

**HIGHWAY PLANNING, RESEARCH AND CONSTRUCTION CLUSTER:**

**20.205 HIGHWAY PLANNING AND CONSTRUCTION**  
**23.003 (FEDERAL AID HIGHWAY PROGRAM)**  
**APPALACHIAN DEVELOPMENT HIGHWAY SYSTEM**

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<b>State Project/Program</b>	<b>HIGHWAY PLANNING, RESEARCH AND CONSTRUCTION</b>
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**U. S. Department of Transportation**

**Federal Authorization:** 23 U.S.C. 401 et seq., as amended, 23 CFR and 49 CFR (20.205), SAFETEA-LU, Map-21

Appalachian Regional Development Act of 1965, Section 201, Public Law 89-4, as amended, 40 U.S.C. 14501 (23.003)

**State Authorization:**

**N. C. Department of Transportation  
(Research and Development)  
(Construction and Maintenance)**

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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.

The Single Audit Compliance Unit of the External Audit Branch reviews all single audits, financial audits, and management letters of all “grantees”. We are looking at both the presentation (information as to program, pass-through and state funding, NCDOT identification numbers) and the dollar amounts presented versus our records. Any reports not received will be requested.

Grants must be properly identified by program name, CFDA number (20.205-1) and WBS number on the Schedule of Expenditures of Federal and State Awards. This information is available from the agreement with NCDOT. The program name is in the second/third paragraph while the WBS number is on the upper right hand corner of the first page. Grantor and/or pass-through grantor and program title should also be included. On NCDOT's confirmation from the Grant Master List (GML), these moneys are shown by CFDA number 20.205-1. Please do not combine like projects into one-dollar amount since we would need to call you for the breakdown; please report award amount, Federal Pass-through, State share and local share. If the "grantee" is a non-governmental entity subject to N.C.G.S. 143C-6-23 "Use of State Funds by Non-State Entities," and North Carolina Administrative Code Chapter 9, Subchapter 03M "Uniform Administration of State Grants" the reporting requirements may be different.

### I. PROGRAM OBJECTIVES

The objectives of the Highway Research and Construction Program are to: (1) assist States in constructing and rehabilitating the National Highway System (NHS) including Interstate highways and building or improving other Federal-aid roads and streets; (2) provide aid for repairing the system, roads, and streets following disasters; (3) foster safe highway design and replace or rehabilitate unsafe bridges; (4) support community-level transportation infrastructure; and (5) to provide for other special purposes. The objective of the ADHS program is to provide a highway system which, in conjunction with other federally aided highways, will open up areas with development potential within the Appalachian region where commerce and communication have been inhibited by lack of adequate access.

### II. PROGRAM PROCEDURES

Programs are administered by the State Highway Agency (SHA).

Funds are provided to cities, counties, tribal governments, and other political subdivisions to pay for a defined portion of the planning, research, development, engineering, right of way acquisition, construction, and mitigation costs of approved projects. Grants are governed by agreements entered into between NCDOT, the municipality, and/or other political subdivisions. The legal agreement specifies the terms and conditions of the projects.

### III. COMPLIANCE REQUIREMENTS

**The federal granting agency has issued a compliance supplement that should be used in conjunction to this compliance supplement issued by the State Agency. Please refer to [2 CFR Part 200](#) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards: Final Rule.**

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to [Subpart F](#) of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

#### A. ACTIVITIES ALLOWED OR UNALLOWED

**Compliance Requirement** - Highway Research and Construction includes the following:

1. Assist municipalities in constructing and rehabilitating National Highway System and Non-National Highway System roads, including right of way acquisition and mitigation;
2. Conduct planning, development, and design activities that precede construction plans.
3. Various traffic operations, asset management, parking, enhancement, transit, bicycle and pedestrian activities;
4. Provide urban and county mapping needed for planning activities.
5. Maintain inventories of roadway and traffic systems.
6. Administer highway research conducted for the North Carolina Department of Transportation (NCDOT).

**Audit Objective** - Determine whether awards were expended only for allowable activities.

**Suggested Audit Procedures**

Obtain and review the local project agreement to identify the types of activities allowed or prohibited pertaining to the program. Obtain and review professional service contracts and construction contracts.

When allowability is determined based upon summary level data, perform procedures to verify that: a. Activities were allowable b. Individual transactions were properly classified and accumulated into the activity total.

When allowability is determined based upon individual transactions, select a sample of transactions and perform procedures to verify that the transaction was for an allowable activity

**B. ALLOWABLE COSTS/COST PRINCIPLES**

**Allowability of Specific Transactions and Activities**

1. **Compliance Requirement** - Funds can only be used to reimburse costs that are: (1) incurred subsequent to the date of authorization to proceed; (2) in accordance with the conditions contained in the project agreement and the (approved) plans, specifications and (contractor's) estimates; (3) allocable to a specific project; and, (4) claimed for reimbursement subsequent to the date of the project agreement. (23 Code of Federal Regulations (CFR) 1.9, 23 CFR 630.106, 630.205) The Code of Federal Regulations may be found at <http://www.gpoaccess.gov/cfr/index.html>.
2. **Compliance Requirement** - Cost of contracts, in-house staff (staff at the municipal level that provided project specific services such as engineering and design activities, right-of-way acquisitions, and construction administration) are allowable costs associated with local projects.
3. **Compliance Requirement** - Administrative and overhead costs that are considered necessary for management, supervision, and administrative control are unallowable.

4. **Compliance Requirement** - Expenditures for (routine) highway maintenance are not eligible (23 USC 116) (23 CFR section 1.27).
5. **Compliance Requirement** - Federal funds may be used to reimburse for tuition and direct educational costs of continuing highway-related education of SHA employees, but not for travel subsistence, or salaries of students (23 CFR section 260.407).
6. **Compliance Requirement** - Preliminary engineering, right of way and construction costs must be incurred after authorization by Federal Highway Administration in order to receive Federal reimbursement administered by NCDOT.
7. **Compliance Requirement** - Changes that increase the Federal cost or alter the physical limits, character, or scope of the work must be authorized by NCDOT/FHWA. Major changes must be approved in advance. Minor changes may be approved retroactively.
8. **Compliance Requirement** - Any charges for materials provided by the municipality or a contractor must be net of sales taxes. Local units of government including cities, counties, and others chartered by the General Assembly are eligible for grants. These local units of government should be eligible for sales tax refunds under GS 105-164.14 (b) or (c). If they cannot qualify, then these local units of government should take the steps necessary to become eligible. Sales tax paid, which may be requested from the NC Department of Revenue as a refund, is an ineligible charge.

**Audit Objective:**

Determine whether charges to awards were for allowable cost.

**Suggested Audit Procedures**

Test a sample of transactions for conformance with the following:

Costs did not consist of improper payments, including (1) payments that should not have been made or that were made in incorrect amounts (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements (2) duplicate payments; (3) payments that were made to an ineligible party or for an ineligible good or service; and (4) payments for goods or services not received (except for such payments where authorized by law).

Costs were necessary and reasonable for the performance of the Federal award and allocable under the principles of 2 CFR part 200, subpart E.

Costs conformed to any limitations or exclusions identified in 2 CFR part 200, subpart E, or in the agreement to types or amount of cost items.

Costs were consistent with policies and procedures that apply uniformly to both federally financed and other activities of the State/local government/Indian tribe department or agency.

Costs were adequately documented and supported.

**C. CASH MANAGEMENT**

NC Department of Transportation pays on a reimbursement basis. No testing is required.

D. RESERVED

E. ELIGIBILITY

North Carolina cities, counties, tribal governments, and other political subdivisions may be granted funds to pay for a defined portion of the planning, research, development, engineering, right of way acquisition, construction, and mitigation costs of approved projects. Grants are governed by agreements entered into between NCDOT, the municipality, and/or other political subdivisions. The legal agreement specifies the terms and conditions of the projects.

F. EQUIPMENT AND REAL PROPERTY MANAGEMENT

1. **Compliance Requirement** –The municipality should charge, at a minimum, fair market value for the sale, use, lease, or lease renewal of real property acquired under with Federal assistance. The municipality should use the income for other local highway planning and construction projects eligible under 23 USC.

**Audit Objective** - Determine whether the proceeds from the sale of real property acquired or improved under Federal awards are used to fund other eligible projects.

**Suggested Audit Procedures** Identify real property dispositions for the audit period and determine whether the real property was acquired or improved with Federal funds passed through NCDOT. Perform procedures to determine if the income from the sale of real property was used to fund other eligible projects under 23 USC.

G. MATCHING, LEVEL OF EFFORT, EARMARKING

1. Matching

**Compliance Requirement** - The municipality is generally required to pay a portion of the project costs. Portions vary according to the type of funds authorized and are stated in project agreements. A copy of the agreement is available at the municipality or through NCDOT's respective program contact. Auditors should report amounts received from NCDOT as well as expenditures.

**Audit Objective** - Determine whether the minimum amount or percentage of contributions or matching funds was provided from allowable sources

**Suggested Audit Procedures**

Obtain and review a copy of the project agreement to identify the municipality's portion of project costs.

Perform tests to verify the required matching contributions were met.

Ascertain the source of matching contributions and perform tests to verify the sources were from an allowable source.

2. Level of Effort – This requirement is not passed down to the local level. No testing is required.
3. Earmarking – This requirement is not passed down to the local level. No testing is required.

#### H. PERIOD OF PERFORMANCE

1. **Compliance Requirement** – Each local project agreement discloses a period of performance. The municipality may charge only allowable costs incurred during the period of performance. Any costs incurred prior to the period of performance must be authorized by NCDOT/FHWA. If additional time is needed to complete the Project, a supplemental agreement must be executed extending the period of performance

##### **Audit Objective**

Determine whether the project was only charged for: (a) allowable costs incurred during the period of performance as stated in the original agreement and any supplemental agreements; (b) any costs incurred prior to the period of performance were authorized by NCDOT/FHWA.

##### **Suggested Audit Procedures**

Review the local agreement to identify the period of performance and specific requirements related to the period of performance.

For projects with performance periods beginning during the audit period, test cost recorded during the beginning of the period of performance to verify the costs were not incurred prior to the start of the period of performance unless authorized by FHWA/NCDOT.

For projects with performance periods ending during the audit period, test transactions for costs recorded during the latter part and after the period of performance and verify that the costs had been incurred within the period of performance. If costs are incurred subsequent to the period of performance, verify a supplemental agreement was executed to extend the period of performance.

#### I. PROCUREMENT AND SUSPENSION AND DEBARMENT

1. Procurement

**Compliance Requirement** - Construction projects cannot be advertised nor force account work commenced until FHWA/NCDOT (1) approves the plans, specifications, and estimates, (2) receives right-of-way (ROW) certification, if applicable, and (3) authorizes the SHA/municipality to advertise for bids or approves the force account work. The construction contract cannot be awarded until after FHWA/NCDOT reviews and recommends contract award subject to Board of Transportation approval. (23 CFR 630.205; 23 CFR 635.112)

Construction projects administered under certification authorization (CA) procedures and projects exempt under 23 USC 106(b)(1) and 23 USC 106(b)(2) require only FHWA authorization to proceed.

2. Solicitation of Bids

**Compliance Requirement** - N.C.G.S. 143-129 requires the solicitation of bids on construction or repair work requiring expenditure of public money in an amount equal to or more than five hundred thousand dollars (\$500,000) or purchases in an amount equal to or more than ninety thousand dollars (\$90,000). N.C.G.S. 143-131 states that all contracts for construction or repair work or for the purchase of apparatus, supplies, materials, or equipment, involving the expenditure of public money in the amount of thirty thousand dollars (\$30,000) or more, but less than the limits prescribed in G.S. 143-129, shall be made after informal bids have been secured. Bid tabulation and governing agency resolution recommending award is required for contract award to the lowest responsible bidder.

**Audit Objective** – Determine if bids, formal or informal, were required and if required were received.

**Suggested Audit Procedure** - Verify that municipality has properly solicited bids and that the contract was awarded to the lowest qualified.

3. Debarment

**Compliance Requirement** – It is the policy of NCDOT not to enter into any agreements with parties that have been debarred by any government agency. The entity's agents or contractors shall not be presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from participation in transactions by any Federal or State Department or Agency.

**Audit Objective** – Determine that the entity has not entered into any agreements with parties that have been debarred by any government agency.

**Suggested Audit Procedure** - Ascertain whether or not the entity has not entered into any agreements with parties that have been debarred by any government agency.

J. PROGRAM INCOME

NCDOT does not pass this requirement down to the local level. No testing is required.

K. RESERVED

L. REPORTING

1. **Compliance Requirement** - The municipality is required to itemize support on all partial and final invoices submitted to NCDOT for payment. This includes the details of labor, labor additives, equipment, materials, contract labor and other qualifying costs.
2. **Compliance Requirement** – Highway research and construction expenditures are monitored through inspection by NCDOT Division Engineers and review of the local government's single audit report. NCDOT looks for these expenditures to be shown on the Schedule of Expenditures of Federal and State Awards.

3. Non-governmentals – Reports made by non-State entities

**Compliance Requirement** – North Carolina General Statute 143C-6-23 “Use of State Funds by Non-State Entities,” and North Carolina Administrative Code Chapter 9, Subchapter 03M “Uniform Administration of State Grants” addresses reporting requirements for non-governmental entities.

**Audit Objective** – Determine if the organization is subject to G.S. 143C-6-22. Determine whether required reports include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.

**Suggested Audit Procedures**

1. Determine the type of filing/report that should be made with the NCDOT to comply with 09 NCAC 03M.
2. Determine whether reports were accurately prepared and filed timely.

4. Federal Funding Accountability and Transparency Act (FFATA) – Subrecipient Information

**Compliance Requirement** – Subrecipient General Information: NCDOT requires the following Subrecipient data be provided by each Local Agency Subrecipient working on federally funded projects of \$25,000 or greater. This form is only required for Subrecipients that use Federal funds for locally administered Transportation and Infrastructure projects. The form is required to be completed annually each state fiscal year and each time contact or officer information changes thereafter.

- a. Agency Name
- b. Agency Address
- c. Agency Reporting Contact Information: Name, phone number, fax number, and email address
- d. Agency Reporting Backup Contact Information: Name, phone number, fax number, and email address
- e. Agency 9-digit DUNS Number
- f. Agency Congressional District

**Compliance Requirement** – Subrecipient Executive Compensation: Subrecipients of Federal financial assistance must report executive compensation data to include the names and total compensation of the five most highly compensated officers if they meet the statutory reporting thresholds:

- a. The entity received 80% or more of its annual gross revenues in the preceding fiscal year from Federal awards, and



- b. The entity received \$25 million or more in annual gross revenues in the preceding fiscal year from Federal awards, and
- c. The public does not have access to the information through Securities and Exchange Commission or Internal Revenue Service filings as specified in FFATA.

**Audit Objective** – Determine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with governing requirements

**Suggested Audit Procedures**

Obtain and review the FFATA report(s), including report instructions, submitted during the audit period. ([FFATA Report](#))

Perform procedures to determine whether the information reported is accurate.

Review financial data to determine if the entity meets the statutory thresholds for reporting executive compensation. If so, determine if the entity disclosed the names and total compensation of the five most highly compensated officers at the entity-wide level, not the agency, department, or office level.

**M. SUBRECIPIENT MONITORING**

- 1. **Compliance Requirement - American Recovery and Reinvestment Act:** A pass through entity is responsible for identifying to the first-tier subrecipients the requirement to register in the Central Contractor Registration (CRC), including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h), ARRA, and 2 CFR 176.50(c)).

**Audit Objective** – Determine whether the pass-through entity determined that subrecipients have current CCR registrations prior to making subawards and performed periodic checks to ensure that subrecipients are updating information as necessary.

**Suggested Audit Procedure** – Test the pass-through entity’s subaward review and approval documents to determine whether, before award, the pass-through entity checked CCR to determine whether subrecipients were registered.

**N. SPECIAL TESTS AND PROVISIONS**

- 1. **Compliance Requirement** - For most federally participating highway projects, the SHA or municipality must abide by Equal Employment Opportunity, Prohibited Interests, Title VI - Civil Rights Act of 1964, and MBE/DBE Policies and Guidelines.

**Audit Objective** - Obtain an understanding of the recipient’s program and ascertain if the program incorporates the above policies.

**Suggested Audit Procedure**

Review contracts for compliance with stated policies.

## **2. Compliance Requirement**

All contracts with Federal participation shall include non-federal entity contract provisions located at 2 CFR 200, Appendix II. All engineering and design-related contracts shall include contract provisions located at 2 CFR 200, Appendix II and 23 CFR 172.9(c). NCDOT provides the agency with a reference to these [contract provisions](#), but it is the responsibility of the agency to include these provisions, as applicable, in contracts. Municipalities should review provisions and ensure contract language is written to address provisions in engineering and design-related contracts.

**Audit Objective** – Determine whether contracts entered into during the audit period contain the provisions as stated above.

### **Suggest Audit Procedure**

Obtain and review contracts to determine whether contracts include language to address provisions.