

**NC CLEAN WATER BOND PROGRAM**

**State Authorization: 1993 Session Laws – Chapter 542, Section 10 and 1998-132 Session Law – 1997 General Assembly**

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

**Agency Contact Person - Program and Financial**

**Address Confirmation Letters To**

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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 Clean Water Bond Loan Program (also known as the State Bond Fund, or SBF, program) is to provide loans and grants to local government units for wastewater capital facilities in order to encourage and assist local government units 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 the approved applicant based on the submittal of the required supporting documentation. The level of State loan participation is established when the official offer is extended to and accepted by the applicant. The level of participation may be amended based on the summary of the project’s final cost.

Local Governments may request loan or grant funds from DENR. A number of steps are followed in determining which governments receive funding.

- 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 appropriate portions of the package to the

Local Government Commission, which approves the loan amount and sets the interest rate and repayment terms. DENR review and prepares a loan offer with a tentative line-item budget, which includes a 10% contingency.

- DENR reviews the bid package, checking for minority businesses, the debarred list, etc. DENR approves a standard set of documents and the authorization to award contract to the lowest bidder.
- DENR issues the Authority to Award, which includes the most recent line-item budget.
- Interest accrues from the first disbursement of loan funds. The date of the bond issue establishes the first repayment date on either May 1 or November 1, whichever date is at least six months after the actual completion date.
- A memo is sent by DENR to the Office of the State Treasurer (OST) requesting a promissory note, which is sent to both DENR and the recipient.
- During construction, requests for payment are made to DENR with accompanying invoices that are reviewed and approved by the program's financial staff. Modifications in the payment requests are made for items over budget or contract or unallowed costs. Any change orders are adjusted from the contingency budget.
- Final payment is issued and a Certification of Completion is filed with the Office of the State Treasurer. DENR sends a memo to OST with the actual completion date, and the OST prepares a final 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 costs of the works described in the approved plans and specifications; (2) changes made by change orders and (3) contingency costs, not to exceed 5% of the estimated eligible construction costs as bid. Unallowable costs are expenditures for operation and maintenance of any wastewater treatment works, wastewater collection system, or water supply system projects.

##### **Audit Objectives**

Determine whether State funds were expended only for allowable activities.

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

Auditor should review application, offer, and Part B (Bidding information along with summary of project costs), and test expenditures and related reports.

#### 2. Allowable Costs/Cost Principles

##### **Compliance Requirements**

Costs should be consistent with policies and procedures that apply both to State financed programs and to 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.

Check that transactions represent charges for actual costs, not budgeted or projected amounts.

3. Cash Management

**Compliance Requirements**

Assure expeditious expenditure of funds. Funds must be expended within three banking days of receipt.

**Audit Objectives**

Assure that the recipient has followed procedures to minimize the time elapsing between the receipt and the disbursement of reimbursed 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 payments. Using these data verify that the timing of payments to contractors were 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 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.

**Audit Objectives**

Determine whether procurements were made in compliance with the provisions of the program requirements and any applicable laws, regulations, statutes or other provisions of the awarding State agency.

**Suggested Audit Procedures**

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

10. Program Income

**Compliance Requirements**

Program income (income derived from the sale of crops, timber, etc.) is used to supplement operating and maintenance costs after construction, and is not eligible for reimbursement.

**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 was anticipated and, if so, the requirements for recording and using it.

Review accounting records to ascertain if program income was received.

11. Real Property Acquisition and Relocation Assistance

**Compliance Requirements**

Real property costs include easements, rights-of-way, and 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**

Recipient should use the Division of Water Quality's (DWQ) Request for Reimbursement form to request disbursement of funds.

**Audit Objectives**

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

**Suggested Audit Procedures**

Perform appropriate analytical procedures to compare documented costs to the data included on the form.

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 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 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) are 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.

**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 used to finance capital projects. To facilitate budgetary and accounting control, it is required that a capital 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	_____
	\$ _____

Statement of Expenditures

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