WATER RESOURCES DEVELOPMENT PROJECT GRANT PROGRAM

State Authorization: **G.S. 143-215.70-.73**

NC Department of Environmental Quality
Division of Water Resources

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The auditor should <u>not</u> consider the Supplement to be "safe harbor" for identifying audit procedures to apply in an engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor <u>can</u> 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 Water Resources Development Project Grant Program State Local, stream restoration projects cost-shared through the Natural Resources Conservation Service's Environmental Quality Enhancement Program (NRCS-EQIP), Shallow Draft Navigation (SDNF), and Coastal Storm Damage Mitigation Fund (DSDM), is to provide financial assistance (cost-sharing) to local government sponsors of federal and non-federal water resources projects. The General Stature authorizing this program specifies the eight categories of eligible projects general navigation, recreation navigation, water management, stream restoration, protection of privately owned beaches, land acquisition, Aquatic weed, and EQIP, as well as the maximum percentage of the total cost that the State can award to local government sponsors for each category. See G. S. 143-215.71 and 15A NCAC 02G.0103.

NOTE: The NC General Assembly placed a 50% matching limit on WRDG during their 2020 Session 15A NCAC 02G.01030 and S.L. 2020-79. This limit will remain in place until rescinded.

II. PROGRAM PROCEDURES

The NC Department of Environmental Quality (DEQ) prepares a six-year water resources development plan as required by G.S. 143-215.73A. The plan lists and describes all projects based on their status and category. DEQ then assigns a priority to each project within one of the five categories for the next fiscal year, using the

criteria given in G.S. 143-215.73A. DEQ may recommend no funding of certain projects for the upcoming fiscal year. The Director of the Budget, the Governor, then sends this plan to the General Assembly. He/she also sends with that plan a list of those projects to be included in his/her recommended biennial budget or in his/her recommended revised budget for the second year of the biennium. The General Assembly, if it desires to do so, then funds projects based on this plan from the Capital Improvements section of the State Budget. DEQ then notifies local government sponsors of the projects that were approved by the General Assembly and those that were not approved. In the special conditions attached to the capital appropriation for water resources development projects, the General Assembly normally allows DEQ to adjust the allocations among projects where the actual costs are different from the costs estimated in the Water Resources Development Plan. Excess funds that cannot be used during the current fiscal year are allowed to be reallocated to other projects; including for State-Local (with no federal funding) projects. Local government sponsors of State-Local and NRCS-EQIP projects are asked to submit grant applications by June 30 and December 31 of each fiscal year. If there are sufficient grant funds available, up to two grant cycles for State-Local projects occur each fiscal year, with awards announced in the fall and spring. The steps to determine which of these local sponsors receive funding are as follows:

- DEQ determines the amount of funds, including excess funds, available for State-Local projects.

- DEQ ranks State-Local projects using the criteria in G.S. 143-215.72**.**

- DEQ awards grants to as many of the top-ranked projects as funds will allow**.**

The Shallow Draft Navigation fund ((SDNF) 143-215.73F) is a revolving receipt-based fund that accepts applications throughout the year. The steps to determine which of these local sponsors receive funding are as follows:

- DEQ determines the amount of funds, including excess funds, available for SDNF Projects.

- DEQ ranks reviews the projects using the criteria in G.S. 143-215.72 and the SDNF guidelines to determine eligibility.

- DEQ awards grants as funds will allow.

The Coastal Storm Damage Mitigation Fund ((CSDM) 143-215.73M) is not currently funded but DEQ will accept applications when funds are available. Historically the application period in one time per year. The steps to determine which of the local sponsors will receive Coastal Storm Damage Mitigation funding are as follows:

- DEQ determines the amount of funds available for CSDM projects.

- DEQ scores CSDM projects using the criteria in G.S. 143-215.72 and the CSDM guidelines of Environmental Benefits/Mitigation Measures, Social Benefits, Economic Benefits, Expected useful life of project, Financial Resources, and Project Efficiency.

- DEQ awards grants to as many of the top-ranked projects as funds will allow.

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	Y	Y	Y	Y	N	Y	N	N

1. Activities Allowed or Unallowed

   Compliance Requirements

   State funds can only be granted to local government sponsors for the eligible purposes found in G. S. 143-215.71 and 15A NCAC 02G.0102.

   Audit Objectives

   Determine whether local governments spent funds only for the eligible purposes.

   Suggested Audit Procedures

   Auditor should review project application, award notice, and test expenditures and related reports.

2. Allowable Costs/Cost Principles

   Compliance Requirements

   Only allowable costs for the approved project are eligible to be cost-shared.

   Audit Objectives

   Determine whether the documented costs are project related.

   Suggested Audit Procedures

   Check that all items in project invoices apply to the approved project.

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

Eligibility is determined during review of project prior to grant award and then again during post-project inspection prior to grant payment. There is no need for the CPA to do further testing.

6. Equipment and Real Property Management

Compliance Requirements

If a piece of equipment is bought as a part of a project, grant recipient must determine and document the salvage value of that equipment at the completion of the project.

Audit Objectives

Ensure that salvage value of equipment is accounted for in final grant payment

Suggested Audit Procedures

Check that salvage value of equipment is subtracted from total project cost.

7. Matching

Compliance Requirements

Local government sponsor must document required amount of local match, either in cash or in in-kind services

Audit Objectives

Make sure grant recipient has provided local match

Suggested Audit Procedures

Check that the amount of documented local match equals or exceeds that which is required by the amount of the State grant.

Level of Effort – Not Applicable

Earmarking – Not Applicable

8. Period of Performance

Compliance Requirements

State funds are made available over the fiscal year in which the grant was made plus one additional fiscal year. Funds may be extended beyond that period if the recipient requests such an extension in writing, and the Division of Water Resources (DWR) approves it in writing.

Audit Objectives

Determine whether State funds were obligated within the period of availability and obligations were liquidated within the required time period.

Suggested Audit Procedures

1. Review the award documents and document the availability period.

2. Test a sample of transactions that were recorded during the period of availability and verify that the underlying obligations occurred within the period of availability.

3. Test a sample of transactions charged to the State award after the end of the period of availability and verify that the underlying obligations occurred within the period of availability and that the liquidation (payment) was made within the allowed time period.

9. Procurement and Suspension and Debarment

   Procurement:

   Compliance Requirements

   Follow State procurement guidelines as found in G. S. 143, Article 3.

   Audit Objectives

   Determine whether procurements were made in compliance with applicable laws, regulations, statues, or other provisions.

   Suggested Audit Procedures

   Test procurements, or a sample of them, to ascertain whether guidelines were followed.

12. Reporting

    Compliance Requirements

    Grant recipients should follow the appropriate funding program guidelines and budget used at the time of application. Unless modifications have been approved by DWR in writing, these expenditures should match those shown in the project application.

    Audit Objectives

    Determine whether the guidelines have been followed, with supporting documentation (invoices, etc.), to report eligible expenditures and determine whether all expenditures were included in project application.

    Suggested Audit Procedures

    Compare submission of reports with the guidelines and compare expenditures with those in project application.