
DRINKING WATER RESERVE AND THE WASTEWATER RESERVE – S.L. 2023-134

State Authorization: GS 159G, NC S.L. 2023-134, Section 12.2.(a)

**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

In S.L. 2023-134, the General Assembly appropriated \$1,973,830,149 to the Department of Environmental Quality for water and sewer infrastructure grants to the Department to fund 202 projects for local government units with water and sewer public utilities across the state of North Carolina.

The purpose of the 2023-134 program is to provide a non-recurring expansion of funds for Clean Water and Drinking Water projects, as defined by the NC General Statutes 159G. The General Assembly has specified dollar allocations per public entity, and at times has specified the specific purpose of the project outlined. These resources should be used to expand, renovation or repair public water and sewer system utility assets.

II. PROGRAM PROCEDURES

The N. C. Department of Environmental Quality (DEQ), Division of Water Infrastructure (DWI) and the Office of Continuous Improvement (OCI) administer these appropriations jointly on behalf of the department.

Given the directed nature of these appropriations, the Department has a streamlined process for reviewing determining eligibility for projects. Public utility system owners may submit a Request for Funding form outlining the proposed scope of work to the Department and may proceed immediately to a review of Plans and Specifications.

The Department intermittently reviews the project and provides oversight through the review of local government invoices and progress reports. The Department establishes other policies and procedures to ensure that assets constructed, enhanced, expanded or renovated through these funds is designed to ultimately improve the function of the public utility system.

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	N	Y	N	N	N	N	Y	N	Y	Y	Y

A. Activities Allowed or Unallowed

Compliance Requirements

Expenditures can only be expended for projects and contracts that have been previously approved by the Department in writing. Allowable project costs are limited to: (1) the actual cost of the contracts submitted to the Department for approval and that have received an Authority to Award 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 wastewater and or water supply system.

Audit Objectives

Determine whether funds were expended only for allowable activities for authorized projects.

Suggested Audit Procedures

The auditor should test expenditures to ascertain that activities have been limited those previously approved by the Department through the Scope of Work and Authority to Award process.

B. Allowable Costs/Cost Principles

Compliance Requirements (G.S. 159G-36)

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 disbursements made against State awards were for allowable costs.

Suggested Audit Procedures

Test a sample of transactions to assess the following:

- assess whether the costs align with a scope of work or contract that was approved by the Department of Environmental Quality.
- whether or not the costs recorded on the accounting ledger for the subrecipient entity are materially the same as those submitted in expense packages to the Department.

C. Cash Management

N/A

D. 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.

E. Eligibility

Not applicable at the local level. The Department reviews project(s) extensively prior to notifying the local government unit to receive.

No local auditor testing is required.

F. Equipment and Real Property Management

Not applicable at the local level. The Department conducts periodic inspections during the construction period for capital projects.

No local auditor testing is required.

G. Matching, Level of Effort and Earmarking

Not applicable. The General Assembly appropriated this program without matching requirements or administrative fees due to the Department.

H. Period of Performance

Not applicable.

I. Procurement and Suspension and Debarment Procurement:

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 and that the procurements for construction companies and consulting engineers were reported to the department prior to execution.

J. Program Income

Not applicable.

L. Reporting

Compliance Requirements

Local government units may request reimbursements from the Department by submitting supporting documentation such as invoices or pay applications to the Department for review. The Department's compliance with statewide reporting requirements in the Session Law are reliant on timely expenditure reporting.

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

Assess the timeliness and frequency of expense submittals to the Department.

Suggested Audit Procedures

Test a selection of reimbursement packages and review the dates between the local government unit incurring the expenditure and requesting payment from the Department.

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.

M. Subrecipient Monitoring

Compliance Requirements

In limited circumstances, one local government may subaward appropriations to another local government for the purpose of carrying out an infrastructure project. Accuracy of the Department's reporting to the General Assembly is reliant on timely and accurate reporting of the recipient of appropriated funds.

Audit Objectives

Determine whether the local government has executed an interlocal agreement to subaward funds to another local government to carry out a public utility project and whether or not it has been reported to the Department prior to execution.

Suggested Audit Procedures

Review the local government unit's records to see if any interlocal agreements have been executed for the project, and if so, if the interlocal agreement was reported to the Department.

N. Special Tests and Provisions

a. Sales Tax Reimbursements

Compliance Requirements

Subrecipient local governments may elect to either a) be reimbursed for sales taxes paid on a construction project or b) to deduct expenditures reported to the Department. Sales taxes paid by subrecipients represent a potential deduction from allowable costs.

Audit Objectives

Determine whether the local government accurately represented its eligible costs on the department's reimbursement form.

Suggested Audit Procedures

Select a random sample of sales tax certifications provided to the Department and determine if only North Carolina sales and use taxes were included in the certification or if other taxes for other states, which are non-reimbursable were included in the supporting documentation.