

Department of Environmental Quality & Department of Natural & Cultural Resources Report To Joint
Legislative Oversight Committee on Agriculture and Natural and Economic Resources
As Required By Session Law 2020-18, Section 12.(c)

The North Carolina General Assembly has appropriated funds to the Department of Environmental Quality (DEQ) and the Department of Natural and Cultural Resources (DNCR) that provide the state share of the cost of stream restoration projects funded through the Natural Resources Conservation's Environmental Quality Incentives Program (EQIP) that are part of the Western North Carolina Stream Initiative (WNCSI). Session Law 2020-18, Section 12.(c) requires DEQ and DNCR to report the following to the Joint Legislative Oversight Committee on Agriculture and Natural and Economic Resources: 1.) funding overlaps between DEQ's Water Resources Development Grant Program (WRDG) and DNCR'S Clean Water Management Trust Fund (CWMTF) for these projects; and 2.) efforts both agencies have made to improve the administration of these grant programs. This report is intended to address these two items.

Currently the CWMTF has three contracts with Resource Institute Inc. to provide environmental services for the WNCSI portion of North Carolina's participation in the federal Environmental Quality Incentives Program (EQIP). These three contracts, totaling \$1,375,000, are intended to direct \$2,662,117 in Federal matching funds to the restoration high resource value streams of western NC. The scope of work for these contracts is for the design and construction of stream restoration projects along more than 30,000 linear feet of streams in 31 western NC counties.

Unlike the majority of CWMTF's contracts for stream restoration, the WNCSI initiative contracts were developed as "Regional Projects" meaning that specific criteria were set to target streams for restoration but specific project sites were not detailed in the contract and lists of projects sites were not fully developed until after CWMTF grants had been awarded. Such a regional approach allowed project managers the flexibility to approach multiple landowners and negotiate restoration options when seeking projects sites that would meet both CWMTF criteria and meet the EQIP program needs. In effect, CWMTF approved WNCSI projects in general, based upon clear criteria, and then reviewed each project site upon receipt of requests for reimbursement of funds.

Currently the WRDG has 23 contracts with Resource Institute Inc. and BREC, PA to provide environmental services for the WNCSI portion of North Carolina's participation in the federal Environmental Quality Incentives Program (EQIP). These 23 contracts, totaling \$3,350,546.00, are intended to direct \$4,683,326 in Federal matching funds to the restoration high resource value streams of western NC. The scope of work for these contracts is for the administration, design and construction of stream restoration projects along more than 43,000 linear feet of streams in 16 of the 31 western NC counties.

The WRDG administered by the Division of Water Resources (DWR) was also funding individual EQIP stream restoration projects in western NC which led to funding overlaps between the two agencies when the project sponsor failed to notify either program of their funding applications to both agencies. In its report of March 11, 2019 to the Joint Legislative Program Evaluation Oversight Committee, the Program Evaluation Division (PED) found that State funding for WSI projects was duplicative and had resulted in the overpayment of grant funds to Resource institute Inc. This overpayment of \$17,000 identified by PED has been reimbursed to the State and measures have been put in place by both CWMTF and DWR to ensure that no funding overlaps exist for funding of future WNCSI EQIP projects.

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CWMTF and DWR have compared project data and determined that no additional overlaps that could result in duplicative payments exist for WNCSI EQIP projects.

Below is a summary table confirming that there are no duplicative payments for the remaining projects that were jointly funded by CWMTF and DEQ before ratification of Session Law 2020-18. Per this legislation, there will be no jointly funded WNCSI projects in future grant cycles.

| Project Name | County | CWMTF | WRDG | CWMTF | WRDG | NRCS Estimated Contribution ¹ |
|--------------------------------|----------|---------------------------------|---------------------------------|----------------|--------------|--|
| | | Design/Construction Observation | Design/Construction Observation | Construction | Construction | |
| Little Ivey Creek (Metcalf) | Madison | \$0 | \$39,697 | \$0 | \$0 | \$168,592 |
| Cane Creek (McKinney/Smith) | Mitchell | \$0 | \$82,648 | \$0 | \$0 | \$214,416 |
| Little Brasstown Creek (Lewis) | Cherokee | \$0 | \$12,000 | \$0 | \$0 | \$46,021 |
| UT Swan Creek (Cheek) | Yadkin | \$0 | \$84,114 | \$4,213 | \$0 | \$249,087 |
| Elk River (Beasley) | Avery | 1,000 ² | \$37,500 | \$0 | \$0 | \$172,212 |
| Robinson Creek (Meadows) | Buncombe | 1,000 ² | \$48,000 | \$0 | \$0 | \$192,483 |
| Bates Branch (Raby) | Macon | 1,000 ² | \$14,170 | \$0 | \$0 | \$238,962 |
| Hodges Creek (Cail) | Surry | 1,000 ² | \$0 | \$0 | \$0 | \$271,601 |
| Totals | | \$0 | \$318,129 | \$4,213 | \$0 | \$1,553,374 |

Notes

¹ Federal cost share estimate for the types of stream conservation practices to be implemented.

² Unique task from StreamWalker Consulting requested only from CWMTF.

Below is an outline of steps taken by CWMTF to improve administration of grants to WNCSI EQIP.

- 1) **CWMTF no longer considers funding of regional projects without detailed and updated project site lists.** Applicants to the CWMTF are first encouraged to apply only for site specific projects. If the applicant feels that planning and design call for a flexible set of projects sites to meet project goals, they are then required to submit a list of project sites identified to-date. Contract requirements now call for project site lists to be maintained and sent to CWMTF with every quarterly report and reimbursement request.
- 2) **Pre-disbursement Funding Verification.** CWMTF now requires that contracts for regional projects identify sites, and obtain written approval from staff, before the expenditure of funds. This allows staff to directly tie all payments to project locations during implementation so that inappropriate or mistaken claims for reimbursement can be identified and avoided.
- 3) **Interagency Reimbursement Claim Review.** CWMTF requires the submission of copies of invoices submitted to other State agencies to verify that no duplicate invoices or payments have been submitted or paid. Staff has added an item to the "Payment Review Checklist" to provide oversight in the claim review process. CWMTF and DWR staff regularly compare invoices for all EQIP reimbursement requests.
- 4) **CWMTF Application Materials Update.** CWMTF application materials now direct the applicant to isolate proposed matching funds from other State agencies. Applicants are encouraged not to seek funds from more than one State agency for the same project. Where applicants propose to match CWMTF funds with other State funds, CWMTF staff will identify how best to partition funding within a project by site, parcel or line-item to eliminate the potential for error.
- 5) **Improved Materials presented to the CWMTF Board of Trustees.** For CWMTF grant award meetings, CWMTF Staff will identify to the Board any grant applications with matching contribution from other State agencies that have the potential to complicate restoration project budgets.

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Below is an outline of steps taken by the WRDG to improve administration of grants to WSI EQIP.

- 1) **WRDG Application Materials Updates.** DWR staff updated the application form to require all applicants to declare whether their projects included CWMTF or any non-federal contributions. This information is now contained in both a checklist at the beginning of the application as well as in a highlighted area on the project budget sheet.
- 2) **Grant Guidelines.** Language and NRCS documentation was added to the current EQIP Guidelines to clarify which stream practices are eligible for funding and reimbursement based on the latest version of NRCS's guidance document. The requirements of Session Law 2020-18 will be

integrated into our updated Fall 2020 Guidelines, specifically the provision prohibiting applicants from applying for both CWMTF & WRDG funding.
- 3) **Interagency Communication.** WRDG and CWMTF staff routinely correspond regarding reimbursement requests and invoicing for existing projects that contain duplicate funding. Staff also share lists of projects that have been recommended for funding at the end of each grant application cycle to determine whether projects contain duplicate funding.
- 4) **Programmatic Accounting.** The WRDG has created and implemented the use of an Access database with integrated financial tracking and the capability to track and report on specific items outlined in SL 2020-18, Section 13.(a). This database will enable a significant improvement in the efficiency, integrity and reporting of financial data on a programmatic level. Previous accounting was done across dozens of Excel spreadsheets that were not integrated.
- 5) **New Contract Templates.** DEQ's Financial Services Division and Office of General Counsel have drafted and implemented new robust contract templates for the entire EQIP program in order to comply with all current legal and legislative requirements for grant contracts.
- 6) **New Contract Payment Terms.** DEQ's Financial Services Division and Office of General Counsel have revised contract payment terms to switch from an estimated-cost award basis to an actual-cost reimbursement basis for all future projects.
- 7) **Special Contracts.** DEQ's Financial Services Division and Office of General Counsel have drafted and implemented unique contract templates for special payment provisions required by the General Assembly for a subset of projects.

In summary, both agencies have improved coordination, implemented more robust accounting practices, and established policies that are consistent with Session Law 2020-18, Section 12 that prevent grant funding duplication in the future.