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**Drinking Water and Wastewater Reserve (S.L. 2023-134)**

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**State Authorization:**      **GS 159G**  
                                         **NC S.L. 2023-134**

**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 direct 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 NCDEQ 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.

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	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	N	N	N	Y	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.
- Assess 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 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.

E. Eligibility

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

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.

**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.

## 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 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.