

**20.106**

**AIRPORT IMPROVEMENT PROGRAM**

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**State Project/Program: STATE BLOCK GRANT PROGRAM (DOT 8)**

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**U.S. Department of Transportation**

**Federal Authorization: Public Law 103-272**

**State Authorization:**

**North Carolina Department of Transportation  
Division of Aviation**

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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 within the NCDOT Office of Inspector General reviews single audits, financial audits, and management letters of all NCDOT “grantees”. OIG examines the presentation of program information including the grantor, program title, NCDOT identification numbers (WBS number), and reported Federal pass-through and/or State expenditures.

Grant must be properly identified by program name (“Airport Improvement Program”), CFDA number (“20.106”), and WBS number on the Schedule of Expenditures of Federal and State Awards. This information is available from the agreement with NCDOT on the first page. Grantor and/or pass-through grantor should also be included. On NCDOT’s confirmation from the Grant Master List (GML), these funds are shown as CFDA number 20.106.

**I. PROGRAM OBJECTIVES**

**Airport Improvement Program (AIP).** Federal Aviation Administration (FAA)’s grant program is used for funding airport planning and development. Under this program, FAA

provides funds directly to participating states that, in turn, prioritize, select, and fund AIP projects at small airports. The participating states also perform FAA's oversight role at these airports. Legislation now allows up to ten qualified states to assume the responsibility for AIP grants to airports, except for funds designated for use at primary airports. (Advisory Circular: 150/5100-21). Since 1990, North Carolina has been one of the states that participate in this program. The objective of the Airport Improvement Program is to assist sponsors, owners, or operators of public-use airports in the development of a nationwide system of airports adequate to meet the needs of civil aeronautics. Through the State Block Grant Program, NCDOT provides the flow-through federal financial assistance from the Airport Improvement Program to local governmental units for the purpose of planning, land acquisition, construction, navigational aids, terminal buildings, parking, access roads, fuel farms, and hangars for general aviation airports and heliports that will be open to the public.

## II. PROGRAM PROCEDURES

In North Carolina, local units of government including cities, counties, and airport authorities chartered by the General Assembly are eligible for airport grants. Airports/heliports receiving funds must be identified in the North Carolina Airport System Plan (NCASP). Additionally, airports receiving grants under the State Block Grant Program must be identified in the federal National Plan of Integrated Airport Systems (NPIAS).

The State Block Grant Program is a special Federal program administered by the North Carolina Department of Transportation, which receives the federal funds for certain categories of airports in a block and allocates the grants to specific projects meeting a state-designated priority system. Currently, all federally eligible airports in North Carolina participate in the State Block Grant Program except airports classified by the FAA as Primary Commercial Service Airports (49 USC 47102(11)). These latter airports continue to work directly with FAA for project administration (under the Airport Improvement Program) but often have State supplemental funds approved to assist in the non-federal share of project costs. All airports eligible for State Block Grants must have their grants administered through the North Carolina Department of Transportation (NCDOT) and cannot opt to work directly with the Federal Aviation Administration. The NCDOT through the Division of Aviation is responsible for determining which airports will receive federal funds for various eligible projects. The application, approval, and grant management for Block Grants is identical to that of the State Airport Aid. The State Aid to Airports Program is the program providing State funds on a local matching formula basis. The final share is stipulated by the NCDOT and depends upon the size of the airport, the location of the airport, and the category of project. Additional grants are made by NCDOT as part of the annual State Transportation Improvement Program (STIP). All project requests must be submitted to NCDOT's Division of Aviation (DoA) or designee. The requests are currently submitted via a web-based software portal (EBS/Partner Connect). These requests are reviewed and prioritized prior to approval by the Aviation Director with final approval by the Office of the Secretary of Transportation. In addition, if funds are available later, grants may be made for new or expanded projects later in the year. (Non-Primary Entitlement (NPE) projects do not require approval of the Secretary of Transportation.)

The State must adhere to both the FAA/DoA Block Grant Memorandum of Agreement and the FAA's Assurance for the [Aviation Block Grant Program](#).

## 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.**

### A. ACTIVITIES ALLOWED OR UNALLOWED

**Compliance Requirement** – In general, grants can be made for the following purposes (1) airport master planning and site selection, (2) environmental impact studies, (3) land and building acquisition (including relocation of displaced persons and businesses), (4) development and implementation of airport noise studies and compatibility programs, (5) construction of eligible runways, taxiways, aircraft parking aprons, and roadways, (6) airport lighting systems, and (7) visual and electronic air navigational aids. The FAA Modernization and Reform Act of 2012 reauthorizes the AIP bill. Non-primary entitlement funds are a portion of the funds received by North Carolina Department of Transportation as part of the State Block Grant Program and may be used for terminal buildings and parking, fuel farms, hangars, and reimbursement for approved projects.

**Detailed program guidance is provided in [FAA Order 5100.38D](#), Airport Improvement Program Handbook.**

Note: A list of non-allowable items under the grant program can be found in FAA Order 5100.38D, Chapter 3.

**Audit Objective** – Determine if the activities involved conform to the provisions of the Grant Agreement.

**Suggested Audit Procedure** - Review project records to determine that activities involved conform to the description contained in the Grant Agreement.

### B. ALLOWABLE COSTS/COST PRINCIPLES

**NOTE:** Airport Improvement Program is a Federal program under [49 USC 47128](#) and is subject to Federal cost principles under [2 CFR Part 200](#) **Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards: Final Rule.**

**Compliance Requirement** - In general no costs expended prior to the issuance of a Grant Agreement by the Department of Transportation are eligible for reimbursement unless (1) they involve planning and project formulation costs necessary to develop the project application and its co-requisites of an approved Airport Layout Plan and appropriate environmental finding; (2) the acquisition of eligible land and the engineering and administrative costs associated with such acquisition; or (3) a project which has received prior approval from the Department of Transportation and which has been carried out in accordance with the State Aid to Airports Program Guidance Handbook.

**Audit Objective** - Determine that all costs billed to the grant are allowable.

**Suggested Audit Procedure** - Verify through a sample of invoices that costs submitted by the subrecipient for reimbursement are allowable.

**Compliance Requirement** - Local units of government including cities, counties, and airport authorities chartered by the General Assembly are eligible for airport grants. These local units of government should be eligible for sales tax refunds under [GS 105-164.14](#) (b) or (c). If they have not qualified, 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 that the authority is eligible for the refund and that NCDOT did not reimburse any sales taxes eligible for refund.

**Suggested Audit Procedure** - Review financial records, including contractors' sales tax affidavits, and ascertain that no sales taxes were billed to NCDOT under the project.

### C. CASH MANAGEMENT

**Compliance Requirement** – Grantees of NCDOT are funded on either an advance or reimbursement basis. Grantees that receive advance funding should pay vendors within 3 business days of receipt of the NCDOT payment.

1. **Audit Objective – For advance requests:** Determine whether the grantee followed procedures to minimize the time elapsing between the receipt of the NCDOT payment and the payment to the vendor and made the vendor payment within the 3 business days of receipt of the NCDOT payment.

**Suggested Audit Procedure** – Select a sample of advance payment requests and trace to supporting documentation showing that the costs for which reimbursement was requested were paid prior or at least within 3 business days of the receipt of the NCDOT reimbursement. The risk lies with advance payments to the airport sponsors. Auditors should report amounts received from NCDOT as well as expenditures. The risk lies with advance payments to the airport sponsors. Auditors should report total amounts received from NCDOT as well as total expenditures.

2. **Audit Objective – For reimbursement requests:** Determine whether supporting documentation was provided that prove costs were paid prior to the request being submitted to the NCDOT.

**Suggested Audit Procedure** – Select a sample of reimbursement requests and trace to supporting documentation showing that the costs for which reimbursements were requested were paid prior to submitting reimbursement to NCDOT.

### D. RESERVED

### E. ELIGIBILITY

**N/A at the local level.** Eligibility is determined between FAA and the Division of Aviation.

### F. EQUIPMENT AND REAL PROPERTY MANAGEMENT

NOTE: Equipment purchased with Airport Improvement funds is subject to Federal regulations as applicable under OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ([2 CFR Part 200.310-316](#)) and [FAA AC No. 150/5100-10A](#).

### EQUIPMENT

**N/A at the local level.** Eligibility is determined between FAA and the Division of Aviation.

### REAL PROPERTY MANAGEMENT

1. **Compliance Requirement** – Under this program, FAA is authorized by [49 USC Subtitle VII](#), Aviation Programs, as amended, to allow recipients to reinvest the proceeds from the sale of real property acquired with Federal awards for noise compatibility or airport development purposes.
2. **Compliance Requirement** - Grantees must obtain permission of the Department of Transportation and Federal Aviation Administration to dispose of land acquired with State Block Grant Program funds or other federal sources. If approved, the grantee must attempt to obtain fair market value for the property and the proceeds must be expended on the airport in a manner acceptable to the Department of Transportation and Federal Aviation Administration. In addition, any balance of funds from previous land disposals is considered encumbered and must receive similar approval for dispersal. ([AIP Handbook Table 5-39](#))

**Audit Objective** - Determine if appropriate permission and fair market value was obtained for the property disposition. Determine whether the proceeds of the sale were expended in accordance with program requirements.

#### **Suggested Audit Procedure**

1. Review minutes of the local government and other financial records to determine if land was disposed of during the period or if the local government was holding encumbered funds from past land disposals.
2. Review records to determine if the disposal was approved and what encumbrances, if any, were placed on the proceeds.
3. Review records of the expenditure of any encumbered funds to assure that they were disbursed in accordance with the terms of the encumbrance. Auditor should report amounts received from NCDOT as well as expenditures.

### G. MATCHING, LEVEL OF EFFORT, EARMARKING

1. **Compliance Requirement** -The share of allowable costs for a grant to be borne by FAA and other parties is established in the Grant Agreement. Matching ratios are specified in each Grant Agreement.

**Audit Objective** - Determine whether the subrecipient met the required level of participation.

**Suggested Audit Procedure** - Review the agreement for participation (usually expressed as a percentage) and test sample transactions for adherence to the agreement.

2. **Compliance Requirement** – In-kind contributions are allowable if specified in the project budget in the Grant Agreement. The requirements for In-kind contributions may be found in [CFR 49, Subtitle A, Part 18.24](#).

**Audit Objective** – Determine that the amount or percentage of contributions or matching funds was provided.

**Suggested Audit Procedure** – Verify that any In-kind match was from an allowable source and that values placed on the In-kind contribution are in accordance with [CFR 49, Subtitle A, Part 18.24](#).

### H. PERIOD OF PERFORMANCE

Each Grant Agreement discloses a period of performance in accordance with the OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ([2 CFR 200.309](#)). Refer to the Uniform Guidance Compliance Supplement ([2 CFR Part 200, Appendix XI](#)) for Suggested Audit Procedures. Awards specify a period during which the grantee may use the funds. The grantee may charge to the award only costs resulting from obligations incurred during the funding period.

**Audit Objective** – Determine that State funds were obligated within the period of performance as specified in the Grant Agreement.

#### **Suggested Audit Procedure**

1. Review the grant agreement to determine any requirements related to the period of performance of the funds.
2. Test a sample of transactions charged to the State award to ensure that the underlying obligation occurred within the period of performance as stated in the award agreement.

### I. PROCUREMENT, SUSPENSION & DEBARMENT

#### 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. ([Memorandum #2018-06, NC Department of State Treasurer, March 2018](#))

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

**Suggested Audit Procedure** – Verify that bids were properly solicited and that the contract was awarded to the lowest qualified bidder.

### J. PROGRAM INCOME



Grants from NCDOT to counties, municipalities, and airport authorities are not funds that generate income during the grant period. Therefore, this requirement is not applicable at the local level.

### K. RESERVED

### L. REPORTING

**Compliance Requirement** - "Quarterly Status Report" - Submitted quarterly beginning after notification of grant approval (Notice to Proceed) until project has been completed. This is verified and completed by the Division of Aviation; therefore, no audit procedures are needed at the local level ([FAA Form 5370-1](#)).

### M. SUBRECIPIENT MONITORING

No grants are awarded to subrecipients from the local level. Therefore, no audit procedures are needed at the local level.

### N. SPECIAL TESTS AND PROVISIONS

**Compliance Requirement** – [Title 49 USC, Subtitle VII Aviation Programs, Part C, Chapter 481](#) requires that all revenues generated by a public airport be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport system and are directly and substantially related to the actual air transportation of passengers or property. This section also provides that the limitation on the use of revenue generated by the airport shall not apply if the governing statutes controlling the owner's or operator's financing that was in effect before September 3, 1982, provided for the use of any revenue from the airport to support not only the airport but also the airport owner's or operator's general debt obligations or other facilities. Program guidance is provided in [FAA Order 5190.6A, Airport Compliance Requirements, Chapter 4, Section 5](#).

**Audit Objective** - Determine whether the airport owner or operator accounted for all revenue and expenditures in compliance with the provisions of Title 49 USC Subtitle VII as noted above.

#### **Suggested Audit Procedures**

1. Review the policy for using airport revenue.
2. Obtain financial records and perform tests of revenue use transactions (e.g., analysis of airport fund transfers, loans from the fund, interest payments to and from the fund, and expenditures) to verify that airport revenue is used for the capital or operating cost of the airport, or for the excepted costs specified in 49 USC Subtitle VII Aviation Programs.
3. Obtain financial records and perform tests of airport revenue generating activities (e.g., leases, telephone contracts, etc.) to ascertain that all revenue generated by the airport is accounted for.
4. Obtain financial records and perform tests of transactions to ascertain that payments from airport revenues to the sponsors, related parties, or other governmental entities

are airport-related, properly documented, and are commensurate to the services or products received by the airport. It is normal and permissible for municipal airport sponsors to use the services of its other municipal departments to obtain support services for the airport. However, the auditor should inquire as to whether the sponsor, other governmental entities, or related parties may receive airport-generated revenue without providing commensurate services or products to the airport.