

NC CLEAN WATER BOND PROGRAM

State Authorization: G.S. 159G, S.L. 1993-542, and S.L. 1998-132

**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 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 to further provide an adequate base for economic growth.

II. PROGRAM PROCEDURES

The N.C. Department of Environmental Quality (DEQ) 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 DEQ. A number of steps are followed in determining which governments receive funding.

- 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 (dependent on fund availability).

- 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 reviews and prepares the loan offer with a tentative line item budget that includes a 10% contingency. Loans may be increased by 10% without additional LGC approval.
- To qualify for a loan for the purpose of paying the cost of wastewater collection systems or wastewater treatment works, a local government unit must have a wastewater facility plan approved by the Department of Environmental Quality. [S.L.1993-542 Sec. 5(c)(2); S.L. 1998-132 Sec. 5.1(h)]
- The local units of governments submit bid packages to DEQ. DEQ authorizes awards by approving a standard set of documents. DEQ approves authorizes awards by approving a standard set of documents.
- 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 DEQ to the LGC requesting a promissory note, which is sent to both DEQ and the 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 activities.

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 Part B (the project review and cost summary document).

3. Cash Management – All funds loaned pursuant to North Carolina General Statute 159G shall be solely for carrying out the approved project and an audit shall be performed in accordance with G.S. 159-34, as mandated 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.

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

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. 143-129 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 it.

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.

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 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 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.

Real Property Acquisition and Relocation Assistance

Real Property Acquisition:

Compliance Requirements

Real property costs include easements, rights-of-way, and any associated costs. 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	_____
	\$ <u>_____</u>

Statement of Expenditures

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