

HIGHWAY CONSTRUCTION PROGRAM

State Authorization: N.C.G.S. Chapter 136

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

Agency Contact Person – Program

Robert L. Barrier, PE
Chief Engineer's Office
N. C. Department of Transportation
1536 Mail Service Center
Raleigh, N.C. 27699-1536
Phone: (919) 707-2507
Fax: (919) 733-3585
RLBarrier@ncdot.gov

Address Confirmation Letters To

Pam Nelms
N.C. Department of Transportation
Financial Management Division
1514 Mail Service Center
Raleigh, N.C. 27699-1514
Phone: (919) 707-4245
Fax: (919) 715-8718
pknelms1@ncdot.gov

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, state funding and 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, State Compliance number and WBS number on the Schedule of Expenditures of Federal and State Awards. This information is available from the agreement with NCDOT; 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, program title and DOT number (DOT-18) should also be included. 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.

On NCDOT's confirmation from the Grant Master List (GML), these moneys are shown as DOT-18.

I. PROGRAM OBJECTIVES

The objectives of the Highway Construction Program are to: (1) construct and rehabilitate the State's highways and build or improve other 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.

II. PROGRAM PROCEDURES

State 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

1. ACTIVITIES ALLOWED OR UNALLOWED

Compliance Requirement – Highway Construction includes the following:

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

2. 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.
2. **Compliance Requirement** – Administrative and overhead costs that are considered necessary for management, supervision, and administrative control are unallowable.
3. **Compliance Requirement** – Expenditures for (routine) highway maintenance are not eligible.
4. **Compliance Requirement** – State funds may be used to reimburse for tuition and direct educational costs of continuing highway-related education of employees, but not for travel subsistence, or salaries of students.

5. **Compliance Requirement** – Preliminary engineering, right of way and construction costs must be incurred after authorization by NCDOT in order to receive reimbursement.
6. **Compliance Requirement** – Changes that increase the State's cost or alter the physical limits, character, or scope of the work must be authorized by NCDOT. Major changes must be approved in advance. Minor changes may be approved retroactively.
7. **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.

3. CASH MANAGEMENT

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

4. CONFLICT OF INTEREST

Compliance Requirement – G.S. 14-234 includes a general prohibition against any public official having a personal interest in any contract to which he/she is a party in his/her official capacity. Any other statute or agency policy that applies should be tested as part of this compliance requirement.

Audit Objective – Determine that the grantee has a conflict of interest policy.

Suggested Audit Procedure – Verify the existence of the conflict of interest policy.

5. ELIGIBILITY

This requirement is not passed down to the local level. No testing is required.

6. EQUIPMENT AND REAL PROPERTY MANAGEMENT

1. **Compliance Requirement** – NCDOT has adopted the policies and procedures for equipment and real property contained in the OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR Part 200).
2. **Compliance Requirement** – Reimbursement for rates of equipment owned by the municipality cannot exceed the Department's rates in effect for the time period in which the work is performed.

Special Note: The NCDOT Equipment Rental Rate Schedule is updated periodically. Please contact your local NCDOT Division Engineer's office for the current rates.

7. 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. Auditor should report amounts received from NCDOT as well as expenditures.

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.

8. PERIOD OF PERFORMANCE

Compliance Requirement – The eligible project costs are to be completed within the specified timeframe as stated in the agreement.

Audit Objective – Determine if costs were expended according to agreement.

Suggested Audit Procedure – Determine whether project expenses occurred within the period of performance specified in the project agreement or an approved extension of the period of performance.

9. PROCUREMENT & SUSPENSION & DEBARMENT

1. Procurement

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

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 bidder.

10. PROGRAM INCOME

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

11. Reserved

12. 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. The auditor should report amounts received from NCDOT as well as expenditures.
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. **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 Procedure

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.

13. SUBRECIPIENT MONITORING

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

14. SPECIAL TESTS AND PROVISIONS

Compliance Requirement – For most State highway projects, the municipality must abide by Equal Employment Opportunity, Conflict of 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.

Compliance Requirement – Government-wide requirements for real property acquisition and relocation assistance are contained in Department of Transportation's single government-wide rule at 49 CFR part 24, Uniform Relocation Assistance and Real Property Acquisition Regulations for Federal and Federally-Assisted Programs. The grantee should have a letter or a form from NCDOT certifying NCDOT approval of the real property acquisition and/or relocation assistance.

Audit Objective – Determine if grantee obtained NCDOT certification.

Suggested Audit Procedure – Review the grantee's certification.