

NC CLEAN WATER REVOLVING LOAN & GRANT PROGRAM

State Authorization: G. S. 159G

**NC Department of Environmental Quality
Division of Water Infrastructure**

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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 North Carolina Clean Water Revolving Loan and Grant Program is to provide grants and low cost loans to local government units for capital facilities as allowed by G.S. 159G in order to encourage and assist these entities to meet their responsibilities to their citizens to maintain a clean and healthful environment and further provide an adequate base for economic growth.

II. PROGRAM PROCEDURES

The N. C. Department of Environmental Quality (DEQ) 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 DEQ. 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, to explain the funding process and program benefits.

- Applications to the State are reviewed and prioritized every six months for revolving loans and grants (dependent on fund availability) and anytime for emergency loans.
- Local government units that wish to seek funding must complete an application package. Applications are evaluated and ranked. Projects are awarded funding based on availability starting with the highest ranked eligible projects. Funding is subject to a schedule of deadlines and the Local Government Commission (LGC) approving the ability of the applicant to take on the project debt. DEQ prepares the loan offer. Loans may be increased by 10% without additional LGC approval.
- The local units of governments submit bid packages to DEQ. DEQ authorizes awards by approving a standard set of documents.
- Interest accrues from the first disbursement of loan funds. The original date of completion in the construction contract establishes the first repayment date on either May 1 or November 1, whichever date is at least six months original date of completion in the contract.
- A match is required for Asset and Inventory Assessment Grants (AIA). The amount of match required is based on hominy of the Local Government Unit (LGU) indicators exceed the state benchmarks for the Affordability Criteria.
 - 5 of 5 LGU indicators are worse than the state benchmarks = 5% match
 - 4 of 5 LGU indicators are worse than the state benchmarks = 10% match
 - 3 of 5 LGU indicators are worse than the state benchmarks = 15% match
 - < 3 of 5 LGU indicators are worse than the state benchmarks = 20%

The match requirement (or a portion of it) can be achieved with in-kind services of the utility. Realistic and adequate documentation of the utility's internal asset management team members' time would count as in-kind services.

- A memo is sent by DEQ to the LGC requesting a preliminary promissory note that is sent to both DEQ and the loan recipient.
- During construction, requests for payment are made to DEQ with accompanying invoices, which are reviewed and approved, by the program's financial and technical staff. Modifications in the payment request are made for items over budget or contract or ineligible costs. Any approved change orders are adjusted from the contingency budget. At 95% complete, DEQ reviews the total project and can hold payments until requested items such as sale tax certifications, engineer's certification on the project and certification of completion by the recipient have been received.
- Final payment is issued and the LGC prepares a final repayment schedule and notifies the recipients of repayments of principal and /or interest twice a year. DEQ, upon the receipt of the final amortization, enters the information into its system and collects the repayments.

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 facilities as allowed by G.S. 159G.

2. Allowable Costs/Cost Principles

Compliance Requirements

Costs must be consistent with policies and procedures that apply to State program and other activities of the recipient organization. This includes guidelines and special conditions established by the agreement with the recipient. Allowable project costs are limited to the actual cost of the works described in the project application and indicated in the plans and specifications. Costs not allowed are expenditures for the operation and maintenance of any wastewater treatment works or anything not associated with the approved project or restoring disturbed areas to their original condition.

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).

3. Cash Management – All funds loaned pursuant to North Carolina General Statute 159G shall be expended solely for carrying out the approved project and an audit shall be performed in accordance with G.S. 159-34, as amended. Please note that the State is not a party to the construction contract(s) and the loan recipient is expected to uphold its contract obligations regarding timely payment.

Per 159G-37(b) - The Division of Water Infrastructure shall require all local governments applying for loans or grants for water or wastewater purposes to certify that no funds received from water or wastewater utility operations have been transferred to the local government's general fund for the purpose of supplementing the resources of the general fund. The prohibition in this section shall not be interpreted to include payments made to the local government to reimburse the general fund for expenses paid from that fund that are reasonably allocable to the regular and ongoing operations of the utility, including, but not limited to, rent and shared facility costs, engineering and design work, plan review, and shared personnel costs. (2005-454, s. 3; 2011-145, s. 13.3(kkk); 2013-360, s. 14.21(i); 2013-413, s. 57(u); 2014-100, s. 14.17; 2014-115, s. 17.)

4. Conflict of Interest

Compliance Requirements

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

Audit Objectives

Determine whether recipient complied with G.S. 14-234.

Suggested Audit Procedures

Verify compliance with G.S. 14-234.

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 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 from Sales Taxes paid on purchases related to the construction phase of the project. The sales tax maybe elected to be reimbursed through the loan program or reimbursed from the state filing process for “Sales and Use Taxes”.

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 program income.

12. Reporting

Compliance Requirements

Recipient should use the Division of Water Infrastructure’s Request for Reimbursement form to request disbursement of funds.

Audit Objectives

Determine whether the Division’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.

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 Environmental Quality, Financial Services Division.

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. 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 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.

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

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. | _____ |
| | \$ _____ |