

APRIL 2022

66.040

**DIESEL EMISSIONS REDUCTION ACT (DERA) STATE
GRANTS**

State Project/Program: STATE CLEAN DIESEL GRANT

U.S. Environmental Protection Agency

Federal Authorization: Diesel Emissions Reduction Act of 2010 codified at 42 U.S.C. 16131 et seq Further Consolidated Appropriations Act 2021 (P.L. 116-260)
2 CFR 200
2 CFR 1500 and 40 CFR 33

State Authorization: Not applicable

**North Carolina Department of Environmental Quality
Division of Air Quality**

Agency Contact Person – Program

**Brian Phillips
919-707-8426
Brian.phillips@ncdenr.gov**

Agency Contact Person – Financial

**Michele Godwin
919-707-8498
michele.godwin@ncdenr.gov**

Address Confirmation Letters To:

**Brian Phillips
NC Department of Environmental
Quality
Division of Air Quality
1641 Mail Service Center
Raleigh, NC 27699-1641
Brian.phillips@ncdenr.gov
cc: Kimberly Van Metre
Michele Godwin
kimberly.vanmetre@ncdenr.gov
michele.godwin@ncdenr.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.

Auditors may request documentation of monitoring visits by the State Agencies.

This compliance supplement must be used in conjunction with the OMB 2022 Compliance Supplement which will be issued in the summer. This includes “Part 3 - Compliance Requirements,” for the types that apply, “Part 6 - Internal Control,” and “Part 4 - Agency Program” requirements if the Agency issued guidance for a specific program. The OMB Compliance Supplement is Section A of the State Compliance Supplement.

I. PROGRAM OBJECTIVES

The Diesel Emissions Reduction Act provides funding through the Environmental Protection Agency to projects that will reduce emissions from diesel engines. All states are offered an allocation of funds with the option of a matching bonus. With the funds allocated to North Carolina, the Division of Air Quality set up a request for proposals to select worthy projects to reduce mobile emissions from diesel engines.

The purpose of the State Clean Diesel Grant program was to reduce emissions from North Carolina's mobile diesel emissions. Selected projects include retrofitting diesel engines with emission control devices and replacing or repowering older dirtier diesel engines with cleaner diesel, alternative fuels, or zero-emission engines.

This grant is a recurring annual allocation grant that ends on September 30 of each year, typically with a two-year federal funding cycle.

II. PROGRAM PROCEDURES

An informational website was set up to publicize the availability of the funding through the State Clean Diesel Grant. E-mails are sent to appropriate groups and individuals. Outreach to technology providers was also employed to reach sectors of diesel engine users. Through the DAQ webpage, email distribution lists, news releases, and informational meetings. Interested parties completed an application through the DAQ's Grant Management System (GMS). Eligibility requirements and timelines were provided on DAQ Mobile Sources Emissions Reductions Grant webpage.

DAQ invited government agencies, private organizations, businesses, and individuals to submit grant proposals. The applications were accepted during annual requests for proposals following each year's award (in some cases multiple award years are combined into a single request for proposals). An Internal Grant Review Committee comprised of DAQ staff members (Mobile Sources Compliance Branch Supervisor, Grant Administrator, and Environmental Specialist or their designee) reviewed the applications and made recommendation to the Grant Review Committee. The Grant Review Committee comprised of representatives from other State and local government agencies and industry make recommendations to the Secretary of the North Carolina Department of Environmental Quality (NC DEQ). Grant awards are approved by the NC DEQ Secretary. Grant recipients received an award letter and a contract detailing program requirements.

Grant recipients (sub awardees) submit invoices for vehicles, equipment, and eligible services purchased along with a copy of receipts or other proof of purchase and photographic evidence of vehicle destruction and installation of charging infrastructure, where applicable. Invoices are reviewed by the Grant Administrator to ensure the expenditures are appropriate and accurate. The Grant Administrator approves the requests for reimbursement. The Grant Administrator keeps a log of items purchased in each grantee's file. The Business Officer gives the Grant Administrator a quarterly status report of project funds to ensure accuracy. The Grant Administrator submits invoices to the Business Office, who processes expense reports for payment to the appropriate party.

Grant recipients are allowed to purchase the items/services as listed in their grant application unless otherwise stated in the grant contract. If certain items are unavailable, equivalent replacements will generally be accepted. Recipients are evaluated yearly to review the progress of the projects. Time extensions or redistribution of funds requests must be sent in writing to the Grant Administrator with justification. Requests for grant amendments and extensions must be approved by the Mobile Source Compliance Branch Supervisor and the DAQ Business Officer.

III. COMPLIANCE REQUIREMENTS

Noted below in the following matrix are the types of compliance requirements that are applicable to the federal program. These Types are determined by the federal agency, noted as “Y,” on the “Matrix of Compliance Requirements” located in Part 2 of the OMB 2020 Compliance Supplement;

If the Matrix indicates “Y,” the auditor must determine if a particular type of compliance requirement has a direct and material effect on the federal program for the auditee. For each such compliance requirement subject to the audit, the auditor must use the OMB 2020 Compliance Supplement, Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and Part 4 (which includes any program-specific requirements) to perform the audit.

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/ Cost Principles	Cash Management	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	Y	Y	Y	Y	Y	N	Y	N	N

A. Activities Allowed or Unallowed

Compliance Requirements

Projects must be directly linked to reducing diesel emissions.

Audit Objectives

Determine whether funds were expended only for allowable activities.

Suggested Audit Procedures

1. Auditors should refer to an individual grant contract and/or agreement document to determine the specific activities allowed for the grantee’s project.
2. Invoices, reports, and correspondence should also be reviewed to ensure that the contract guidelines are followed.

B. Allowable Costs/Cost Principles

Compliance Requirements

Items purchased must be in accordance with the budget approved by the Secretary of NC DEQ. All purchases should be costs directly related to a specific objective or project. If administrative services have been approved, specific amounts will be listed in the budget.

Audit Objectives

Ascertain whether charges made to State awards were for allowable costs.

Suggested Audit Procedures

1. Auditors should refer to an individual grant contract and/or agreement document to determine the itemized budget for the grantee's project.
2. Invoices and reimbursement approvals should be reviewed to verify that the costs are within the allowable limits.

C. Cash Management

Not Applicable. The grant recipients are paid on a reimbursement basis. DAQ reviews the invoices and verifies that payments are made before the grantee is reimbursed. Not testing is necessary.

D. Reserve

E. Eligibility

Compliance Requirements

In order for the grant recipient to receive grant funds, the grant recipient must meet the eligibility requirements set forth in the applicable request for proposal. DERA eligibility requirements are mandated by EPA and are outlined in both the Diesel Emissions Reduction Act (DERA) State Grant Programs Guide for the applicable grant cycle found on <https://www.epa.gov/dera/state> and in the North Carolina request for proposal issued for each grant cycle.

Audit Objectives

Determine if project meets eligibility requirements. Final eligibility is determined from the project description in the application and is made by the Grant Administrator. Eligibility is verified by either the Mobile Source Compliance Branch Supervisor or and Environmental Specialist or their designee.

Suggested Audit Procedures

Auditors should review the documentation in the Grant Management System to determine whether the Grant Administrator ensured that the project was eligible for funding prior to award.

F. Equipment and Real Property Management

Compliance Requirements

The grant recipient must document the destruction of the replaced vehicle or piece of equipment through photographic evidence prior to reimbursement and document the purchase of the new vehicle or piece of equipment.

If zero emission vehicle supply equipment is bought as part of a project, grant recipient must document the installation of the installed charging infrastructure through photographic evidence prior to reimbursement.

Funds shall not be made available or used to purchase or rent real estate or other capital costs (e.g., construction of buildings, parking facilities, etc.).

Audit Objectives

Ensure the ownership and the existence of the vehicle or piece of equipment purportedly purchased under the grant contract took place as specified by the contract. Ensure that the vehicle or piece of equipment that has been replaced has been destroyed per the requirements agreed to in the contract.

Suggested Audit Procedures

Physically inspect the vehicle or piece of equipment purchased by funds. Review asset inventory of recipient to ensure purchased vehicle or piece of equipment is owned and properly titled and that destroyed vehicle or piece of equipment is no longer a part of the inventory. If zero emission vehicle supply equipment was included in the project, physically inspect the equipment to ensure it is in working order and accessible for the purpose it was intended.

G. Matching, Level of Effort, Earmarking

Compliance Requirements

The amount of matching funds promised by the grant recipient can be found in the application and contract.

Audit Objectives

Determine whether the minimum amount or percentage of contributions or matching funds was provided.

Suggested Audit Procedures

Auditors should verify that matching funds were indeed provided.

Level of Effort – Not Applicable

Earmarking – Not Applicable

H. Period of Performance

Compliance Requirements

The “time period of agreement,” which gives the length of time the grant contract is valid, is found on the agreement information page of the contract. No contract may exceed three years. The grant recipient may submit a time extension at least thirty days prior to the original contract ending date. If three years or the ending date is reached prior to the completion of the project, normal DEQ Financial Services contracting procedures should be followed for a contract extension or new contract for the project. Reimbursements may only be submitted for purchases falling on dates covered by a contract.

Audit Objectives

Determine whether funds were obligated within the period of availability and obligations were liquidated within the required time period.

Suggested Audit Procedures

Auditors should compare dates of purchases with the time period of agreement or extension period. Auditors should review the federal grant documentation to ensure that the period of performance is within the applicable grant cycle.

I. Procurement and Suspension and Debarment

Compliance Requirements

Project award recipients must follow State procurement guidelines as found in G. S. 143, Article 3.

Audit Objectives

Determine whether procurements were made in compliance with applicable laws, regulations, statutes, or other provisions.

Suggested Audit Procedures

Auditors should review the procurement documentation and ensure that it complies with guidelines found in G. S. 143, Article 3.

Suspension and Debarment

The Grant Administrator verifies that applicants are neither suspended nor debarred by the State of North Carolina. The auditor will not need to verify.

J. Program Income

Not Applicable

K. Reserve

L. Reporting

Compliance Requirements

All grant recipients are required to submit final project reports. All rebate recipients are required to fully complete the rebate application and supply all necessary documents.

Reporting requirements as found in 09 NCAC Subchapter 3M and are included in the contract.

Quarterly Reports: In addition to these general reporting requirements, the federal grant requires quarterly reports for all projects administered under the grant. The Grant Administrator is required to prepare these reports in the format provided by EPA and will include financial information provided by the DAQ Business Officer. The Grant Administrator contacts all grant recipients for updates at the end of each quarter to include in the EPA report.

Final Reports: A final project report will include a narrative summary of the project or activity, project results (outputs and outcomes) including final emissions benefit calculations, and the successes and lessons learned for the entire project.

The grant recipient must provide in the final report:

- a. Evidence of appropriate vehicle/engine/equipment scrappage. Complete and include NC DAQ Form 001 Certificate of Destruction with required photographic evidence of vehicle(s) destruction.
- b. Photographic evidence of new vehicle/engine/equipment purchased. Complete and include NC DAQ Form 003 Certificate of Purchase with required photographic evidence of new vehicle(s).

A template for the final project report will be made available by NC DEQ on our webpage, <https://deq.nc.gov/about/divisions/air-quality/motor-vehicles-air-quality/mobile-source-emissions-reduction-grants>.

Audit Objectives

Determine whether required reports for awards 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

Trace the amounts reported to accounting records for amount distributed.

M. Subrecipient Monitoring

The grant recipients are not allowed to pass funds down to subrecipients. No testing necessary.

N. Special Tests and Provisions

Not Applicable