



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT

### NORTH CAROLINA DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES

### CAPITALIZATION GRANTS FOR STATE REVOLVING FUNDS

RALEIGH, NORTH CAROLINA

FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT**

**NORTH CAROLINA DEPARTMENT OF ENVIRONMENT AND  
NATURAL RESOURCES**

**CAPITALIZATION GRANTS FOR CLEAN WATER  
STATE REVOLVING FUNDS (CFDA 66.458)**

**AND**

**CAPITALIZATION GRANTS FOR DRINKING WATER  
STATE REVOLVING FUNDS (CFDA 66.468)**

**RALEIGH, NORTH CAROLINA**

**FOR THE YEARS ENDED JUNE 30, 2001 AND 2000**

**MR. WILLIAM G. ROSS, JR.  
SECRETARY**

**MR. ROD DAVIS  
CONTROLLER**



Ralph Campbell, Jr.  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Mr. William G. Ross, Jr., Secretary

This report presents the results of our financial statement audit of the Capitalization Grants for both the Clean Water and Drinking Water State Revolving Funds (State Revolving Funds) of the North Carolina Department of Environment and Natural Resources (the Department) for the years ended June 30, 2001 and 2000. Our audit was made by authority of Article 5A of G.S. 147.

The accounts and operations of the State Revolving Funds are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal control structure and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the work necessary for the *CAFR* and the *Single Audit Report*, the accounts and operations of the State Revolving Funds were subject to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to the State Revolving Funds. The audit procedures were conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the financial statements and supplementary information that relate solely to the Department.

**Results** - The financial statements present fairly the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements taken as a whole. These matters are described in the Independent Auditor's Report on the Financial Statements.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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2. **Objective** - Present significant deficiencies, if any, in the internal control which could adversely affect the Department's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance with laws, regulations, contracts, or grants.

**Results** - Our tests disclosed significant deficiencies in the internal control and instances of noncompliance that require disclosure under *Government Auditing Standards*.

**Findings:**

1. Noncompliance with Environmental Review Requirements
2. Inadequate Subrecipient Monitoring
3. Mathematical Inaccuracies in Annual Report

These matters are described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS**

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Mr. William G. Ross, Jr., Secretary  
North Carolina Department of Environment and Natural Resources

We have audited the accompanying financial statements of the Capitalization Grants for State Revolving Funds (State Revolving Funds) of the North Carolina Department of Environment and Natural Resources (the Department) as of and for the years ended June 30, 2001 and 2000, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the State Revolving Funds and are not intended to present the financial position of the Department and the results of its operations and the cash flows of its nonexpendable trust funds in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Revolving Funds of the North Carolina Department of Environment and Natural Resources, as of June 30, 2001 and 2000 and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS**  
**(CONCLUDED)**

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As further discussed in Note 9 to the financial statements, the Department implemented Governmental Accounting Standards Board Statement 33, *Accounting and Reporting of Nonexchange Transactions*, for the years ended June 30, 2001 and 2000. Further, the Department revised its policy on the capitalization of fixed assets and its classification of contributions from the State.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2002 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management of the North Carolina Department of Environment and Natural Resources, the Governor, the State Controller, the General Assembly, and the U.S. Environmental Protection Agency and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.  
State Auditor

March 27, 2002

**STATE OF NORTH CAROLINA**  
**Capitalization Grants for State Revolving Funds**  
**Combined Balance Sheet**  
**June 30, 2001 and 2000**

*Exhibit A*

	2001	2000
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 124,162,677	\$ 121,284,133
Receivables:		
Loans (Due within one year)	16,648,464	16,275,614
Accrued Interest	2,465,426	1,910,994
Other	215,111	105,917
Total Receivables	19,329,001	18,292,525
Total Current Assets	143,491,678	139,576,658
Noncurrent Assets:		
Loans Receivable (Due after one year)	307,341,212	253,784,947
<b>Total Assets</b>	<b>\$ 450,832,890</b>	<b>\$ 393,361,605</b>
<b>LIABILITIES AND FUND BALANCE</b>		
Current Liabilities:		
Accounts Payable	\$ 24,051	\$ 27,525
Accrued Payroll	181,841	81,012
Due to Federal Government		32,519
Due to Capital Improvement Funds		1,028
Other Accrued Liabilities	115,683	100,470
Total Current Liabilities	321,575	242,554
Fund Balance:		
Reserved for:		
Loans Receivable	323,989,676	270,060,561
Loan Commitments	110,042,980	134,445,929
Unreserved:		
Undesignated	16,478,659	(11,387,439)
Total Fund Balance	450,511,315	393,119,051
<b>Total Liabilities and Fund Balance</b>	<b>\$ 450,832,890</b>	<b>\$ 393,361,605</b>

The accompanying Notes to the Financial Statements are an integral part of this statement.



**STATE OF NORTH CAROLINA**  
**Capitalization Grants for State Revolving Funds**  
**Combined Statement of Revenues, Expenses and**  
**Changes in Fund Balance**  
**For the Fiscal Years Ended June 30, 2001 and 2000**

*Exhibit B*

	2001	2000
<b>Operating Revenues:</b>		
Interest Income on Loans	\$ 8,081,745	\$ 7,147,283
Loan Closing Fees	851,791	1,844,136
Total Operating Revenues	<u>8,933,536</u>	<u>8,991,419</u>
<b>Operating Expenses:</b>		
Personnel	2,137,861	1,963,147
Fringe Benefits	415,624	419,583
Travel	46,794	93,756
Supplies	14,270	17,585
Software	4,955	21,651
Subscriptions		5,185
Data Processing Services	8,542	21,469
Training	435	2,561
Postage and Printing	3,599	4,720
Registration	7,315	14,418
Telephone	13,957	12,319
Repairs	2,657	3,340
Rent	82,134	76,527
Miscellaneous	3,615	4,617
Equipment	51,301	143,267
Other	175,012	159,421
Regional Offices	6,795	47,855
Contractual Services	592,326	599,891
Indirect Cost	230,758	345,587
Total Operating Expenses	<u>3,797,950</u>	<u>3,956,899</u>
<b>Operating Income</b>	<u>5,135,586</u>	<u>5,034,520</u>
<b>Non-Operating Revenues (Expenses):</b>		
Federal Grants	39,921,844	39,185,232
Interest Income	6,185,870	6,210,012
Miscellaneous Income	752,425	
Total Non-Operating Revenues (Expenses)	<u>46,860,139</u>	<u>45,395,244</u>
<b>Net Income Before Operating Transfers</b>	51,995,725	50,429,764
<b>Operating Transfers:</b>		
Transfers In	5,396,539	2,289,039
<b>Net Income</b>	57,392,264	52,718,803
<b>Fund Balance July 1</b>	393,119,051	340,400,248
<b>Fund Balance June 30</b>	<u>\$ 450,511,315</u>	<u>\$ 393,119,051</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**STATE OF NORTH CAROLINA**  
**Capitalization Grants for State Revolving Funds**  
**Combined Statement of Cash Flows**  
**For the Fiscal Years Ended June 30, 2001 and 2000**

*Exhibit C*

	2001	2000
<b>Cash Provided from (Used For) Operations:</b>		
Operating Income	\$ 5,135,586	\$ 5,034,520
Adjustments to reconcile operating income to net cash flow provided by operating activities:		
Loans Issued	(71,590,454)	(63,053,075)
Loan Repayments	17,661,339	16,131,647
(Increase) Decrease in Assets:		
Receivables	(663,626)	(452,565)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Liabilities	79,021	(54,691)
Non-Operating Miscellaneous Income	752,425	
Total Cash Provided from (Used For) Operations	<u>(48,625,709)</u>	<u>(42,394,164)</u>
<b>Cash Provided from Noncapital Related Financing Activities:</b>		
Federal Grants	39,921,844	39,185,232
Transfers from the State of North Carolina	5,396,539	2,289,039
Total Cash Provided from Noncapital Related Financing Activities	<u>45,318,383</u>	<u>41,474,271</u>
<b>Cash Provided from Investment Activities:</b>		
Interest Income Earned on Deposits	6,185,870	6,210,012
Increase in Cash and Cash Equivalents	2,878,544	5,290,119
Cash and Cash Equivalents, Beginning of Year	121,284,133	115,994,014
Cash and Cash Equivalents, End of Year	<u>\$ 124,162,677</u>	<u>\$ 121,284,133</u>
The accompanying Notes to the Financial Statements are an integral part of this statement.		

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**STATE OF NORTH CAROLINA  
CAPITALIZATION GRANTS FOR STATE REVOLVING FUNDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001 AND 2000**

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**NOTE 1 - ORGANIZATION OF THE FUND**

The North Carolina Capitalization Grants for State Revolving Funds (the State Revolving Funds) consists of the Clean Water State Revolving Fund (CFDA 66.458) and the Drinking Water State Revolving Fund (CFDA 66.468).

The Clean Water State Revolving Fund (CWSRF) was established pursuant to Title VI of the Federal Water Quality Act of 1987. This legislation established the CWSRF program to replace the old construction grants program, which provided grant assistance to construct publicly owned wastewater treatment plants (POWT's). The CWSRF provides low interest rate loans for POWT's, nonpoint source pollution control projects, and estuary management plans. Loans made by CWSRF must be repaid within 20 years and all repayments, including interest and principal, must remain in the Clean Water State Revolving Fund. North Carolina's enabling legislation for the CWSRF is General Statute 159G-5(c).

The Safe Drinking Water Act (SDWA) Amendments of 1996 (Pub. L. 104-182) authorized a Drinking Water State Revolving Fund (DWSRF) to assist public water systems to finance the costs of infrastructure needed to achieve or maintain compliance with SDWA requirements and to further protect public health objectives of the Act by authorizing non-project eligible costs referred to as set asides. The DWSRF provides a flexible financing source for low interest loans to finance the entire cost of qualified projects. Loans made by the DWSRF must be repaid within 20 years, and all repayments, including interest and principal, must remain in the Drinking Water State Revolving Fund. North Carolina's enabling legislation for the DWSRF is General Statute 159G-5(d).

The CWSRF is administered by the North Carolina Department of Environment and Natural Resources through the Division of Water Quality's Construction Grants and Loans (CG&L) Section. The Section's primary activities with regard to the CWSRF include the review of facility plans and project plans and specifications, the award and administration of construction loans, on site inspection of construction projects, the disbursement of loan awards, the receipt of loan payments and the accounting for all CWSRF activities. The State's Local Government Commission provides the financial eligibility review of loan applicants and creates all promissory documents, and sends notices of principal and interest due. The approval of loans is a function of both the Local Government Commission and the Environmental

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Management Commission. The support staff of the Construction Grants and Loans Section, which administers the CWSRF, is funded by a 4 percent administrative allocation of the capitalization grant awards as established under Title VI for that purpose. The cost of administering the program includes salaries, fringe benefits, and operating expenses. Indirect costs are also charged to the program through an approved cost allocation plan. The administrative expenses are reimbursed by funds drawn from capitalization grants and state match.

The North Carolina Department of Environment and Natural Resources through the Division of Environmental Health's Public Water Supply Section administers the DWSRF. The Section's primary activities with regard to the DWSRF include the review of project plans and specifications, the award and administration of project loans, providing technical assistance to small systems, the disbursement of loan awards, and the accounting for all DWSRF activities. The State's Local Government Commission provides the financial eligibility review of loan applicants and creates all promissory documents and sends notices of principal and interest due. The approval of loans is a function of both the Local Government Commission and the Environmental Management Commission. The support staff of the Public Water Supply Section, which administers the DWSRF, is funded by a 4 percent administrative set-aside of the capitalization grant awards as established under the SDWA for that purpose. Non-project activities, or set asides, are uses of DWSRF money allowed by the SDWA in furthering the objectives of the Act, but are not construction related. The non-project activities include: Program Administration, Technical Assistance to Small Systems, administration of the Public Water Supply Supervision Program, and Local Assistance and Other State Programs. Indirect costs are also charged to the program through an approved cost allocation plan. The administrative expenses are reimbursed by funds drawn from capitalization grants and state match.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Basis of Accounting** – The CWSRF and DWSRF are included in the State's general-purpose financial statements as a Fiduciary Fund Type - Nonexpendable Trust Fund using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred. The State has elected to follow the accounting pronouncements of the Governmental Accounting Standards Board (GASB), as well as statements issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989 unless the pronouncements conflict with or contradict GASB pronouncements.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- B. Cash and Cash Equivalents** - This classification consists of cash on hand and the State Revolving Funds' equity position in the short-term investment fund managed by the North Carolina State Treasurer. The funds on deposit with the State Treasurer are available on demand. This classification also appears on the accompanying statement of cash flows.
- C. Loans Receivable** - The State operates the CWSRF and DWSRF as direct loan programs to communities. Loan funds are disbursed to the local agencies as they expend funds for the purposes of the loan and request reimbursement from the appropriate Revolving Funds. Interest accrues from the original date that a project's contract is scheduled to be completed. Principal payments are made annually on or before May 1 or November 1. Interest payments are made semi-annually on or before May 1 and November 1. The first principal and interest payment is due not earlier than six months after the date of completion of the project. The loans are repaid over a maximum of 20 years. No provision for uncollectible accounts has been made as all loans are current, and management believes that all loans will be repaid according to the loan terms.

### NOTE 3 - DEPOSITS

**State Treasurer's Short-Term Investment Fund** – Unless specifically exempt, state agencies are required by General Statute §147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. These moneys are invested in accordance with G.S. §147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or its agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method. Under the dedicated method, deposits are individually collateralized. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. The financial statements and disclosures for the State Treasurer's Cash and Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

At June 30, 2001, the State Revolving Funds' deposits in the State Treasurer's Short-Term Investment Fund are:

	CWSRF		DWSRF	
	Book Amount	Bank Amount	Book Amount	Bank Amount
Cash and Cash Equivalents	<u>\$ 119,299,728</u>	<u>\$ 119,305,507</u>	<u>\$ 4,862,949</u>	<u>\$ 4,900,054</u>

**NOTE 4 - LOANS RECEIVABLE**

The State Revolving Fund makes loans to qualified agencies for projects that meet the eligibility requirements of the Act. Loans are financed by capitalization grants, state match and revolving funds. Effective interest rates on loans vary between 2.55 percent and 3.82 percent.

Details of CWSRF loans receivable as of June 30, 2001 are:

Loans by Category:

<u>Projects</u>	Loans Authorized	Disbursed	Repayments	Loans Receivable	Remaining Commitment
Complete	\$ 292,865,214	\$ 292,865,214	\$ 84,902,430	\$ 207,962,784	\$ 0
Incomplete	<u>168,730,618</u>	<u>75,965,260</u>	<u>624,401</u>	<u>75,340,859</u>	<u>92,765,358</u>
<b>Total</b>	<u>\$ 461,595,832</u>	<u>\$ 368,830,474</u>	<u>\$ 85,526,831</u>	283,303,643	<u>\$ 92,765,358</u>
Less amount due within one year				<u>15,273,627</u>	
<b>Loans Receivable – June 30, 2001</b>				<u>\$ 268,030,016</u>	

Details of DWSRF loans receivable as of June 30, 2001 are:

Loans by Category:

<u>Projects</u>	Loans Authorized	Disbursed	Repayments	Loans Receivable	Remaining Commitment
Complete	\$ 16,546,697	\$ 16,546,697	\$ 627,678	\$ 15,919,019	\$ 0
Incomplete	<u>42,044,636</u>	<u>24,767,014</u>		<u>24,767,014</u>	<u>17,277,622</u>
<b>Total</b>	<u>\$ 58,591,333</u>	<u>\$ 41,313,711</u>	<u>\$ 627,678</u>	40,686,033	<u>\$ 17,277,622</u>
Less amount due within one year				<u>1,374,837</u>	
<b>Loans Receivable – June 30, 2001</b>				<u>\$ 39,311,196</u>	

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - LOANS TO MAJOR LOCAL AGENCIES

As of June 30, 2001, CWSRF has made numerous loans to agencies that exceed \$5 million. These loans represent approximately 70 percent of the total loans authorized as follows:

Loan Recipients	Loans Authorized	Disbursed	Repayments	Loans Receivable	Remaining Commitment
New Bern	\$ 20,000,000	\$ 0	\$ 0	\$ 0	\$ 20,000,000
Durham	15,000,000	15,000,000	5,250,000	9,750,000	
Goldsboro	15,000,000				15,000,000
High Point	15,000,000	7,042,648		7,042,648	7,957,352
Jacksonville	15,000,000	15,000,000	3,750,000	11,250,000	
W & S Auth Caba	14,747,300	12,984,137		12,984,137	1,763,163
Hickory	14,200,000	14,200,000	3,550,000	10,650,000	
Hendersonville	13,250,000	11,702,740		11,702,740	1,547,260
Wilson	13,092,019	12,447,894		12,447,894	644,125
Boone	12,800,000	12,800,000	1,920,000	10,880,000	
Shelby	11,707,388	11,707,388	2,926,847	8,780,541	
Cabarrus	10,500,000	10,500,000	3,150,000	7,350,000	
Lincolnton	10,000,000				10,000,000
Salisbury	9,200,000	6,317,540	460,000	5,857,540	2,882,460
Goldsboro	8,434,336	8,434,336	3,936,023	4,498,313	
Raleigh	7,972,965	7,972,965	1,206,101	6,766,864	
Siler City	7,952,053	7,952,053	2,783,219	5,168,834	
Fayetteville	7,910,743	7,119,669		7,119,669	791,074
Elizabeth City	7,714,299	7,714,299	1,157,144	6,557,155	
Brunswick Co	7,500,000				7,500,000
Gastonia	7,500,000	7,500,000	2,250,000	5,250,000	
Monroe	7,382,765	7,382,765	2,214,829	5,167,936	
High Point	7,137,854	7,137,854	1,622,112	5,515,742	
Williamston	7,000,000	4,426,955		4,426,955	2,573,045
Wilmington	6,650,000	6,650,000	6,650,000		
Graham	6,588,072	4,243,081		4,243,081	2,344,991
Wake Forest	6,450,000	6,450,000	1,290,000	5,160,000	
Raleigh	6,000,000	5,375,149		5,375,149	624,851
Zebulon	5,808,556	5,808,556	2,032,996	3,775,560	
Louisburg	5,361,230	5,361,230	1,876,430	3,484,800	
Havelock	5,358,687	5,358,687	1,004,753	4,353,934	
Burlington	5,159,849	5,159,849	4,586,532	573,317	
Clinton	5,134,658	5,134,658	1,540,397	3,594,261	
Burlington	5,000,000	4,700,530		4,700,530	299,470
<b>Subtotal</b>	<b>323,512,774</b>	<b>249,584,983</b>	<b>55,157,383</b>	<b>194,427,600</b>	<b>73,927,791</b>
Other Recipients (Under \$5 million)	<u>138,083,058</u>	<u>119,245,491</u>	<u>30,369,448</u>	<u>88,876,043</u>	<u>18,837,567</u>
<b>Total</b>	<b><u>\$ 461,595,832</u></b>	<b><u>\$ 368,830,474</u></b>	<b><u>\$ 85,526,831</u></b>	<b><u>\$ 283,303,643</u></b>	<b><u>\$ 92,765,358</u></b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As of June 30, 2001, DWSRF has made loans to local agencies that exceed \$1 million. These loans to local agencies represent approximately 78 percent of the total loans authorized as follows:

Loan Recipients	Loans Authorized	Disbursed	Repayments	Loans Receivable	Remaining Commitment
Belfast-Patetown SD	\$ 3,000,000	\$ 2,745,470	\$ 0	\$ 2,745,470	\$ 254,530
Eastern Wayne SD	3,000,000	2,779,621		2,779,621	220,379
Greenville Utilities Comm	3,000,000	2,596,910		2,596,910	403,090
Henderson, City of	3,000,000	2,480,158		2,480,158	519,842
Salisbury, City of	3,000,000	3,000,000	150,000	2,850,000	
Statesville, City of	3,000,000	3,000,000		3,000,000	
Greenville Utilities Comm	3,000,000	2,637,179		2,637,179	362,821
Havelock, City of	2,907,000				2,907,000
China Grove, Town of	2,831,784	2,831,784		2,831,784	
Durham, City of	2,700,000				2,700,000
Statesville, City of	2,656,590				2,656,590
Newport, Town of	2,250,000	2,250,000		2,250,000	
Sanford, City of	1,950,000	1,878,350		1,878,350	71,650
Yanceyville, Town of	1,800,000	1,800,000	90,000	1,710,000	
Morehead City, Town of	1,700,000	1,381,783		1,381,783	318,217
Franklin, County of	1,500,000	1,500,000		1,500,000	
Cleveland County SD	1,496,806	1,496,806		1,496,806	
Sampson Co W & S Dist	1,067,937				1,067,937
Mr. Airy, Town of	1,020,000				1,020,000
Plymouth, Town of	1,013,009				1,013,009
<b>Subtotal</b>	45,893,126	32,378,061	240,000	32,138,061	13,515,065
Other Recipients (Under \$1 million)	12,698,207	8,935,650	387,678	8,547,972	3,762,557
<b>Total</b>	<u>\$ 58,591,333</u>	<u>\$ 41,313,711</u>	<u>\$ 627,678</u>	<u>\$ 40,686,033</u>	<u>\$ 17,277,622</u>

### NOTE 6 - AWARDED FEDERAL CAPITALIZATION GRANTS

CWSRF receives EPA grants authorized by Title VI of the Federal Water Quality Act of 1987. To receive these grants, states are required to match 20 percent of the federal capitalization grant award. Beginning in fiscal year 2000 all funds received from the Environmental Protection Agency and the State of North Carolina are recorded as revenue.

As of June 30, 2001, EPA has awarded capitalization grants of \$328,736,767 to the State of North Carolina. Of this amount, \$275,560,854 has been drawn for loans and administrative expenses. The State of North Carolina has provided matching funds of \$65,747,348. Matching funds were provided through state appropriations, except in fiscal years 1994, 1995, 1999 and 2001,

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

when it was provided for through state bond proceeds. For fiscal years 1994 and 1995 the bond proceeds came from the Education, Clean Water, and Parks Bonds Act of 1993 while the 1999 bond proceeds come from the Clean Water and Natural Gas Critical Needs Bonds Act of 1998.

The following table summarizes the federal capitalization grants awarded, amounts drawn from the grants as of the balance sheet date, and undrawn awards available for future use:

Year	CFDA 66.458 Federal Award		Total Award	State Match	Total Grant
	Administration	Loans			
1989	\$ 755,627	\$ 21,922,242	\$ 22,677,869	\$ 4,535,574	\$ 27,213,443
1990	1,100,232	31,919,949	33,020,181	6,604,036	39,624,217
1991	1,300,782	37,738,286	39,039,068	7,807,814	46,846,882
1992	1,168,426	33,898,364	35,066,790	7,013,358	42,080,148
1993	1,155,834	33,533,073	34,688,907	6,937,781	41,626,688
1994	717,179	20,806,807	21,523,986	4,304,797	25,828,783
1995	740,988	21,488,670	22,229,658	4,445,931	26,675,589
1996	1,209,072	35,203,803	36,412,875	7,282,573	43,695,448
1997	374,934	10,873,050	11,247,984	2,249,596	13,497,580
1998	810,087	23,492,532	24,302,619	4,860,523	29,163,142
1999	810,153	23,494,446	24,304,599	4,860,919	29,165,518
2000	807,407	23,414,824	24,222,231	4,844,446	29,066,677
<b>Total</b>	<b>\$ 10,950,721</b>	<b>\$ 317,786,046</b>	<b>\$ 328,736,767</b>	<b>\$ 65,747,348</b>	<b>\$ 394,484,115</b>
Less draws through June 30, 2001			<u>275,560,854</u>		
<b>Remaining Draw Available from Awards</b>			<u>\$ 53,175,913</u>		

DWSRF receives EPA grants authorized by the Safe Drinking Water Act. To receive these grants, states are required to match 20 percent of the federal capitalization grant award. Beginning in fiscal year 2000 all funds received from the Environmental Protection Agency and the State of North Carolina are recorded as revenue.

As of June 30, 2001, EPA has awarded capitalization grants of \$72,451,400 to the State of North Carolina. Of this amount, \$39,533,290 has been drawn for loans and administrative expenses. The State of North Carolina has provided matching funds of \$14,490,280. This match of \$9,222,820 was provided through state appropriations by the 1997 General Assembly. The remaining \$5,267,460 in match funds was provided as part of the Clean Water and Natural Gas Critical Needs Bond Act of 1998.

The following table summarizes the federal capitalization grants awarded, amounts drawn from the grants as of the balance sheet date, and balances available for future use:

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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Year	CFDA 66.468 Federal Award		Total Award	State Match	Total Grant
	Administration	Loans			
1997	\$ 9,366,247	\$ 36,747,853	\$ 46,114,100	\$ 9,222,820	\$ 55,336,920
1998	3,146,163	9,713,237	12,859,400	2,571,880	15,431,280
1999	3,045,123	10,432,777	13,477,900	2,695,580	16,173,480
<b>Total</b>	<b>\$ 15,557,533</b>	<b>\$ 56,893,867</b>	<b>\$ 72,451,400</b>	<b>\$ 14,490,280</b>	<b>\$ 86,941,680</b>
Less draws through June 30, 2001			39,533,290		
<b>Remaining Draw Available from Awards</b>			<b>\$ 32,918,110</b>		

Funds as authorized in II-B-3 of the Federal Drinking Water State Revolving Fund Program Guidelines.

**NOTE 7 - LOAN CLOSING FEES**

As part of each CWSRF and DWSRF loan commitment agreement, the loan recipient agrees to pay a 2% loan fee to the Department of Environment and Natural Resources. This fee is normally paid by the recipient upon commencement of the project. The fees are restricted to a separate fund that is invested with the State Treasurer. The fees and related investment income will be used for future administrative costs of each fund after grant administrative funds are exhausted.

**NOTE 8 - CONTINGENCIES AND SUBSEQUENT EVENTS**

**A. Contingencies** - The State Revolving Funds are exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing State Revolving Fund business, or acts of God. As an indirect cost, the State Revolving Funds maintain insurance for all risks of loss. There have not been any claims against the CWSRF and the DWSRF since their inception in 1989 and 1997, respectively.

**B. Subsequent Events** - Subsequent to year-end, the EPA awarded the 2001 CWSRF capitalization grant to the State. The grant provides \$24,006,906 in additional funds and requires a state match of \$4,801,381. The total

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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amount of \$28,808,287, less \$960,276 in administrative funds, will be used for making future loans to qualified agencies.

Subsequent to year-end, the EPA awarded the 2000 DWSRF capitalization grant to the State on September 15, 2001. The grant provides \$14,007,400 in additional funds and requires a state match of \$2,801,480. Of the total funds of \$16,808,880, \$13,579,596 is available for loans to qualified local agencies. The remaining \$3,229,284 may be used for administration and set-asides. As of March 27, 2002, the EPA had not awarded the 2001 DWSRF capitalization grant to the State.

### NOTE 9 ACCOUNTING CHANGES

- A. **GASB Statement No. 33** - Effective July 1, 1999, the Department of Environment and Natural Resources implemented a new accounting and reporting standard issued by the Governmental Accounting Standards Board (GASB), Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This new statement requires the State Revolving Funds to recognize external capital contributions from outside parties as revenues, not contributed capital.
- B. **Contributed Capital** – Effective July 1, 1999, contributions from the State were classified as operating transfers, not contributed capital.
- C. **Fixed Assets** - Effective July 1, 1999, the Department of Environment and Natural Resources revised its method used to recognize equipment purchases. The U.S. Environmental Protection Agency requested that all equipment be expensed at the time of the purchase, rather than capitalized.

**STATE OF NORTH CAROLINA**  
**Capitalization Grants for State Revolving Funds**  
**Combining Balance Sheet**  
**June 30, 2001 and 2000**

**Schedule 1**

	Clean Water State Revolving Fund		Drinking Water State Revolving Fund		Total	Total
	2001	2000	2001	2000	2001	2000
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents	\$ 119,299,728	\$ 114,357,223	\$ 4,862,949	\$ 6,926,910	\$ 124,162,677	\$ 121,284,133
Receivables:						
Loans (Due within one year)	15,273,627	15,754,452	1,374,837	521,162	16,648,464	16,275,614
Accrued Interest	1,474,875	1,549,324	990,551	361,670	2,465,426	1,910,994
Other			215,111	105,917	215,111	105,917
Total Receivables	16,748,502	17,303,776	2,580,499	988,749	19,329,001	18,292,525
Total Current Assets	136,048,230	131,660,999	7,443,448	7,915,659	143,491,678	139,576,658
Noncurrent Assets:						
Loans Receivable (Due after one year)	268,030,016	232,347,446	39,311,196	21,437,501	307,341,212	253,784,947
<b>Total Assets</b>	<b>\$ 404,078,246</b>	<b>\$ 364,008,445</b>	<b>\$ 46,754,644</b>	<b>\$ 29,353,160</b>	<b>\$ 450,832,890</b>	<b>\$ 393,361,605</b>
<b>LIABILITIES AND FUND BALANCE</b>						
Current Liabilities:						
Accounts Payable	\$ 24,051	\$ 27,525	\$ 0	\$ 0	\$ 24,051	\$ 27,525
Accrued Payroll	70,994	62,335	110,847	18,677	181,841	81,012
Due to Federal Government		32,519				32,519
Due to Capital Improvement Funds		1,028				1,028
Other Accrued Liabilities	11,288	13,153	104,395	87,317	115,683	100,470
Total Current Liabilities	106,333	136,560	215,242	105,994	321,575	242,554
Fund Balance:						
Reserved for:						
Loans Receivable	283,303,643	248,101,898	40,686,033	21,958,663	323,989,676	270,060,561
Loan Commitments	92,765,358	110,465,568	17,277,622	23,980,361	110,042,980	134,445,929
Unreserved:						
Undesignated	27,902,912	5,304,419	(11,424,253)	(16,691,858)	16,478,659	(11,387,439)
Total Fund Balance	403,971,913	363,871,885	46,539,402	29,247,166	450,511,315	393,119,051
<b>Total Liabilities and Fund Balance</b>	<b>\$ 404,078,246</b>	<b>\$ 364,008,445</b>	<b>\$ 46,754,644</b>	<b>\$ 29,353,160</b>	<b>\$ 450,832,890</b>	<b>\$ 393,361,605</b>

**STATE OF NORTH CAROLINA**  
**Capitalization Grants for State Revolving Funds**  
**Combining Statement of Revenues, Expenses and**  
**Changes in Fund Balance**  
**For the Fiscal Years Ended June 30, 2001 and 2000**

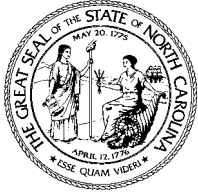
**Schedule 2**

	Clean Water		Drinking Water		Total	
	State Revolving Fund		State Revolving Fund		Total	
	2001	2000	2001	2000	2001	2000
<b>Operating Revenues:</b>						
Interest Income on Loans	\$ 7,105,205	\$ 6,805,456	\$ 976,540	\$ 341,827	\$ 8,081,745	\$ 7,147,283
Loan Closing Fees	769,314	1,326,962	82,477	517,174	851,791	1,844,136
Total Operating Revenues	7,874,519	8,132,418	1,059,017	859,001	8,933,536	8,991,419
<b>Operating Expenses:</b>						
Personnel	1,022,916	945,054	1,114,945	1,018,093	2,137,861	1,963,147
Fringe Benefits	192,279	195,531	223,345	224,052	415,624	419,583
Travel	8,588	11,341	38,206	82,415	46,794	93,756
Supplies	6,134	10,447	8,136	7,138	14,270	17,585
Software	1,976	11,406	2,979	10,245	4,955	21,651
Subscriptions		5,185				5,185
Data Processing Services	8,542	21,469			8,542	21,469
Training	435	2,561			435	2,561
Postage and Printing			3,599	4,720	3,599	4,720
Registration	3,715	6,335	3,600	8,083	7,315	14,418
Telephone	13,957	12,319			13,957	12,319
Repairs			2,657	3,340	2,657	3,340
Rent	12,312	8,420	69,822	68,107	82,134	76,527
Miscellaneous			3,615	4,617	3,615	4,617
Equipment			51,301	143,267	51,301	143,267
Other	175,012	159,421			175,012	159,421
Regional Offices			6,795	47,855	6,795	47,855
Contractual Services			592,326	599,891	592,326	599,891
Indirect Cost	159,402	205,090	71,356	140,497	230,758	345,587
Total Operating Expenses	1,605,268	1,594,579	2,192,682	2,362,320	3,797,950	3,956,899
<b>Operating Income</b>	6,269,251	6,537,839	(1,133,665)	(1,503,319)	5,135,586	5,034,520
<b>Nonoperating Revenues (Expenses):</b>						
Federal Grants	22,348,566	21,517,186	17,573,278	17,668,046	39,921,844	39,185,232
Interest Income	5,885,340	5,600,552	300,530	609,460	6,185,870	6,210,012
Miscellaneous Income	752,425				752,425	
Total Nonoperating Revenues (Expenses)	28,986,331	27,117,738	17,873,808	18,277,506	46,860,139	45,395,244
<b>Net Income Before Operating Transfers</b>	35,255,582	33,655,577	16,740,143	16,774,187	51,995,725	50,429,764
<b>Operating Transfers:</b>						
Transfers In (Out)	4,844,446	4,860,919	552,093	(2,571,880)	5,396,539	2,289,039
<b>Net Income</b>	40,100,028	38,516,496	17,292,236	14,202,307	57,392,264	52,718,803
<b>Fund Balance July 1</b>	363,871,885	325,355,389	29,247,166	15,044,859	393,119,051	340,400,248
<b>Fund Balance June 30</b>	\$ 403,971,913	\$ 363,871,885	\$ 46,539,402	\$ 29,247,166	\$ 450,511,315	\$ 393,119,051

**STATE OF NORTH CAROLINA**  
**Capitalization Grants for State Revolving Funds**  
**Combining Statement of Cash Flows**  
**For the Fiscal Years Ended June 30, 2001 and 2000**

**Schedule 3**

	Clean Water State Revolving Fund		Drinking Water State Revolving Fund		Total	Total
	2001	2000	2001	2000	2001	2000
	<b>Cash Provided from (Used For) Operations:</b>					
Operating Income	\$ 6,269,251	\$ 6,537,839	\$ (1,133,665)	\$ (1,503,319)	\$ 5,135,586	\$ 5,034,520
Adjustments to reconcile operating income to net cash flow provided by operating activities:						
Loans Issued	(52,275,405)	(43,995,537)	(19,315,049)	(19,057,538)	(71,590,454)	(63,053,075)
Loan Repayment	17,073,660	16,091,647	587,679	40,000	17,661,339	16,131,647
(Increase) Decrease in Assets:						
Receivables	74,449	(129,112)	(738,075)	(323,453)	(663,626)	(452,565)
Increase (Decrease) in Liabilities:						
Accounts Payable and Accrued Liabilities	(30,227)	36,886	109,248	(91,577)	79,021	(54,691)
Non-Operating Miscellaneous Income	752,425				752,425	
Total Cash Provided from (Used For) Operations	(28,135,847)	(21,458,277)	(20,489,862)	(20,935,887)	(48,625,709)	(42,394,164)
<b>Cash Provided from Noncapital Related Financing Activities:</b>						
Federal Grants	22,348,566	21,517,186	17,573,278	17,668,046	39,921,844	39,185,232
Transfers from the State of North Carolina	4,844,446	4,860,919	552,093	(2,571,880)	5,396,539	2,289,039
Total Cash Provided from Noncapital Related Financing Activities	27,193,012	26,378,105	18,125,371	15,096,166	45,318,383	41,474,271
<b>Cash Provided from Investment Activities:</b>						
Interest Income Earned on Deposits	5,885,340	5,600,552	300,530	609,460	6,185,870	6,210,012
Increase (Decrease) in Cash and Cash Equivalents	4,942,505	10,520,380	(2,063,961)	(5,230,261)	2,878,544	5,290,119
Cash and Cash Equivalents, Beginning of Year	114,357,223	103,836,843	6,926,910	12,157,171	121,284,133	115,994,014
Cash and Cash Equivalents, End of Year	\$ 119,299,728	\$ 114,357,223	\$ 4,862,949	\$ 6,926,910	\$ 124,162,677	\$ 121,284,133



Ralph Campbell, Jr.  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

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Mr. William G. Ross, Jr., Secretary  
North Carolina Department of Environment and Natural Resources

We have audited the financial statements of the Capitalization Grants for State Revolving Funds (State Revolving Funds) of the North Carolina Department of Environment and Natural Resources as of and for the years ended June 30, 2001 and 2000, and have issued our report thereon dated March 27, 2002.

As discussed in Note 1, the financial statements present only the State Revolving Funds and are not intended to present the financial position of the Department and the results of its operations and the cash flows of its nonexpendable trust funds in conformity with generally accepted accounting principles.

As further discussed in Note 9 to the financial statements, the Department implemented Governmental Accounting Standards Board Statement 33, *Accounting and Reporting of Nonexchange Transactions*, for the years ended June 30, 2001 and 2000. Further, the Department revised its policy on the capitalization of fixed assets and its classification of contributions from the State.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State Revolving Fund's financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards*. The noncompliances noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:



**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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**Findings:**

1. Noncompliance with Environmental Review Requirements
2. Inadequate Subrecipient Monitoring

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Carolina Department of Environment and Natural Resources' internal control over financial reporting for the State Revolving Fund in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

**Finding:**

3. Mathematical Inaccuracies in Annual Report

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management of the North Carolina Department of Environment and Natural Resources, the Governor, the State Controller, the General Assembly, and the U.S. Environmental Protection Agency and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.  
State Auditor

March 27, 2002

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **Matters Related to Financial Reporting or Federal Compliance Objectives**

*Current Year Findings and Recommendations* - The following findings and recommendations were identified during the current audit and represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

#### 1. NONCOMPLIANCE WITH ENVIRONMENTAL REVIEW REQUIREMENTS

Environmental reviews were not conducted on the seven Drinking Water State Revolving Fund projects that began during the state fiscal year ended June 30, 2001. Not following the procedures could result in negative environmental impact on projects. Disbursements made to these seven projects totaled \$7,686,800.

In accordance with 40 CFR 35.3580, the Department elected to develop its own National Environmental Policy Act (NEPA-like) State Environmental Review Process (SERP) which was approved by the EPA Regional Administrator on October 19, 1999.

*Recommendation:* The Department should conduct environmental reviews in accordance with the EPA approved NEPA-like SERP.

*Agency Response:* Projects with binding commitments before January 6, 2001 received environmental review and documentation consistent with the State Environmental Policy Act. However, these projects lacked documentation of the full NEPA-like process established in the SERP. The federal Environmental Protection Agency (EPA) pointed out this deficiency during their audit on January 6, 2001. As part of the remediation plan, the EPA approved these projects without further review.

A remediation plan was negotiated with EPA (in the form of Standard Operating Procedures) to bring procedures into full compliance with the SERP. Projects with offers extended after January 6, 2001 are accompanied by environmental review records meeting SERP requirements. All future projects will have environmental review records meeting SERP requirements.

We entered into binding agreements on a total of eight Drinking Water State Revolving Fund projects during the state fiscal year ending June 30, 2001. Of these, only one offer was extended after January 6, 2001. This project had a complete environmental review in accordance with the remediation plan with documentation meeting all SERP requirements including an April 10, 2001 notice of completion of environmental review from the Department of Administration and an April 12, 2001 approval by EPA Region IV. The binding commitment date was May 15, 2001.

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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### 2. INADEQUATE SUBRECIPIENT MONITORING

Our review of the monitoring procedures over the Drinking Water State Revolving Fund disclosed the following:

- Site visits are not being documented consistently for projects prior to reaching the ninety percent construction completion stage. Only four of nineteen completed projects had documented site visits. Standardized procedures for documenting site visits do not exist.
- The Department does not adequately monitor the activities of the engineering firms that provide on-site review of construction operations. Monitoring of the engineering firms is limited to reviews of reimbursement requests and its supporting documentation.

The 1998 Intended Use Plan (IUP) states that on-site inspections of the work in progress should be scheduled prior to reaching the ninety percent construction completion stage, and sooner if problems needing immediate resolution to maintain the project's integrity occur.

*Recommendation:* Standardized procedures for documenting site visits should be developed and the Department should monitor the engineering firms that are inspecting the ongoing operations of the projects.

*Agency Response:* The inspections were performed, but the inspection documentation was not properly on file until after the State audit. Most inspection reports were in the field offices at the time of the State audit, but copies were later placed in the Public Water Supply (PWS) Central Office files before the EPA audit in February 2002.

The SRF engineers have been instructed to perform the 90% inspections and in cases where there is a problem because of workload or other issues, the SRF engineer is to coordinate assistance from our field staff to ensure these inspections are completed in a timely manner and proper documentation submitted to the PWS Central Office

In the future, the SRF engineers will review project records and status periodically to determine inspections that are needed and perform these inspections or coordinate an inspection by field staff. The SRF engineer is to ensure that proper documentation is completed and in the files for review.

### 3. MATHEMATICAL INACCURACIES IN ANNUAL REPORT

The Drinking Water State Revolving Fund's annual report to the EPA was not mathematically accurate. Exhibit 2, "Source of Project Funds By Quarter" had discrepancies ranging from understatements of \$4,659,968 to \$5,323,374. Exhibit 7,

## AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

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“Loan Administrative Fee” had discrepancies ranging from understatements of \$90,240 to \$166,000. The total column in Exhibit 7 was understated by \$517,674.

The EPA Drinking Water State Revolving Fund Program Guidelines states that a State must provide a biennial report to the EPA containing detailed information on how the State met the goals and objectives of the previous two fiscal years as stated in its IUP and grant agreement. Good internal controls should require a thorough review of the annual report including its mathematical accuracy.

*Recommendation:* The Department should strengthen its internal controls by requiring a thorough review of the annual report by managerial personnel before the report is submitted to the EPA.

*Agency Response:* Exhibit 2 - The detail amounts reported for “Source of Project Funds by Quarter” are correct. The referenced discrepancies were in the First Quarter and Second Quarter totals, and were caused by errors in the spreadsheet formulas for the totals of those quarters. Grand Totals for Fiscal Year 2000 were also accurately stated.

Exhibit 7 - The detail amounts reported for “Loan Administrative Fee” are correct. As with Exhibit 2, the discrepancies noted were caused by errors in the spreadsheet formulas for the Fiscal Year Totals. Cumulative Totals are accurately stated.

On January 15, 2002, notice was sent to EPA advising them of these discrepancies and providing them with corrected copies of both exhibits. In the future, a more diligent and thorough review of mathematical accuracy will be performed in subsequent reporting.

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In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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June 13, 2002

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