

**Statement of  
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the Inspector General  
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*before the*

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## **Introduction**

Good morning, Chairman Guthrie, Chairman Palmer, Ranking Members Pallone and Tonko, and members of the subcommittee. Thank you for the opportunity to testify about the state of America's drinking water infrastructure and the oversight of federal programs designed to protect it.

I am Nicole Murley, the deputy inspector general performing the duties of the inspector general of the U.S. Environmental Protection Agency and the U.S. Chemical Safety and Hazard Investigation Board. The EPA Office of Inspector General conducts independent audits, evaluations, inspections, and investigations related to EPA programs. We provide evidence-based recommendations to improve the efficiency and effectiveness of Agency programs and operations and work to prevent and detect fraud, waste, abuse, and misconduct. Ultimately, our oversight helps the EPA strengthen its programs, reduce risk, safeguard taxpayer dollars, and achieve its mission to protect human health and the environment.

My testimony today will draw from our extensive body of oversight work that collectively examines how the EPA is ensuring safe drinking water and managing an unprecedented influx of water infrastructure funding in recent years, as well as what our oversight has shown about progress made and work still to be done.

## **Drinking Water Infrastructure**

America's drinking water infrastructure delivers one of our most basic necessities. Most of us take for granted that we can simply turn on the tap and access safe, reliable water. But when trusted systems falter, the consequences can be catastrophic. System failures in Jackson, Mississippi, and lead contamination in Flint and Benton Harbor, Michigan, are a few examples of breakdowns in drinking water systems that resulted in contaminated water, public health concerns, costly emergency responses, and a lingering loss of public trust. These incidents provide stark reminders that federal oversight is essential to ensure that taxpayer dollars invested translate into safe, reliable drinking water for communities nationwide.

Under the Safe Drinking Water Act, the EPA is ultimately responsible for ensuring that public drinking water systems provide safe water. While the EPA sets national standards and regulatory requirements, it may delegate primary responsibility to states, territories, and tribes that meet federal requirements and demonstrate that they have the resources and capacity to implement effective drinking water programs. Once a state has primacy, it becomes the day-to-day regulator of drinking water systems. However, the EPA does not simply step away. Rather, the Agency must oversee state programs to ensure that they are effective and protective of public health. This oversight includes conducting annual reviews of state programs to determine whether states continue to meet primacy requirements. As required by the Safe Drinking Water Act, if a state with primary enforcement responsibility fails to ensure that its public water systems comply with drinking water requirements, the EPA must take enforcement action requiring the water system to comply. In addition to regulatory oversight, the EPA administers and oversees federal drinking water funding, including the Drinking Water State Revolving Fund and investments funded by

the Infrastructure Investment and Jobs Act, ensuring that states use federal funds in accordance with statutory, regulatory, and program requirements.

The EPA's primary vehicle for disbursing funds for water infrastructure improvements is its state revolving fund, or SRF, program. The SRF works like a long-term, self-replenishing finance partnership between the federal government and the states to help communities build and maintain essential water infrastructure. Each year, Congress provides funding to the EPA to support two linked programs: the Clean Water SRF and the Drinking Water SRF. The EPA then awards grants to states for their respective SRF programs. States typically match at least 20 percent of the funding for their SRF programs. The state SRF programs then issue loans to community water systems for eligible projects and provide additional assistance to disadvantaged communities in the form of principal-forgiveness loans and grants. As water systems repay their loans, the repayments and interest replenish the revolving fund to cover the state's future eligible infrastructure projects. By law, SRF balances are designed to be available "in perpetuity" and must be used solely to provide loans and other authorized forms of financial assistance. While states operate their SRF programs with significant flexibility to set priorities and tailor assistance to local needs, such as source water protection and operator training, the EPA is responsible for overseeing the states' programs.

### **Infrastructure Investment and Jobs Act**

Since the enactment of the Infrastructure Investment and Jobs Act, or IIJA, in November 2021, the scale of the SRFs has increased substantially. Roughly 80 percent of IIJA funding—nearly \$50 billion—is for water infrastructure programs. That includes over \$30 billion for the Drinking Water SRF program as well as dedicated funding for lead service line replacement and emerging contaminants like per- and polyfluoroalkyl substances, or PFAS. While much of this funding flows through the existing SRF framework, it comes with new requirements, expanded eligibility, and increased emphasis on disadvantaged communities, which may include small and rural communities.

As we have previously testified before this subcommittee, this historic investment created both opportunity and risk. On one hand, the EPA and funding recipients gained critical resources to address long-standing water infrastructure challenges affecting communities across the country. On the other hand, this surge of funding is many times greater than the EPA or its recipients have managed in the past. This influx of funding has expanded not only the number and size of drinking water projects but also the potential for fraud across procurement, construction, and reimbursement activities.

Since the EPA began disbursing IIJA funds, these concerns have proven to be justified. In Newark, New Jersey, for example, a lead service line replacement project that was funded in part with federal dollars led to the arrest of a contractor's executive and a crew supervisor. They were charged with conspiring to defraud the city by allegedly leaving lead pipes in place, submitting false payment applications, using staged or misleading photos, claiming credit for existing copper lines, and billing for work not performed. This case underscores the heightened risks and the urgent need for vigilant oversight—from both the

OIG and the EPA—to ensure proper program implementation, mitigate risks, and safeguard taxpayer dollars.

### **Agency Progress Achieved**

The EPA has implemented OIG recommendations for improvement and taken additional steps to enhance its implementation of safe drinking water programs. For example, using IIJA funds, the EPA expanded technical assistance programs intended to help communities, especially those with limited capacity, to identify drinking water challenges, develop well-scoped projects, and apply for SRF or other infrastructure funding. To protect publicly funded projects and ensure that resources reach the communities they are intended to serve, the EPA has also strengthened guidance for compliance with Build America, Buy America domestic preference requirements and emphasized accurate, verifiable reporting of how investments are used.

In 2024, we alerted the Agency to key cybersecurity vulnerabilities at large drinking water facilities serving millions of Americans. If exploited, these vulnerabilities could degrade functionality, cause loss of service, or facilitate the theft of information. Last year, the Agency published new and updated planning tools that water systems across the country can use to help prevent and respond to cybersecurity incidents and announced grant funding to support mid-sized and large water systems to strengthen their cybersecurity and resilience against extreme weather events. The EPA also issued a memorandum requiring states to evaluate cybersecurity when conducting sanitary surveys or through other state programs and to address significant deficiencies.

Additionally, after we highlighted a concern that grantees and subrecipients may not be fully aware of key fraud prevention and enforcement measures, the Agency strengthened its General Terms and Conditions for grants. The stronger grant terms have already led to actionable referrals of serious allegations to our Office of Investigations. Meanwhile, the Office of Finance and Administration's *Fraud Risk Management Guide* provides Agency employees with a framework for implementing effective controls, conducting fraud risk assessments, and taking essential actions they suspect fraud.

### **OIG Oversight**

Even with these steps forward, continued attention remains necessary to sustain and build on these improvements. The OIG has long provided targeted oversight of the EPA's SRFs not only because they are the Agency's largest funding vehicle but also because they carry elevated risks: high-dollar pass-throughs from the EPA to states to thousands of local borrowers; complex compliance requirements like Build America, Buy America ; dependence on states, which varies in terms of capacity and internal controls; and long-term projects that are prone to delays and cost increases. Compounding these risks, the increased funding under the IIJA in turn increases both the opportunity and incentive for fraud, waste, and abuse, leading to OIG investigations of criminal allegations such as product substitution, public corruption or bribery, and false claims such as billing for work not performed.

Throughout years of oversight, the OIG has highlighted conditions that increase the risk of fraud or mismanagement. Weak internal controls, incomplete documentation, inadequate financial reporting, and the absence of clear whistleblower and fraud-reporting requirements, instructions, and training at the state or local level reduce transparency and make it harder for the EPA and the OIG to identify red flags early. The OIG has warned that gaps such as missing audited financial statements, insufficient tracking of improper or unknown payments, and poor data quality in program reporting can obscure accurate assessment of the health of drinking water programs or even potential fraud schemes.

Ultimately, the OIG has found that the EPA's ability to deliver drinking water infrastructure outcomes efficiently and effectively hinges on consistent oversight that is backed by reliable data and clear guidance.

### *EPA Oversight*

When the EPA provides funds to states or other recipients, whether through an SRF or another program, its responsibility does not end at award. Rather, the Agency shifts from grant maker to overseer of a public investment, entering into binding grant agreements that specify how funds must be managed, tracked, and reported. Once funds are deposited into a state's SRF, the state manages day-to-day operations, but the EPA retains oversight responsibilities. The Agency is required to ensure that states' use of federal funds and resulting projects adhere to statutory, regulatory, and program requirements. It must also oversee state SRF programs to ensure proper financial management, review intended use plans, and conduct annual program reviews.

However, we have observed gaps in the EPA's oversight of SRF funds after the funds are awarded to states. Our reviews in recent years have identified weaknesses in the EPA's tracking and reporting of unknown or improper payments and unliquidated obligations related to SRF programs, including drinking water projects. Just last month, we issued an audit of the EPA's financial oversight and reporting of SRF transactions, which is central to understanding what happens to funds after they are awarded. We found that EPA regions underreported unknown or improper payments associated with SRF transactions by about \$63 million in fiscal years 2022 and 2023. Although the EPA has historically deemed SRFs as low-risk, failing to identify unknown and improper payments undermines accurate assessments of the SRFs' financial health, which led us to recommend that the EPA evaluate its SRF risk assessment as required by the Payment Integrity Information Act of 2019.

Other reports examining state implementation and EPA regional oversight found that weaknesses in state programs, when combined with limited or delayed EPA intervention, could allow drinking water risks to persist. We have found that the EPA could not always readily determine whether water funds, such as grants intended for lead service line replacement, were used as intended, largely because of incomplete documentation and inconsistent post-award monitoring. The OIG also has concerns regarding the transparency of SRF funding. Data regarding funding provided at the contractor and subcontractor level where the project work is actually performed is not available on USAspending.gov nor is it consistently made publicly available elsewhere. Some of these contracts are worth millions of dollars. Further, while Congress permits the cross-collateralization of funds between SRFs, this structural

complexity and the comingling of the EPA's annual SRF funding with the loans that are being repaid over time makes it difficult to monitor for and detect fraud. This lack of transparency hinders not only public reporting but also the EPA's own oversight. The Agency routinely struggles to identify all the SRF funding that it has provided and often must consult with individual states to confirm. This, in turn, can cause investigative delays for the OIG.

Additionally, our audit and investigations work has consistently shown that EPA views its legal relationship as extending only to the primary recipient—in this case the states. The EPA has a statutory mandate to ensure that SRF funds be available in perpetuity. However, once capitalization grant funds have been loaned and repaid—that is once they are “revolving”—the EPA treats those funds as having lost their federal character. This could make it difficult for the OIG to pursue criminal or civil prosecution for fraud. To adequately protect this important program, all the funding must be protected by federal oversight, whether it is direct pass-through funding or “revolving” funding from repaid loans.

### *Data Quality*

These challenges are compounded by data limitations. As we continue to raise in our annual top management challenges reports, the EPA faces several challenges that limit the usefulness of its grant data—namely, its high volume of disparate grant-management systems and unstructured grant data formats, as well as its limited collection of grant subrecipient data. Notably, the EPA does not store and structure detailed subrecipient data from states' SRF programs. Instead, the detailed subrecipient data, like invoices and payments, are stored at the state level, making it difficult for the Agency to track the performance of related grants and loans.

Furthermore, the OIG has repeatedly flagged that some states store SRF subrecipient and contractor data in non-machine-readable formats, making it difficult for the EPA to aggregate data, conduct analytics, or clearly demonstrate outcomes across programs. There are no mandated requirements for how states and other recipients must maintain data and, believe it or not, some states are still accepting paper bids and using other paper records. Even if these documents are scanned, they can be extremely difficult to search and extract the data necessary for fraud detection.

Reliable, comparable data across states is essential for the EPA and Congress to assess progress, demonstrate results, and ensure that funds reach communities as intended. We have raised concerns that persistent challenges that limit the usefulness of its data, in turn, limit the EPA's ability to conduct proactive, data-driven oversight, warning that incomplete or inconsistently stored data could compromise the Agency's ability to track subrecipients and contractors effectively. Unfortunately, these conditions also hinder our ability to provide oversight. To “follow every dollar” from the EPA to states and to local recipients, the OIG must have accurate, searchable implementation-level data.

Another persistent data quality issue that we have flagged is that the Agency relies heavily on data provided by states and other funding recipients but does not always verify data accuracy and completeness. In one high-profile example, we found that the EPA used significantly flawed data to allocate billions of dollars in IJIA funding to states for lead service line replacements, relying on

undocumented state estimates and providing minimal data verification. We identified over \$943 million in questioned costs and funds that could be put to better use, and the Agency ultimately deobligated more than \$314 million from Texas and Florida and more appropriately allocated more than \$400 million for fiscal years 2025 and 2026. This report demonstrates how data quality gaps can directly distort federal funding decisions, delay investments in vital infrastructure, and divert limited resources away from communities with the greatest actual need.

### *Unclear Guidance*

The EPA is responsible for issuing guidance that helps states implement federal drinking water programs and use SRF funds consistent with statutory, regulatory, and program requirements. This guidance is crucial for translating applicable requirements into practical steps for states and other recipients, outlining requirements for project eligibility and prioritization, and specifying what data and reporting states must submit so that the Agency can provide oversight.

However, in recent years, we have identified unclear or conflicting guidance in several reports. For example, EPA guidance to states on implementing key federal requirements—such as Build America, Buy America provisions—was not sufficiently clear or provided in a timely manner. This prompted updates to address noted shortcomings in the EPA’s training, guidance materials, and grant agreements. Specifically, while the EPA issued two memorandums on implementing the Build America, Buy America Act requirements, its guidance related to manufactured products, documenting compliance, the consequences for noncompliance, using current waivers, and applying for new waivers was not sufficient. We also found gaps in guidance for the IJJA’s emerging contaminants program. Specifically, the guidance did not specify allowable ranking and funding levels for non-PFAS projects and did not clearly explain how to process transfers between SRFs, leading to project delays.

The OIG also found inconsistencies in EPA regional oversight of state Drinking Water SRF programs and identified barriers to states meeting minimum loan subsidy commitments. The EPA responded by updating national strategies and strengthening oversight guidance to help ensure that disadvantaged communities receive the assistance intended. Additionally, an EPA memorandum incorrectly told states that they did not need to review SRF borrowers’ single audits—contradicting federal law and the Uniform Guidance—and heightening the risk of fraud, waste, and abuse as IJJA dollars surged. Following an OIG management alert, the EPA updated its guidance, but we remain concerned that some states are still not using single audits to assess subrecipient risks and safeguard taxpayer funds. We also flagged that the Agency’s *Subaward Policy’s* terms and conditions were inconsistent, incomplete, and not easily navigable, particularly regarding mandatory disclosure requirements, whistleblower protections, and the OIG’s access to records.

Taken together, our oversight work has contributed to closer EPA attention to the need for oversight, financial controls, reliable data practices, and clear guidance in managing drinking water infrastructure funds through the SRF framework, helping the Agency refine its operations and improve accountability for federal investments. Each OIG recommendation translates into a stronger, more effective, more efficient EPA and more reliable results for the American people.

## **Conclusion**

In closing, the EPA's regulatory and oversight roles are vital to ensuring safe drinking water through infrastructure funding programs, such as the SRFs and the IJIA. By pairing historic investments with strong oversight, high-quality data, and clear guidance, the Agency can ensure that federal resources are directed to where needs are greatest so that intended outcomes are achieved. While the EPA has made progress and continued improvements are underway, addressing the challenges I have discussed today will help the Agency ensure that drinking water infrastructure investments deliver lasting public health benefits and maintain public trust.

We deeply appreciate your longstanding and continued support of the EPA OIG as we carry out our oversight of the EPA's drinking water programs and other critically important work to protect public health and the environment.