

**Statement of
The Honorable Sean W. O'Donnell
Inspector General
U.S. Environmental Protection Agency**

before the

**Subcommittee on Environment, Manufacturing,
and Critical Materials on Energy and Commerce
U.S. House of Representatives**

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Introduction

Good morning, Chair Rodgers, Chairman Carter, Ranking Members Pallone and Tonko, and members of the subcommittee. I am Sean O'Donnell, the Inspector General of the U.S. Environmental Protection Agency and the U.S. Chemical Safety and Hazard Investigation Board.

I would like to thank the committee for inviting me to testify about my office's oversight relating to the Infrastructure Investment and Jobs Act and the Inflation Reduction Act, or the IIJA and IRA. Last year, I had the privilege to testify twice before this committee regarding our efforts to help the EPA manage its significant influx of funding and additional responsibilities under the IIJA. Among other things, I shared our findings related to the EPA's implementation of the IIJA's \$5 billion Clean School Bus Program. We identified key fraud vulnerabilities in the program and provided additional considerations regarding managing rebate and grant funds and the importance of quality data to guide programmatic decisions. Since then, we have issued 15 IIJA-related audits, evaluations, or other reports; we have announced 16 new IIJA projects; and we have opened several investigations. Across our reports, we are seeing two recurring issues that pervade numerous IIJA programs and, frankly, put American taxpayer money at risk of fraud, waste, and abuse. To illustrate the effect of these widespread problems, I will focus on three major IIJA programs and the systemic challenges we have observed in them.

Our work in providing effective oversight of the EPA's IIJA-related programs has only emphasized the need for independent oversight of the EPA's IRA funding. Unfortunately, as I will discuss, we face significant challenges in providing that oversight.

Infrastructure Investment and Jobs Act and Inflation Reduction Act

The IIJA and the IRA provided the EPA with more than \$100 billion in supplemental funding to implement the most ambitious set of programs in the Agency's history. The IIJA appropriates over \$60 billion to the EPA for key initiatives like water infrastructure, environmental cleanups, clean air projects, and an expanded EPA workforce, while the IRA directs around \$41.5 billion toward new and existing programs to address climate change, air quality, and environmental justice. This surge of funding, paired with tight spending deadlines, creates a heightened need for robust oversight to mitigate risks and ensure proper implementation.

In my previous testimony, I warned of some of the risks that managing such a massive influx of resources creates. With respect to the IIJA, the law provided funding through familiar mechanisms to experienced recipients. The magnitude of the funding, many times greater than anyone had previously seen, creates potential capacity issues for both the EPA and recipients, particularly in distributing funds and in monitoring programs. The IRA, by contrast, provided new money for new programs intended for new recipients at an accelerated pace. As such, these IRA programs are at an even greater risks to fraud, waste, and abuse. In addition, whereas most of the EPA's IIJA appropriation is available until expended, the IRA funds have expiration dates ranging from the end of fiscal year 2024 to the end of fiscal year 2031. Specifically, \$27 billion of the EPA's \$41 billion in IRA funding, or 65 percent, must be spent by the end of fiscal year 2024, and another \$7.93 billion, or 19 percent, must be spent by the end of fiscal year 2026. The rapid pace required for this spending, especially by newly created programs and for new recipients, significantly increases the risk of fraud, errors, and inefficiencies in execution.

OIG Oversight of IJIA Funds

Oversight is vital to ensuring that the EPA, along with its grantees and contractors, are responsible stewards of American tax dollars. Recognizing the need for dedicated oversight of the \$60 billion the EPA received, Congress provided the OIG with the necessary resources. These resources have enabled us to prepare for and execute effective oversight, ensuring that we can help protect this historic investment.

Our work started upon enactment of the IJIA, as we immediately began laying the foundation for oversight by combing through a vast body of previous oversight work—including OIG reports, Government Accountability Office findings, and single audits—to pinpoint best practices for good governance. We compiled a targeted list for the Agency to incorporate in its IJIA implementation. From day one, our goal has been clear: to drive fraud awareness, fortify internal controls, and ensure the efficiency and effectiveness of IJIA projects.

In May 2024, we issued our IJIA Oversight Plan—Year Three, detailing our ongoing and planned audits, evaluations, and other engagements related to the EPA’s implementation of the IJIA.¹ As the Agency develops its plans for executing the IJIA, we continuously refine our oversight strategy, publishing annual updates to provide the Agency, Congress, and the public with timely insights into our IJIA-related activities. When determining which audits and evaluations to include, we rigorously assess the purposes of the EPA’s IJIA appropriations, statutory requirements, and discretionary work of the OIG. We also weigh input from Agency leadership, Congress, and the White House, as well as the vision laid out in the *FY 2022–2026 EPA Strategic Plan*.

In addition to our annual oversight plan, we issue an annual progress report that tracks the OIG’s IJIA-related spending, hiring efforts, and oversight work we’ve planned, initiated, or completed. Our March 2024 progress report declared 2024 as the “Year of Fighting Fraud,” outlining ongoing outreach efforts to deter fraud and improve efficiency in the EPA’s IJIA programs and operations.² It also discusses how we are using data analytics to detect grant and contract fraud and provide oversight transparency.

We are also aggressively tackling fraud, waste, and abuse before it even begins. Since October 1, 2022, our investigators have provided 394 fraud awareness briefings to EPA personnel and external stakeholders, setting a clear tone of vigilance and zero tolerance. Alongside these efforts, we have issued multiple management implication reports to draw the Agency’s attention to vulnerabilities we identified during our investigations. These reports have already driven positive changes, including updates to the EPA’s grant terms to better protect program integrity, compliance, and whistleblowers.

Leveraging the capabilities of our Data Analytics Directorate, our investigators have zeroed in on high-risk areas for fraud. We coordinated key meetings with our evaluators and the EPA’s Office of Water to strengthen oversight of IJIA funds being used for drinking water security projects, which is the focus of an ongoing evaluation.³ Meanwhile, internal collaboration between our investigators, auditors, and data analysts has also uncovered red flags within the EPA’s Brownfields program, allowing for more targeted audit work and stronger investigative leads.

¹ *Infrastructure Investment and Jobs Act Oversight Plan—Year Three*, Report No. [24-N-0036](#), May 6, 2024.

² *Infrastructure Investment and Jobs Act Progress Report—Year Two*, Report No. [24-N-0026](#), March 6, 2024.

³ *Evaluation of the Use of Infrastructure Investment and Jobs Act Funds for Drinking Water Security Projects*, Project No. [OSRE-FY24-0105](#), July 16, 2024.

Throughout our oversight work, whether it be in audits and evaluations or in criminal and civil investigations, we have identified two systemic issues in the EPA’s execution of IIJA programs. The first is the EPA’s management of grants and data systems—particularly the high volume of disparate grant management systems and unstructured grant data formats. The second relates to the EPA’s commitment to preventing and reporting possible fraud, waste, and abuse, particularly as this relates to sound internal controls.

Managing Grants and Data Systems

We remain vigilant regarding the significant risks associated with the EPA awarding the bulk of IIJA funds as loans, grants, or rebates to nonfederal entities. While these funding mechanisms are not new, our past oversight has shown that, even with annual appropriations, the EPA has struggled to establish and maintain efficient operations for distributing billions of dollars in grants. This challenge has been magnified by the IIJA and IRA funds flowing through the EPA to nonfederal entities for infrastructure- and climate change-related work.

According to the EPA’s *Grants Management Plan 2021–2025*, the Agency awards roughly half its annual budget in grants to states, local governments, tribes, nonprofits, educational institutions, and other eligible nonfederal entities—around \$21 billion across 6,000 active grants in any given fiscal year. However, with the unprecedented \$100 billion influx from the IIJA and the IRA, the EPA now faces a staggering increase in both the volume and value of grants awarded to nonfederal entities. This grant money does not belong to the EPA or even the federal government—it is taxpayer money, held in trust, and must be safeguarded accordingly. The Agency is responsible for, first, properly managing these pass-through funds and, second, ensuring that recipients use the funds as intended and in accordance with all applicable laws and regulations.

Central to effective program oversight is access to high-quality, timely data on which to base informed decisions. However, the Agency faces significant challenges that limit the usefulness of its data. A 2021 survey conducted by the EPA’s Grant Commitments Met Workgroup revealed that EPA staff relied on over 50 disparate systems to manage about 100 grant programs, making it nearly impossible to standardize, retrieve, or report data effectively, let alone maintain proper oversight. Additionally, the widespread use of unstructured formats creates major obstacles for advanced analytics and automated fraud detection.

The OIG has found that the EPA’s program and regional offices store grant files in a disorganized and inefficient manner—scattered across local computer hard drives, email, shared drives, and even as hard copies. While skilled data analysts can unlock the potential of this data, their work is only as good as the quality of the data they use. Without reliable, well-organized data, the entire process is compromised. This is why the EPA must urgently address its data quality issues and equip data professionals to leverage this data for meaningful, data-driven decision-making.

The EPA’s use of disparate systems and incompatible data formats causes significant delays in gathering information, results in redundant reporting, and hampers the ability to track program performance over time. In January 2024, we issued a report identifying that the EPA’s initial reporting of its fiscal year 2022 spending in USAspending.gov was incomplete and inaccurate.⁴ The Agency underreported its award-level obligations by \$1.2 billion and its award-level outlays by \$5.8 billion. This failure stemmed from the Agency

⁴ *The EPA Needs to Improve the Completeness and Accuracy of the Obligation and Outlay Information That It Reports in USAspending.gov*, Report No. [24-P-0014](#), January 9, 2024.

not following its own IT configuration management procedures, and either failing to implement or incorrectly implementing necessary system changes needed for accurate reporting. In addition, the EPA lacked procedures to detect errors and ensure the completeness and accuracy of the data that it reported. Although the EPA later corrected its fiscal year 2022 reporting in USAspending.gov and made necessary system changes, the initial errors misinformed taxpayers and prevented policymakers from effectively tracking federal spending.

Preventing and Reporting Possible Fraud, Waste, and Abuse

Preventing and detecting fraud, waste, and abuse related to the Agency's programs and operations is a shared responsibility among everyone in the EPA, from senior executives to scientists to program analysts. This starts with establishing effective internal controls to ensure that EPA programs, including those established under the IJA and IRA programs, can achieve their objectives efficiently and effectively. By helping to drive compliance consistent with laws and regulations and reducing the risk of mismanagement and program failures, strong internal controls ensure that resources are used properly and for their intended purposes, which is vital, given the large-scale funding and critical environmental programs that the EPA manages.

One of the most important internal controls for a grant-making entity like the EPA is effective monitoring of recipient and subrecipient use of funds and execution of programs. And one of the most important tools for assessing those internal controls is the single audit. These audits are intended to promote sound financial management and ensure that federal departments and agencies rely on and use single audits as an oversight tool to the maximum extent possible. Reviewing single audit reports, which are maintained in a repository called the Federal Audit Clearinghouse, is one way that federal agencies can perform oversight of entities that receive and expend federal funds.

The EPA, however, gave inconsistent and incorrect advice to recipients regarding the use of single audits in monitoring subrecipients. For example, in August 2023, we issued a management alert regarding an EPA Office of Water policy memorandum published in September 2021 that incorrectly advised states that they do not have to review single audits of nonfederal entities that borrow money from state revolving funds.⁵ This guidance contradicted and misinterpreted federal law and Uniform Guidance, creating the risk that any state or territory that administers a Drinking Water State Revolving Fund or Clean Water State Revolving Fund may not be using single audit reports as a tool to evaluate the risk for or detect fraud, waste, or abuse. While our work focused on the drinking water crisis in the City of Jackson, the EPA's policy memorandum, titled *Updated Single Audit Act Borrower Audit Collection Policy*, applies to all state revolving fund, or SRF, passthrough entities.

If states are not using single audit reports as a tool to monitor federal funds that they distribute through the DWSRF and CWSRF, their ability to protect DWSRF and CWSRF money against fraud, waste, and abuse, and by extension the EPA's ability to do so, is hampered. Illustrating this risk, when EPA OIG auditors reviewed single audit reports for the City of Jackson for fiscal years 2017 through 2021, they identified a DWSRF-related finding in the fiscal year 2019 report regarding the city failing to use an advance of award funds in a timely manner. Our auditors also identified numerous findings related to the city's financial statements, including deficiencies in the city's financial management system. Not reviewing these single

⁵ EPA Guidance Removed States' Responsibilities for Monitoring State Revolving Fund Borrowers' Single Audit Reports, Report No. [23-N-0028](#), August 15, 2023.

audit reports meant that the Mississippi State Department of Health may be unaware of the City of Jackson's DWSRF and financial statement deficiencies and may not be monitoring or determining whether prompt and appropriate corrective actions have been taken. This lack of oversight is particularly concerning given that the City of Jackson is receiving an additional \$600 million through appropriations under the Safe Drinking Water Act to address its drinking water state of emergency, which was declared in August 2022. Furthermore, as of March 2024, Mississippi was set to receive approximately \$5 billion in IJIA funding to carry about more than 380 infrastructure projects across the state.⁶

Another important internal control is the reporting of suspected fraud, waste, and abuse. It has been the long-standing policy of the EPA that suspected fraud, waste, and abuse must be reported promptly to the to the OIG. On numerous occasions over the past nine years, EPA administrators have issued memorandums directing EPA staff to cooperate with and report possible waste, fraud, and abuse to the OIG. I am pleased to say that Administrator Regan has made this an annual reminder for EPA staff, reflecting a positive tone from the top of the Agency.

Despite this, we have seen a disturbing trend in the EPA of failing to report fraud, waste, and abuse. For example, last month, we issued a report highlighting a case in which the EPA failed to timely disclose to the OIG unmistakable indicators of fraud against the EPA and the Clean Air Act.⁷ In early 2024, the EPA OIG and partner law enforcement agencies presented information to the U.S. Attorney's Office regarding an active criminal investigation into several potential criminal violations by a business entity related to the importation of prohibited engines. Central to that presentation were two fraudulent documents apparently created for the purpose of misleading the EPA. Because of the EPA's failure to report the fraudulent documents in a timely fashion, the U.S. Attorney's Office ultimately declined to pursue criminal charges in this case.

More broadly, we see general resistance to bringing us allegations of possible fraud related to the programs and operations of the EPA. For example, despite regular meetings between our Office of Investigations and the EPA's Criminal Investigation Division to discuss cases and share information, the CID has repeatedly withheld allegations of fraud that it has received. We often only learn of these allegations from news releases after a suspected fraudster has already been charged or pleaded guilty.

As another example, the EPA has continued to resist the OIG's important oversight role in protecting scientific integrity at the EPA. Just this week, we issued a series of reports addressing allegations from five EPA scientists who reported retaliation for expressing differing scientific opinions in chemical assessments. These investigations underscore the indispensable role of the OIG in protecting scientific integrity at the EPA as the only independent resource in the Agency empowered to investigate these matters without fear of interference. Yet the EPA continues to resist revising coordination procedures between the IG and its Scientific Integrity Program to require the prompt reporting to the OIG of political interference by senior agency officials and other misconduct.

I want to commend the administrator for setting the tone at the top regarding cooperation between the Agency and the OIG. In a June 2024 email, he told EPA staff that the EPA's commitment to its partnership with the OIG is crucial for upholding the agency's integrity and public trust and is more vital than ever as

⁶ *President Biden's Bipartisan Infrastructure Law is Delivering in Mississippi*, [White House Fact Sheet](#), March 2024.

⁷ *Management Implication Report: The EPA Did Not Properly and Timely Disclose Fraud in its Programs and Operations*, Report No. [24-N-0051](#), September 4, 2024.

we steward substantial investments from the IIJA and the IRA. The president has made similar remarks. In an April 2022 meeting with me and other inspectors general, the president spoke to the importance of independent oversight of IIJA funds, declaring that “[n]obody in [his] administration is telling the inspectors general what they have to do. They’re totally independent. They make a judgment. If they want to investigate something, do it.” Too often, however, we find that these commitments to independent OIG oversight are not shared by all staff at the EPA. This lack of cooperation is, indeed, more disconcerting as we look to expand our oversight of IIJA programs and, we hope, IRA programs.

Challenges Facing the EPA’s IIJA Programs

The issues I have outlined so far are critical areas of concern in EPA programs, as they play a pivotal role in ensuring the Agency’s ability to track program performance and mitigate the risk of fraud, waste, and abuse. To illustrate this, I want to focus on three major IIJA programs in the EPA: the state revolving funds, the Clean School Bus Program, and Superfund.

Drinking Water State Revolving Funds

The nation’s water infrastructure is at a critical crossroads, which is why Congress dedicated over 70 percent of the EPA’s IIJA appropriations to SRFs. As a result, our oversight work has concentrated heavily on both the Drinking Water and Clean Water SRFs. While we have completed and ongoing work related to the CWSRF, for the purposes of this committee, I will focus on our DWSRF oversight.

When I testified last year, I used the example of the SRFs to illustrate the point that the IIJA is providing unprecedented levels of funding through familiar funding mechanisms for traditional EPA programs. My concern then, as now, was the capacity of the EPA and the states to handle this level of funding. In February, we issued an evaluation revealing that, while most state administrators believe their state agencies have the organizational capacity and operating procedures to manage DWSRF IIJA funds, serious concerns remain.⁸ These concerns include financial capacity, state matching requirements, and the ability to identify eligible projects—especially for lead service line replacements. States also cited insufficient federal guidance on key provisions of the Build America, Buy America Act, or BABA.

As I discussed above, the availability of high-quality, timely data on which to base informed decisions is part and parcel to the EPA’s ability to effectively administer programs. Yet we are seeing these issues have a direct impact on the EPA’s proper allocation of IIJA funds. For example, on the issue of lead service line replacements, we will soon issue an evaluation report on whether the EPA’s design and execution of the *7th Drinking Water Infrastructure Needs Survey and Assessment* were appropriate to accurately allocate infrastructure funds based on the lead-service-line-replacement needs in each state.⁹ During this ongoing evaluation, we saw indications that the EPA may have used inaccurate data to inform its fiscal year 2023 allotment of \$3 billion in IIJA funds for lead service line replacements on inaccurate data. As such, there is a risk that the EPA did not allot these funds and will not allot future IIJA funds according to states’ actual

⁸ *Perspectives on Capacity: Managing Drinking Water State Revolving Fund Infrastructure Investment and Jobs Act Funding*, Report No. [24-E-0022](#), February 27, 2024.

⁹ *Evaluation of the EPA’s 7th Drinking Water Infrastructure Needs Survey and Assessment and the Resulting Fiscal Year 2023 Infrastructure Investment and Jobs Act Allocation for Lead Service Line Replacements*, Project No. [OSRE-FY24-0022](#), November 15, 2023.

needs. We issued a [management alert](#) to notify the Agency of this issue, after which it adjusted some of the allotment amounts from fiscal year 2023.¹⁰

We are especially focused on SRF recipient and subrecipient monitoring because, in 2022, nearly a year after the enactment of the IIJA, the EPA finalized a rule that relieved the SRFs from engaging in regulatorily required monitoring of the water systems that receive SRF loans or other assistance. As such, the EPA can no longer rely on the systemic subrecipient monitoring requirements in the Uniform Guidance found in 2 C.F.R. § 200.331 through § 200.333; because of this, it is imperative that the EPA ensure that each SRF has in place robust subrecipient monitoring mechanisms for ensuring that program funds are being used to improve our nation’s drinking water infrastructure.

As a first step toward understanding how the EPA and the SRFs are conducting meaningful subrecipient monitoring, we recently surveyed the states to understand how their SRFs are maintaining their files related to their subrecipients. We are particularly interested in how the EPA and the SRFs are leveraging subrecipient data found in these files to identify evidence of bid rigging, collusion, and other types of fraud. In response to a recent survey of the states, we have identified at least six states that keep their subrecipient loan files in paper form, which is the least amenable to data analytics. On the other hand, 36 states responded that they use databases to store their subrecipient data. These states could structure their data and allow for information to be queried and collected in an automated manner. However, when our staff met with some of these states to discuss how they use their structured data, none said they were using data analytics to proactively detect or prevent fraud. This is a significant lost opportunity by the EPA and its SRF recipients to fight procurement fraud in the drinking water sector.

We also are looking at how the EPA ensures that the states audit their SRFs. Like the Safe Drinking Water Act, the Clean Water Act and the relevant implementing regulations require that a financial, compliance, and operational audit of the SRF be conducted at least once a year and submitted to the OIG for review and approval. Yet, in a recent audit we issued in March 2024, we found that the Office of Water’s existing annual review guidance, which applied with equal force to CWSRFs and DWSRFs, advises regional staff that a state can substitute a statewide audit for an audit of the CWSRF; however, a statewide audit does not always include testing of or reporting on the SRF’s financial statements or compliance with program requirements.

For at least 15 years, the EPA has not required the states to meet their statutory obligation of submitting their required audits to the OIG for our review and approval. In April 2023, therefore, we reminded the states of their obligation to conduct these audits and submit them to the OIG. We also requested that each state provide their last three audits. Furthermore, in September 2023, we announced an audit of the states’ compliance with these annual financial statement audit requirements. Based on the responses to the OIG’s April 18, 2023 letter and on preliminary analysis, we have determined that at least nine states did not provide audit reports for their SRFs that, at a minimum, specifically identified the state’s SRF financial information. We estimate that the CWSRFs and DWSRFs for these nine states have approximately \$13 billion in total assets and will be awarded \$4.7 billion in IIJA funds. These programs, and this amount of money, are too important and too great to ignore a failure to conduct meaningful financial and compliance audits.

¹⁰ *Data Reliability Issues Impede the EPA’s Ability to Ensure Its Allotment of Infrastructure Investment and Jobs Act Funding for Lead Service Line Replacements Reflects Needs*, Report No. [24-N-0039](#), May 15, 2024.

Another key internal control for the SRF programs is the provision of clear guidance for EPA-funded projects. A prime example is the EPA’s guidance regarding implementation of BABA. This act requires that iron, steel, and other materials used in infrastructure projects be produced in the United States. With over \$60 billion in IIJA projects potentially subject to BABA requirements, the EPA must offer clear compliance guidelines to help state SRF programs meet their responsibilities, such as including BABA terms in loan agreements, overseeing subrecipients, and maintaining compliance documentation. While our evaluation of the sufficiency of the EPA’s BABA guidance for SRF programs is ongoing, an OIG report issued earlier this year identified that many state SRF administrators reported a lack of federal guidance on meeting BABA requirements.¹¹ Further complicating compliance is the EPA’s failure to consistently track BABA waivers, leaving the Agency in the dark about how extensively waivers are being used and whether recipients are maximizing the use of U.S. goods and materials as BABA intended. In an [audit report](#) issued earlier this year, we found that the EPA was tracking only one of the 11 BABA waivers it had issued for Agency-funded infrastructure projects.¹²

The SRF work we have completed and plan to take on is critical, given the minimal statutory and regulatory requirements for monitoring SRF subrecipients. Effective oversight is even more crucial with the massive influx of IIJA funding to these programs. For example, IIJA funding boosts DWSRF allocations to roughly \$6 billion annually—almost six times previous annual appropriation levels. Without robust controls to monitor this funding, the EPA risks exposing these funds to major fraud, waste, and abuse, which jeopardizes the intended benefits of the SRF programs.

Accordingly, our ongoing efforts are laser-focused on assessing the maturity and adequacy of states’ monitoring programs. It is crucial for the EPA to understand the states’ capacity to manage the significant increase in funds the IIJA provides. To this end, we launched a series of SRF capacity reviews across U.S. states and territories, aimed at identifying both state-specific and overarching risks and challenges. In June, we issued the first report in this series, which found that New Mexico has the financial and organizational capacity to manage its CWSRF infrastructure funds but falls below the national average on several financial health indicators and is projected to have an excess of available funds, estimated at \$75.6 million in fiscal year 2024.¹³ We will compare these results with what we find in our ongoing capacity evaluations in South Carolina and the U.S. Virgin Islands. Additionally, we are conducting audits to assess whether the EPA appropriately identified and resolved improper payments during its annual SRF reviews and whether the Agency has sufficient controls in place to prevent misuse of the increased IIJA funds. Another key focus is examining the guidance the EPA provided to state agencies regarding the use of DWSRF funds for emerging contaminants, ensuring compliance with IIJA requirements and federal guidelines.

¹¹ *Evaluation of the EPA Office of Water’s Guidance to State Revolving Fund Programs for Implementing Build America, Buy America Act*, Project No. [OSRE-FY23-0096](#), August 24, 2023; *Perspectives on Capacity: Managing Drinking Water State Revolving Fund Infrastructure Investment and Jobs Act Funding*, Report No. [24-E-0022](#), February 27, 2024.

¹² *The EPA Does Not Always Track the Use of Build America, Buy America Act Waivers for Infrastructure Projects*, Report No. [24-N-0037](#), May 8, 2024.

¹³ *New Mexico’s Capacity to Effectively Manage Clean Water Infrastructure Funds Faces Challenges*, Report No. [24-E-0042](#), June 5, 2024.

Clean School Bus Funds

From fiscal years 2022 to 2026, the Agency will receive \$5 billion for its Clean School Bus Program, which provides grants and rebates to eligible recipients for replacing existing school buses. The EPA can cover up to 100 percent of the cost for replacing diesel school buses with either zero-emission buses that run on electricity or clean school buses powered by propane, compressed natural gas, or electricity. This program may be one of the EPA's flagship IIJA initiatives, but it is also a chief example of how the issues I have raised today show up in high-stakes, high-dollar programs.

Since I testified before this committee last fall regarding vulnerabilities in this program, my office has issued three reports that identified, among other findings, concerns about the accuracy of program data. For example, in a management implication report, we found that the EPA's lack of robust verification mechanisms within the Clean School Bus rebate and grant application process, led to third parties submitting applications on behalf of unwitting school districts, applicants not being forthright or transparent, entities self-certifying applications without having corroborating supporting documentation, and entities being awarded funds and violating program requirements.¹⁴ The Agency's lack of a verification process for applicant truthfulness was putting program funds at risk. We outlined several measures for improvement the EPA could take to help prevent potential fraud and establish a process for assessing applicant disclosures and, as a result of this report and our earlier work on grant fraud vulnerabilities, the EPA updated its standard terms and conditions to include an attestation statement, OIG reporting requirements, and whistleblower protection information.

We also found that, while the EPA met most of its requirements when selecting program recipients, lacking internal controls resulted in a failure to document that recipients met criteria to ensure that recipients met certain criteria to ensure that it selected those with buses that were eligible for replacement. Furthermore, the EPA did not verify whether applicants request funds specifically for zero-emissions school buses have school districts with suitable local conditions for these types of buses. Along these lines of not verifying that applicants' circumstances were appropriate to receive Clean School Bus Program funding, we also found that, while there were not significant supply or production delays affecting the EPA's distribution of IIJA funds during the first round of funding, there was potential for delays in building the necessary charging stations to make the buses fully operational, which could hinder the program's success if school districts cannot establish the infrastructure necessary to support the clean buses they purchase.

In the coming months, we plan to issue one more report related to this program, providing the results of our ongoing audit to determine the extent to which the Agency ensures that recipients of the 2022 Clean School Bus Program rebates manage funding in accordance with federal requirements.¹⁵ I look forward to discussing those findings with the committee.

Superfund

The IIJA appropriated approximately \$3.5 billion to clean up Superfund sites. In addition, the IIJA reinstated the Superfund excise tax, imposing a tax on certain chemicals and imported chemical substances beginning

¹⁴ *Management Implication Report: Preventing Fraud, Waste, and Abuse Within the Environmental Protection Agency's Clean School Bus Program*, Report No. [24-N-0013](#), December 27, 2023.

¹⁵ *Audit of the EPA's Clean School Bus Program Rebate Recipient's Use of Funds*, Project No. [OA-FY23-0098](#), September 12, 2023.

on July 1, 2022. The Superfund excise tax was supposed to replace approximately \$3 billion in annual appropriations, however only about \$1.4 billion has been received in FY 2024. As part of our mandated Consolidated Financial Statement audit of the EPA, our auditors are tracking the Superfund excise tax through the appropriations, disbursements, and ligations cycles. We plan to initiate a future audit to determine the impact the decrease in revenue will have on the Agency's Superfund work and the larger potential impact it has on general Agency operations.

Our current oversight work is focused on whether the EPA is ensuring that recipients and their contractors are prepared to execute on this increased funding. Thus far, we have issued two reports on the EPA's oversight and implementation of institutional controls and the use of IJJA funding. Combined, these reports identified over \$45.4 million in potential waste due to a lack of controls that would protect remediation efforts at the sites.¹⁶ Additionally, in one of these reports on the American Creosote Works site, we found that the institutional controls that the EPA established related to contaminated groundwater and soil are not sufficient to prevent potential exposure to contamination from cancer-causing chemicals.

Last month, we announced an evaluation of whether required reviews for federal facility Superfund sites adequately assess the impact of sea-level rise and storm surges caused by climate change on the continued protectiveness of implemented cleanup remedies.¹⁷ We anticipate starting more evaluations of controls and IJJA funds at Superfund sites in fiscal year 2025.

OIG Oversight Responsibilities and Impediments

The OIG has shown that, when properly funded, it provides some of the most effective oversight in the federal government. Even in the early stages of the EPA's IJJA programs, and of our oversight, we have provided the American taxpayer with a positive return on their investment. Unfortunately, our oversight more broadly, and specifically with respect to the IRA, faces significant challenges.

The IRA provide the EPA with \$41.5 billion for investment in climate change, air quality, and environmental justice projects and initiatives. Earlier, I touched on some of the risks associated with this legislation, emphasizing that it directs tens of billions of federal dollars to newly created programs to be awarded to new recipients, significantly increasing the risk of fraud, errors, and inefficiencies. Additionally, IRA funds come with relatively tight deadlines for expenditure. For example, \$27 billion of the Agency's \$41.5 billion in IRA funding for the Greenhouse Gas Reduction Fund, or 65 percent, has already been spent, and approximately 85 percent of all IRA spending is set to be obligated by the end of fiscal year 2026. This pace of spending escalates not only the risk for fraud but also the urgency for oversight. More fundamentally, I have no reason to believe that these newly created programs will be immune to the challenges we see in the EPA's IJJA programs.

Despite this heightened risk, the IRA fails to provide any funds for our oversight. This, along with over a decade of stagnant or declining OIG budgets, leaves our office without sufficient capacity to effectively

¹⁶ *The EPA Needs to Improve Institutional Controls at the American Creosote Works Superfund Site in Pensacola, Florida, to Protect Public Health and IJJA-Funded Remediation*, Report No. [24-E-0032](#), April 15, 2024; *The EPA Should Improve Oversight of Physical Access and Institutional Controls at the Escambia Wood Superfund Site*, Report No. [24-E-0046](#), June 12, 2024.

¹⁷ *Evaluation of Risks to Federal Facility Superfund Site Remedies from Sea-Level Rise*, Project No. [OSRE-FY24-0114](#), August 13, 2024.

oversee the EPA's spending of more than \$40 billion taxpayer dollars. This includes \$14 billion in IRA funding dedicated to the National Clean Investment Fund program, which establishes national clean financing institutions to deliver accessible financing for clean technology projects and for which the OIG would need to hire oversight professional with specialized expertise.

The EPA understands the essential role of the OIG in protecting these programs and the taxpayer dollars that fund them. The EPA administrator has publicly acknowledged the OIG as an essential partner in ensuring that IRA funds are spent properly, and his senior advisor testified before this committee earlier this year that the OIG is one of the critical lines of defense for ensuring program integrity of the Greenhouse Gas Reduction Fund.

Our oversight is not just about preventing waste, fraud, and abuse, but also ensuring that IRA funds deliver the real environmental and human health benefits that the public is paying for. To date, we've launched one investigation related to the Greenhouse Gas Reduction Fund using core OIG budgetary resources. Without additional and appropriate resourcing, our ability to expand our IRA oversight is severely limited.

Historically, OIG funding has amounted to less than half a penny for every dollar the EPA spent, generating a return of over 300 percent to American taxpayers. Dedicated resources for IRA oversight, similar to those provided to the Department of Energy OIG for its respective IRA oversight, are essential to ensuring that the EPA's IRA spending receives the same rigorous, independent oversight and taxpayer protections as those related to the IIJA.

However, for more than a dozen years, the OIG has faced a declining investment in our core budget, while our responsibilities have increased. Our fiscal year 2024 budget is lower than it was in fiscal year 2011, while personnel costs have increased exponentially. As a result, we are now funded for 128 fewer oversight professionals in 2024 as compared to 2011. This has significantly impacted our ability to meet ever-increasing demands.

Ensuring that the massive taxpayer investment entrusted to the EPA under the IIJA and IRA is distributed appropriately and monitored successfully is an immense responsibility—the stakes are simply too high for mismanagement, inefficiency, or lack of accountability. With our statutory independence and authorities, the OIG is uniquely positioned to provide hard-hitting oversight that prevents and detects fraud, waste, and abuse, and identifies opportunities to improve efficiencies and mitigate risks. It is imperative that the Agency, the Congress, and the public view us as a partner in protecting precious taxpayer dollars and the programs and operations they are funding.

Conclusion

Again, thank you to the subcommittee for inviting me to speak with you today. Since the Inspector General Act in 1978 established the modern agencywide inspector general structure, Congress has looked to OIGs as a partner to not only help improve government programs and operations, but also to ensure those programs and operations work efficiently and effectively. The body of IIJA oversight work that I have discussed before you today demonstrate the value of that partnership for the communities that we serve.

My staff and I are grateful that Congress provided dedicated funding for OIG oversight under the IIJA so we can ensure our core budgetary resources focus on our growing body of daily oversight work in response to statutory or regulatory mandates, congressional requests, or hotline contacts. As our annual budget diminishes and we are being tasked to do more with less and look to Congress to continue our strong

partnership and ensure both our core and potential IRA oversight can continue to provide Members of Congress and American taxpayers with positive results.

Thank you again to the committee for inviting me to speak with you today, and I am happy to answer questions you may have.



Biography: Inspector General Sean W. O'Donnell

Sean W. O'Donnell was sworn in as the Inspector General of the U.S. Environmental Protection Agency on January 27, 2020. The mission of the Office of Inspector General is to promote economy and efficiency at the EPA and the U.S. Chemical Safety and Hazard Investigation Board, as well as detect and prevent waste, fraud, and abuse related to the programs and operations of those two agencies. To this end, Mr. O'Donnell oversees a nationwide workforce of attorneys, auditors, special agents, and support personnel who support the Office's mission by providing evidence-based reports to the agencies, the public, and to

Congress. For nearly three years, Mr. O'Donnell also served as the acting Inspector General of the U.S. Department of Defense, leading a work force of over 1,800 oversight professionals charged with providing independent and objective oversight of the world's largest organization.

Prior to becoming the Inspector General, Mr. O'Donnell spent 15 years at the U.S. Department of Justice, most recently as a prosecutor in the Criminal Division's Money Laundering and Asset Recovery Section. Over his career at the DOJ, he handled a wide range of criminal and civil matters, such as commercial and governmental fraud, corruption, and national security matters. In total, Mr. O'Donnell's work in fighting fraud helped return billions to the U.S. Treasury and brought numerous individuals and corporations to justice. Mr. O'Donnell received numerous awards and honors from across the U.S. Government, including the Department of Defense Medal for Distinguished Public Service and Attorney General's Award for Distinguished Service.

Early in his career, Mr. O'Donnell clerked on both the federal court of appeals and the federal district court. He also spent time in private practice, working on intellectual property and antitrust litigation, among other matters. Mr. O'Donnell is active in his community, having served on his city's redistricting and ethics commissions. His contribution to youth sports in his community has been recognized through awards and other accolades.

Mr. O'Donnell has a bachelor's degree in economics from Texas A&M University, a bachelor's degree in mathematics from the University of Washington, and a master's degree in economics and a law degree from the University of Texas at Austin.