

NC DRINKING WATER REVOLVING LOAN & GRANT PROGRAM

State Authorization: G. S. 159G (North Carolina Clean Water Revolving Loan and Grant Act of 1987)

**NC Department of Environment and Natural Resources
Public Water Supply Section**

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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 Drinking Water Revolving Loan and Grant Program is to provide grants and low cost loans to qualified applicants for municipal water 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 required supporting documentation. 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.
- 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 amount, sets the interest rate and establishes repayment terms. Grant amounts are approved by DENR. DENR reviews and prepares the offer based on a tentative line item budget that includes a 5% contingency.

- DENR approves the bid package, checking for minority business, the debarred list, etc. DENR approves a standard set of documents including the authorization to award contracts to the lowest responsible bidder. If bids are more than 10% over the loan offer, the revised offer must be approved by the LGC and DENR.
- 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.
- A memo is sent by DENR to the Office of the State Treasurer (OST) 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 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 90% completion, DENR reviews the total project, and holds final payments until the project is complete. An exception can be made and an additional 5% of the funds can be released.
- Final payment is issued and a certificate of completion is filed with the OST. DENR sends a memo to the OST indicating the actual completion date that determines the due date of the first loan repayment. The OST 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. 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 or for the operation and maintenance of any water treatment works or any other component of a water supply system.

Audit Objectives

Determine whether State funds were expended only for allowable activities.

Suggested Audit Procedures

The auditor should review the approved application and compare the approved costs with the actual costs, terms and conditions to determine if the recipient has complied with funding stipulations.

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.

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 Part B (Bidding information along with summary of project costs).

3. Cash Management

Compliance Requirements

There should be an expeditious expenditure of funds. Funds derived from bond proceeds must be expended within three days of receipt.

Audit Objectives

Assure that the recipient has followed procedures to minimize the time elapsing between the receipt and the disbursement of loan or grant reimbursement funds.

Suggested Audit Procedures

Select a sample of reimbursements and compare them to the dates the funds were disbursed and/or checks were presented to banks for payment. Using these data verify that the timing of payments to contractors was in compliance with any requirements of the awarding agency or any applicable laws, regulations, or statutes.

4. Conflict of Interest

Compliance Requirements

All local governments are required to comply with G.S. 14-234.

Audit Objectives

Make sure recipient adhered to its conflict-of-interest policy.

Suggested Audit Procedures

Verify existence of a written policy.

5. Eligibility

Compliance Requirements

Eligibility is determined from the project description in the application and ultimately 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.

9. Procurement and Suspension and Debarment

Procurement:

Compliance Requirements

Follow State procurement guidelines as found in G. S. 143, Article 3.

Audit Objectives

Determine whether procurements were made in compliance with the provisions of the program requirements and any applicable laws, and that the awarding agency's procedures were followed.

Suggested Audit Procedures

Test a sample of procurements to ascertain if the applicable laws and the awarding agency's procedures were followed.

Suspension and Debarment:

Compliance Requirements

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred.

Audit Objectives

Determine whether the non-Federal entity obtained the required certifications for covered contracts and subawards.

Suggested Audit Procedures

1. Test a sample of contracts and ascertain if the required suspension and debarment certifications were received for subawards and covered contracts.
2. Test a sample of contracts to *the List of Parties Excluded From Federal Procurement or Nonprocurement Programs*, issued by the General Services Administration and ascertain if contracts were awarded to suspended or debarred parties.

10. Program Income

Compliance Requirements

There are no foreseeable occurrences of Program Income in the NC Drinking Water Revolving Loan and Grant Program. Consequently, there is no need for the CPA to do any testing.

11. Real Property Acquisition and Relocation Assistance

Compliance Requirements

Real property costs include easements, rights-of-way or any associated costs.

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.

12. Reporting

Compliance Requirements

Compliance is confirmed by the State during the disbursement process. There is no need for the CPA to do further testing.

13. Subrecipient Monitoring

Compliance Requirements

The local governments do not subaward any monies to any subrecipients and thus the State is monitoring the local governments as subrecipients. No additional testing is needed by the local CPA.

14. Special Tests and Provisions

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-Controller's Office. Because the State maintains records on a project-to-date basis, a schedule of project-to-date revenues and expenditures should be included in the audit report.

Audit Objectives

Determine that all agreements are being adhered to, and that the loan requirements (such as repayments) are reported and that loan information (such as interest rates and pay back periods) is correctly reported.

Suggested Audit Procedures

The statement of revenues and expenditures should agree to the accounting records. Please see Attachment A for a suggested format.

AUDIT REPORT

Project Description (Ex: Municipal Water 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	_____
	\$ _____

Statement of Expenditures

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