

## NC REVOLVING LOAN & GRANT PROGRAM

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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 Revolving Loan and Grant Program is to provide grants and low cost loans to qualified applicants for municipal water facilities and 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, an abundant supply of pure water, and further provide an adequate base for economic growth.

### II. PROGRAM PROCEDURES

The N. C. Department of Environmental Quality (DEQ), Division of Water Infrastructure (DWI) approves disbursements to recipients based on the submittal of expenditures and supporting documentation 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 and or grant funds from DWI. 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.
- State emergency loans are reviewed anytime.
- 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.
- DWI approves the bid package, checking for minority business, the debarred list, etc. DWI authorizes awards by approving 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, a revised application must be approved by the LGC and DWI.
- 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 in the contract.
- A match is required for Asset and Inventory Assessment Grants (AIA). The amount of match required is based on 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% match

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 DWI to the LGC requesting a preliminary promissory note that is sent to both DWI and the loan recipient.
- During construction, requests for payment are made to DWI 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, DWI reviews the total project and can hold payments until requested final closeout documents 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. DWI, upon the receipt of the final amortization, enters the information into its system and collects the repayments.

### III. COMPLIANCE REQUIREMENTS

Noted below in the following matrix are the types of compliance requirements that are applicable to the State program. These Types are determined by the State agency noted by "Y."

If the Matrix indicates "Y," the auditor must determine if a particular type of compliance requirement has a direct and material effect on the State program for the auditee.

1	2	3	4	5	6	7	8	9	10	12	13	14
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Conflict of Interest	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	Y	N	N	N	N	Y	Y	Y	N	Y

#### 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 other component of a wastewater and or water supply system.

##### Audit Objectives

Determine whether State funds were expended only for allowable activities 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.

##### 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 Bidding information along with summary of project costs.

### **3. Cash Management**

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.)

The reimbursement payment method may be the preferred payment method of a State Agency.

Projects funded with Clean Water State Revolving Funds are required to have Grant Project Ordinance in accordance with NC G.S. §159-13.2.

### **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 Requirement**

G.S. §14-234 includes a general prohibition against any public official having a personal interest in any contract to which he/she is a party in his/her official capacity. Any other statute or agency policy that applies should be tested as part of this compliance requirement.

Non-State entities, other than non-State entities subject to the reporting requirements of the Local Government Commission (G.S. §159-34), shall file with the State agency disbursing funds to the non-State entity a copy of that non-State entity's policy addressing conflicts of interest that may arise involving the grantee's management employees and the members of its board of directors or other governing body.

#### **Audit Objective**

Determine whether there is a conflict of interest involved in the administration of the program.

### **Suggested Audit Procedure – Compliance**

Auditors should review contracts to ensure that the beneficiary or contractor is not an employee or agent of the non-state agency (recipient) who exercises any function or responsibility with regard to the non-state agency (recipient) has received written waiver of the conflicts of interest provision from the contractor.

Auditors should review policy addressing conflicts of interest to ensure that the policy is being followed, that any violations are addressed, and that appropriate action is taken.

Confirm that a conflicts of interest statement was signed by all employees, officers, and key contractors.

#### **5. Eligibility**

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.

#### **6. Equipment and Real Property Management**

Testing is not required at the local level.

#### **7. Matching, Level of Effort, Earmarking**

Testing is not required at the local level.

#### **8. Period of Performance**

Testing is not required at the local level.

#### **9. Procurement and Suspension and Debarment**

##### **Compliance Requirements**

Follow State procurement laws as found in G. S. 143-129, 143-131 and 143, Article 3.

##### **Audit Objectives**

Determine whether procurements were made in compliance with 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**

Income can be obtained from Sales Tax refunds 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 the 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

## **L. Reporting**

### **Compliance Requirements**

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

Project costs incurred should be billed costs or disbursements and are in accordance with terms of the project. The reimbursements request represents the monies due which have not been previously received and that an inspection has been performed and all work is in accordance with the terms and conditions of the award.

### **Audit Objectives**

Determine whether the Division's Request for Reimbursement form has been properly 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.

Compare a sample of previous reimbursement requested that have been approved by DEQ and determine if any subsequent reimbursements request represents the monies due which have not been previously received and that an inspection has been performed and all work is in accordance with the terms and conditions of the award.

### 12. Reporting

#### Compliance Requirements

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

Project costs incurred should be billed costs or disbursements and are in accordance with terms of the project. The reimbursements request represents the monies due which have not been previously received and that an inspection has been performed and all work is in accordance with the terms and conditions of the award.

#### Audit Objectives

Determine whether the Division's Request for Reimbursement form has been properly 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.

Compare a sample of previous reimbursement requested that have been approved by DEQ and determine if any subsequent reimbursements request represents the monies due which have not been previously received and that an inspection has been performed and all work is in accordance with the terms and conditions of the award.

### 13. Subrecipient Monitoring

The local governments do not subaward any monies to any subrecipients and thus the State is monitoring the local governments as subrecipients.

No 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 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 in the audit should agree to the accounting records. Please see Attachment A for a suggested format.

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.	_____
	\$ _____