

**NC DRINKING WATER BOND LOAN PROGRAM**

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**State Authorization:**        **1993 Session Laws – Chapter 542, Section 10**  
  **1998 Session Laws – Chapter 132, Section 10 The Clean Water and**  
  **Natural Gas Critical Needs Bond Act of 1998**

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

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**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.**

**Auditors may request documentation of monitoring visits by the State Agencies.**

**I. PROGRAM OBJECTIVES**

The primary objective of the Drinking Water Bond Loan Program is to provide loans to local government units for municipal water 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 safe drinking 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 project’s final cost.

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

- Meetings are held with local government representatives to explain the program and discuss the proposed project.

- Local government units complete and submit an application package, including an environmental assessment if applicable, to DENR. Applications are reviewed and prioritized every six months.
- Once the award is approved and the project is ready to proceed, DENR sends applicable portions of the package to the Local Government Commission. The LGC approves the loan amount, sets the interest rate and repayment terms. DENR then prepares a loan offer.
- DENR reviews the bid package, which includes a tentative line-item budget with a 5% contingency, checking for minority businesses solicitation, the debarred list, etc. DENR then approves a contract award to the lowest bidder(s).
- A memo is sent by DENR to the Office of the State Treasurer (OST) requesting a promissory note, which is sent to the recipient.
- During construction, requests for payment are made to DENR with accompanying invoices that are reviewed and approved by the program's staff. Modifications in the payment requests are made for unallowed costs. Change orders are adjusted from the contingency.
- 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 might include expenditures for operation and maintenance.

##### **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 loan 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 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 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.

**Audit Objectives**

Determine whether procurements were made in compliance with the provisions of the program requirements 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 North Carolina Drinking Water State 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, 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**

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 by the local CPA is needed.

14. Special Tests and Provisions

**Compliance Requirements**

All projects to which a loan has been committed will be audited in accordance with GS.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) 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.

AUDIT REPORT

Project Description (Ex: Public 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.         | _____    |
|                        | \$ _____ |