regional responsibilities, goals and objectives of the regional reviews, types of regional reviews, criteria for selecting regional offices for review, and an action plan to achieve objectives of regional reviews.

While this *Strategy* provides the framework for conducting regional reviews, a *Regional Review Plan* will be prepared annually to describe specific review activities, including the Regions to be reviewed. A *Detailed Review Program*, identifying specific areas and questions for the review, will be prepared annually and provided to those Regions that have been selected for reviews.

Background on Headquarters and Regional Responsibilities

The ten regional offices are responsible for the day-to-day management and oversight of State DWSRF programs. These responsibilities include working with States to promote and assist with implementation of the DWSRF national program priorities, overseeing State DWSRF programs, responding to State issues and questions, and awarding, monitoring, and closing out DWSRF grants.

Headquarters is responsible for setting national program policy, assisting Regions and States in the implementation of DWSRF national program priorities, and conducting national program oversight activities.

Goals of the Regional Reviews

EPA regional oversight of State DWSRF programs is not only a requirement of the Safe Drinking Water Act, but an important operational component of the national DWSRF program. The goals of the DWSRF regional reviews are to assess EPA regional oversight to ensure adequate EPA review of DWSRF programs for compliance with DWSRF program requirements, provide technical assistance to EPA Regions, and ensure that EPA Regions have access to information for oversight activities.

Types and Methods of Reviews

Regional reviews may be conducted on-site at the regional offices or from Headquarters via desk reviews. On-site reviews, typically lasting two to three days, are conducted at regional offices. They involve the review of DWSRF files and relevant documents, interviews with regional staff, and a written report of observations and findings. Reviews of relevant documents and analyses will also be conducted at Headquarters prior to the on-site visit.

When resources are limited, the regional reviews may be conducted from Headquarters by phone. These desk reviews involve interviews with regional staff and reviews of documents forwarded by the regional office.

Criteria for Selecting Regional Offices for Review

Due to resource constraints, only two to three regional reviews may be performed each year. The criteria for selecting a regional office for review include:

- regional offices with unresolved issues or concerns, arising either from previous regional reviews or on-going operating activities;
- regional offices with exceptional programmatic or fund management practices;
- regional offices being reviewed by CWSRF staff, to coordinate review resources and minimize duplication of effort; and
- regional offices that have not had a recent on-site review to ensure that each Region have at least one on-site review every three years.

Objectives and Action Plan for Regional Reviews

1. Assess documentation of regional observations, findings, and general oversight activities.

A file review will be conducted to assess the completeness and organization of files to ensure that all required documents (IUP, Grant Application, Decision Memo, Operating Agreement, Biennial/Annual Report, Audit, SERPs) are included or referenced. As part of file content verification, the file review should identify and confirm common items found in files, documentation and filing of reports, documentation of major actions by States, and the use of checklists for document reviews.

2. Ensure adequate review of required documents and data verification.

The file review will assess the review process of documents, including set-aside workplans. The review will also evaluate the document review process for consistency among regional staff.

3. Ensure sound operating procedures for oversight.

Regions are encouraged to develop standard operating procedures (SOPs) for oversight, particularly for annual reviews of State programs. The regional review will determine if SOPs are complete, organized, and updated. If the Region coordinates oversight responsibilities with other regional offices and staff, SOPs should include a description of these coordinated efforts.

4. Assess the adequacy of staffing and resource allocation to the DWSRF program.

Adequate staffing and resource allocation at the Region is important to the effectiveness and success of oversight activities. Resource limitations in the Region should be identified. The level of customer service by regional staff, current staff level support for on-site annual reviews, and coordination with other regional offices and staff will be identified and assessed.

5. Assess the adequacy of annual reviews of State DWSRF programs.

Annual reviews of State DWSRF programs and resulting PERs will be assessed for completeness and timeliness. Procedures and task allocation of annual reviews will be identified. The regional review of set-asides, environmental reviews, and cross-cutter compliance will also be examined.

6. Ensure adequate financial reviews are conducted by the Regions.

Financial reviews conducted at the regional office and during annual reviews will be identified and assessed. Tools used for financial analysis by the Region will be documented. A preliminary financial analysis of each State will be provided to the Region prior to the visit and significant findings will be discussed.

7. Communicate results of regional reviews.

A first draft of the written performance report, documenting observations, findings, and recommendations, will be generated within 30 days of the regional review. The Region will be provided an opportunity to comment on the draft, and, where appropriate, comments will be considered in development of the final report. A copy of the final report will be signed by the appropriate level of Headquarters management and copies distributed to the Regional office and pertinent Headquarters staff. Follow-up on recommendations may be conducted prior to or at the next regional review.

**DWSRF PROGRAM
FY 2001 REGIONAL REVIEW PLAN**

Purpose

The *DWSRF Regional Review Strategy* calls for preparation of a *Regional Review Plan* annually. This *FY 2001 Regional Review Plan* identifies the Regions to be reviewed and the scope of reviews to be performed. Each of the reviews will also focus, in some respect, on how the Regions and States are addressing national priorities for the program, which are primarily based on the Safe Drinking Water Act. These priorities include:

- < Ensuring that the DWSRF program serves as an assistance tool for small public water systems and systems that have issues with affordability;
- < Ensuring that the DWSRF program is serving as a tool for addressing compliance issues of public water systems; and
- < Encouraging States to develop programs that address issues that affect the sustainability of water systems through use of the Fund or set-asides (e.g., capacity development, consolidation, water conservation, source water protection).

FY 1999 - FY 2001 Participation in State Reviews

Over the past couple of years, Headquarters has accompanied the Regions on State annual reviews and has attended several All States meetings (see table below). Attending these State annual reviews and meetings has given Headquarters the valuable opportunity to see each Region's approach to the review process as well as gain a better understanding of how specific State programs operate. It has also given Headquarters the opportunity to obtain information on innovative features of State programs that could then be shared with other States.

Region	State Reviews/All States Meetings Attended By FY
1	MA (FY01)
2	NY (FY00)
3	MD (FY99), DE (FY00), All States Meeting (FY00, FY01)
4	KY (FY00), NC (FY01)
5	OH (FY00), MN (<i>FY01</i>)
6	NM (FY00), TX (<i>FY01</i>), All States Meeting (FY00)
7	All States Meeting (FY99, FY00)
8	MT (FY99), UT (FY00), CO (<i>FY01</i>)
9	AZ (FY99) , CA (FY00)
10	WA (FY00), ID (<i>FY01</i>)

* Pending reviews are in italics and are subject to change.

FY 2001 Selections for On-site Regional Reviews

The following Regions have been selected for on-site reviews by Headquarters. To the extent possible, DWSRF regional reviews are being coordinated with CWSRF regional reviews. As a side note, Headquarters conducted a review of Region 4 (CW and DW) and Region 7 (CW only) in FY 2000.

Region	Purpose	Anticipated Schedule	Reviewer
5	General review of a Region whose States are highly significant to the national program. Focus on an assessment of Indiana’s program.	July 2001	Vinh Nguyen
7	Assess the general management of the program. Focus on assuring follow-through on commitments made during the FY 2000 review, especially regarding the Missouri Hancock amendment resolution and Missouri cash draws for St. Louis MSD.	August 2001	Veronica Blette
8	Focus on the Region's State review process, including the Region's method of conducting its financial management oversight.	July 2001	Kimberley Roy

Scope

A *Detailed Review Program* will be prepared which contains general program and financial questions that would be asked on all of the reviews and the specific items and areas to be reviewed or tested in a Region. However, in general, the FY 2001 regional on-site reviews will address some or all of the following issue areas as appropriate:

- < Regional strategy for reviewing each State DWSRF program
- < Regional follow-up on PERS
- < Regional customer service practices for working with States, including how the Regions respond to issues and questions raised by States
- < Regional role in State audits, and adequacy of corrective action follow-up
- < Regional staffing issues and concerns
- < Adequacy of Regional records/documentation
- < Quality control of DWNIMS data by the Regions

Desk Reviews

In the course of reviewing entries into the DWNIMS database and various State and Regional documents, and holding routine discussions with Regional staff, EPA will in essence perform “desk reviews” of most, if not all, Regions each year, and will use these informal desk reviews to identify issues to be more thoroughly addressed in future on-site reviews.

DWSRF PROGRAM
FY 2001 DETAILED REGIONAL REVIEW PROGRAM
(**bolded** questions are similar to CWSRF questions)

FINANCIAL MANAGEMENT

1. Efficient Use of Funds

- a. How are States doing in meeting binding commitment requirements? If binding commitments are an issue, what actions are being taken?
- b. What are the Region's expectations for the rate of loan executions in each State? Are States meeting the Region's loan execution expectations?
- c. What are the reasons for States with slow loan execution rates? What action are being taken by the Region and States, if applicable?
- d. What factors do States use to determine/set their interest rates? Does the Region discuss the impact that rates have on the Fund (e.g., pace, marketability, etc.) with your States?
- e. Are States charging fees and, if so, what kind? Are they properly reported in DWNIMS?

2. Leveraging

- a. Describe the programs for those States in the Region that leverage (e.g., structure, leveraging ratio). Are there any States considering leveraging?
- b. How does the Region analyze leveraging proposals?

3. State Match

- a. Describe the source of match for those States in your Region (e.g., bonds, appropriations, etc.)
- b. Are there any States considering leveraging for State match? Please give details, if applicable. How does the Region analyze State match bond proposals?
- c. Are there any States with match issues? Please give details, if applicable.

4. Long-Term Financial Projection/Modeling

- a. **Are the States in the Region doing long-term financial modeling of the DWSRF program? If yes, describe what sort of modeling they do.**
- b. **Describe the long-term modeling results the Region has found. Have the results affected regional decision-making and oversight for its DWSRF programs? Have the results affected the States' operation of their DWSRF programs?**

5. Cash Draws

- a. **Describe the Region's method of checking each State's cash draw process. How frequently is it checked?**
- b. **For leveraged States, describe their cash draw procedures (All projects method? Group of projects method?)**
- c. **Describe any problems found along with corrective actions taken.**

- d. Is the cash draw tracking/evaluation process documented in the State files at the Region?

6. DWNIMS

- a. **How does the Region use DWNIMS information to analyze the status/performance of the DWSRF program including annual reviews? If not, please explain.**
- b. **How does the Region verify the accuracy of the data submitted by the States to DWNIMS? If not, please explain.**
- c. Is the Region aware of any potential inconsistency in DWNIMS data? If so, please give details.

7. Audits

- a. Which States do not currently conduct independent audits? Please verify information on the attached DWSRF audit inventory list.
- b. **For those States that do not currently conduct independent audits themselves, what steps, if any, is your Region taking to encourage them to perform independent audits?**
- c. **Does the Region have a process in place to ensure that it receives a copy of the independent auditor's report, and that copies of these reports are provided to the OIG and EPA contact? If yes, please briefly describe. If not, please explain.**

8. Management of Capitalization Grants

- a. **How many grants are open? How many grants are closed?**
- b. Does the Region need more information on grant close-out procedures?

9. State Investments

- a. **Does each State in the Region have a DWSRF investment strategy policy? If yes, who determines it and what criteria does each State use regarding who they can invest with? If not, why not?**
- b. **For those States that leverage, do they have a distinction between long-term and short-term investing for DWSRF? If they do, how do they define that distinction?**
- c. **Does the Region analyze each State's investment strategies and if so, what did you find? If not, why not?**
- d. **What are the DWSRF investment rates of return for each of the States in your Region? Has the Region found any problems with your States' investment returns? What action was taken?**

PROGRAM MANAGEMENT

1. Projects

- a. **Describe how the Region is working with States to ensure that the highest priority projects are getting funded.**
- b. Are any States having difficulty with funding privates (e.g., restrictions, security issues, etc.)? If so, describe how the Region is working with those States to help them reach privates.
- c. Are any States having difficulty meeting the small systems funding requirement? If so, please explain what the Region and States are doing about it.
- d. Do you believe that States are doing an adequate job in assessing and documenting the technical, financial, and managerial capacity of systems? Are there weaknesses in one area over the others? How are States working with SNCs to bring them into the program?
- e. Which States are providing disadvantaged assistance? Please describe the type of assistance provided (principal forgiveness, extended loan terms, etc.). For those States that have disadvantaged assistance programs, how do they define affordability?
- f. How are States helping systems return to compliance?
- g. Do any States have programs to encourage consolidation/ water conservation/source water protection? If yes, please explain.

2. Set-asides

- a. How is the Region tracking set-aside activities? Do States provide reports on set-asides more frequently than Annual/Biennial Reports?
- b. Does the Regional DWSRF program coordinate with other drinking water program offices (e.g., PWSS, SWP, etc.) to conduct oversight of set-aside funds? If so, how is this accomplished? Are there any coordination issues?
- c. For States that have not expended funds that have been reserved, what are the issues? How is the Region resolving the issues? Have any States moved or considered moving funds among set-asides or from set-asides to the Fund?
- d. Have any States developed programs to provide loans for source water protection activities? Do you know of any issues States are facing in attempting to develop or implement such a program?

3. IUP

- a. Describe the steps the Region has taken to encourage States to modify their short- and long-term goals as their programs mature. How are these efforts being received?
- b. Are any States having difficulty with getting public participation in the IUP process?
- c. **Are States including adequate information on sources and uses of funds in their IUPs?**

PROGRAM SUPPORT

1. Staffing

- a. Please describe the Regional staff working on the DWSRF program, including their responsibilities and areas of expertise.
- b. Describe the adequacy and areas of expertise of your State equivalents. Are there any State staffing concerns? Are there any recent staff turnovers in the States?

2. Regional State Review Strategy

Please describe the Region's strategy for conducting annual reviews. Items to be addressed include:

- a.
 - Describe the procedures for conducting your annual reviews along with which areas are covered and how such areas are chosen. Is a file review conducted? Are set-asides reviewed at the same time as the Fund is reviewed?
 - Who in the Region is involved in the reviews? If the reviews are coordinated with other Regional staff, how are tasks usually divided? Are reviews done concurrently with the CWSRF reviews?
 - What documentation of the annual review is prepared and maintained? Is a PER issued for each annual review?
 - Describe the Region's follow-up on issues found during the annual review.
 - Describe how the annual review process has changed over time.
- b. Describe any Regional ongoing review efforts that you have throughout the year. How do Regional staff document communications with States?
- c. Are States submitting Annual/Biennial Reports on time? If not, please explain.

REGION AND STATE SPECIFIC ISSUES

1. On a State-by-State basis, please describe any significant outstanding issues the Region has with any of its States.
2. What can Headquarters do to help make your job easier?