

**NC CLEAN WATER REVOLVING LOAN & GRANT PROGRAM**

**State Authorization: G. S. 159G**

**NC Department of Environment and Natural Resources  
Division of Water Quality**

**Agency Contact Person - Program and Financial**

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**The auditor should not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current. The grantor agency may elect to review audit working papers to determine that audit tests are adequate.**

**I. PROGRAM OBJECTIVES**

The primary objective of the North Carolina Clean Water Revolving Loan and Grant Program is to provide grants and low cost loans to local government units for wastewater capital facilities in order to encourage and assist these entities to meet their responsibilities to their citizens to maintain a clean and healthful environment and an abundant supply of pure water, and further to provide an adequate base for economic growth.

**II. PROGRAM PROCEDURES**

The N. C. Department of Environment and Natural Resources (DENR) approves disbursements to recipients based on the submittal of expenditures as required in the contract. The level of State participation is established when the official offer is extended and accepted by the applicant. The level of participation may be amended based on a summary of the project’s final cost.

Local units of government may request loan funds from DENR. A number of steps are followed in determining which local governments receive funding. Both loans and grants are handled similarly, with the exception of the processing of the loan package.

- Meetings are held with local government representatives.
- Applications to the State are reviewed and prioritized every six months for revolving loans and grants and anytime for emergency loans.
- Recipients must complete an application package including an environmental review, which is submitted to DENR for approval. DENR sends the appropriate portion of the application package to the Local Government Commission (LGC) that approves the loan or grant amount, sets the interest rate and establishes repayment terms. DENR

reviews and prepares the offer with a tentative line item budget that includes a 5% contingency.

- The local governments submit potential contractor bids for their projects to DENR. DENR approves the bid package, checking for minority business and the debarred list. DENR approves a standard set of documents and the authorization to award contracts to the lowest responsible bidder. If construction contract bids are more than 10% over the loan offer, the offer must be returned to the LGC and the Environmental Management Commission for revisions.
- DENR issues the Authority to Award that includes the most recent line item budget. DENR also attends a meeting with the recipient and contractors where documents are signed, with DENR retaining one copy.
- Interest accrues from the “scheduled” completion date. The actual completion date establishes the first repayment date on either May 1 or November 1, whichever is at least six months after the actual project completion date but not to exceed 18 months from the scheduled completion date.
- A memo is sent by DENR to the Office of the State Treasurer (Treasurer) requesting a preliminary promissory note that is sent to both DENR and the loan recipient.
- During construction, requests for payment are made to DENR with accompanying invoices. These documents are reviewed for approval by the program’s financial staff. Modifications in the payment request are made for items over budget or contract, or for ineligible costs. Any change orders are adjusted from the contingency budget. At 95% completion, DENR reviews the total project, and holds final payments until the project certification of completion and the engineer’s certification of project compliance with DENR approved plans and specifications are in place.
- Final payment is issued and a certificate of completion is filed with the Treasurer. DENR sends a memo to the Treasurer indicating the actual completion date that determines the due date of the first loan repayment which may not exceed 18 months from the scheduled completion date. The Treasurer prepares a final promissory note and repayment schedule.

### III. COMPLIANCE REQUIREMENTS

#### 1. Activities Allowed or Unallowed

##### **Compliance Requirements**

State funds can only be expended for authorized projects as prescribed in the contract package.

##### **Audit Objectives**

Determine whether State funds were expended only for authorized projects.

##### **Suggested Audit Procedures**

The auditor should ascertain that activities have been limited to the construction of publicly owned wastewater treatment facilities.

#### 2. Allowable Costs/Cost Principles

##### **Compliance Requirements**

Costs must be consistent with policies and procedures that apply to both State financed programs and other activities of the recipient organization. This includes guidelines

established by the agreement with the recipient. Allowable project costs are limited to: (1) the actual cost of the works described in the project application and (2) contingency costs not to exceed 5% of the estimated eligible construction costs as bid. Costs which are not allowed are expenditures for repairs with the exception of emergency loans or for the operation and maintenance of any wastewater treatment works.

**Audit Objectives**

Ascertain whether charges made to State awards were for allowable costs.

**Suggested Audit Procedures**

Test a sample of transactions for conformance with the allowability of cost provisions of or limitations in the offer and the Part B (the project review and cost summary document).

5. Eligibility

**Compliance Requirements**

Eligibility is determined with the approval of project plans and specifications. Compliance is thoroughly checked by the State during the disbursement process and through on site construction inspections. There is no need for the CPA to do further testing.

8. Period of Availability of Federal Funds

Funds are available on a reimbursement basis until completion of the project, which should not exceed 18 months after original scheduled completion date.

9. Procurement and Suspension and Debarment

Procurement:

**Compliance Requirements**

Follow State procurement laws as found in G. S. 143-129 and 143-131.

**Audit Objectives**

Determine whether procurements were made in compliance with state law.

**Suggested Audit Procedures**

Test a sample of procurements to ascertain if the applicable laws were followed.

Suspension and Debarment – N/A

10. Program Income

**Compliance Requirements**

Program income (income derived from the sale of such things as crop allotments and timber) is used to supplement operating and maintenance costs after construction, and is not eligible for reimbursement. This income is generated from the purchase of land, and should not be confused with loan or grant funds that have been disbursed for project construction.

**Audit Objectives**

Determine whether program income is correctly recorded and used in accordance with program requirements.

**Suggested Audit Procedures**

Review the laws, regulations, and the provisions of the loan applicable to the program, and ascertain if the program income prior to construction has been generated. Verify that income was used for allowable costs.

11. Real Property Acquisition and Relocation Assistance

Real Property Acquisition:

**Compliance Requirements**

Real property costs include easements and rights-of-way. An appraisal by a licensed real estate appraiser is required.

**Audit Objectives**

Determine whether the entity complied with the real property acquisition, appraisal, and negotiation required by the provisions in the agreements pertaining to the program.

**Suggested Audit Procedures**

Test records to ascertain if: (1) the just compensation amount offered the property owner was determined by an appraisal process; (2) the appraisal was examined by a review appraiser; and, (3) the review appraiser prepared a signed statement which explains the basis for adjusting comparable sales to reach the review appraiser's determination of the fair market value.

Test supporting documentation to ascertain if: (1) a written offer of the appraised value was made to the property owner; and (2) a written justification was prepared if the purchase price for the property exceeded the amount offered and that the documentation (e.g. recent court awards, estimated trial costs, valuation problems) supports such administrative settlement as being reasonable, prudent, and in the public interest.

Relocation Assistance – N/A

12. Reporting

**Compliance Requirements**

Recipient should use the Division of Water Quality's (DWQ) Request for Reimbursement form to request disbursement of funds. This form is part of the offer package and is available on the Division of Water Quality web site .

**Audit Objectives**

Determine whether the DWQ's Request for Reimbursement form has been used, with supporting documentation, such as invoices, to report eligible expenditures.

**Suggested Audit Procedures**

Perform appropriate analytical procedures to compare documented costs to accounting records and supporting documentation.

**Compliance Requirements**

All projects to which a loan or a grant has been committed should be audited in accordance with G. S. 159-34. A copy of the audit must be filed with the Department of Environment and Natural Resources, Division of Water Quality, the Construction Grants and Loans Section.

**Audit Objectives**

Determine that the audit report agrees with the financial records of the recipient.

**Suggested Audit Procedures**

The statement of revenues and expenditures in the audit should agree to the accounting records. See page 6 of this supplement for a suggested format.

14. Special Tests and Provisions

**Compliance Requirements**

Pursuant to G. S. 159-25 (b) (6), a capital project fund is required to account for all debt instrument proceeds/grant proceeds (loan & grant reimbursements) used to finance capital projects. To facilitate budgetary and accounting control, it is required that a project ordinance, pursuant to G. S. 159-13.2, be adopted by the governing board authorizing all appropriations necessary for the completion of the project.

**Audit Objectives**

Determine as to whether a capital project fund and a capital project ordinance have been adopted by the governing board.

**Suggested Audit Procedures**

Verify that a capital project ordinance was adopted and a capital project fund was set up.

Verify that expenditures and revenues are within the amounts budgeted in the ordinance.

Verify that all monies are received through capital projects.

AUDIT REPORT

Project Description (Ex: Wastewater Facility)

Project Number

Municipality

For the Period \_\_\_\_\_ to \_\_\_\_\_

Statement of Revenues

Sources of Funds:	\$ _____
Local (Cash)	
Bond Sale Proceeds	_____
State Funds	_____
Federal Funds	
Identify Federal Program	
(grant or loan?)	_____
Other Sources	
Identify	_____
	\$ <u>_____</u>

Statement of Expenditures

Construction Cost	\$ _____
Contract I	
Contract II	
Engineering Fee	_____
Administrative Expense	
Identify	_____
Legal Fees	
Identify	_____
Other	
Land	
Interest, etc.	_____
	\$ <u>_____</u>