

STATE AID TO AIRPORTS PROGRAM

State Authorization: N.C.G.S. 63

NC DEPARTMENT OF TRANSPORTATION DIVISION OF AVIATION

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The auditor should not consider this 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.

Grant Agreement must be properly identified by program name “State Aid to Airports Program” 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 DOT-8.

I. PROGRAM OBJECTIVES

State Aid to Airports Program is the basic airport aid program of the North Carolina Department of Transportation. Under the terms of [North Carolina General Statutes Chapter 63](#), “the Department of Transportation is hereby authorized to provide State aid in the forms of loans and grants to cities, counties, and public airport authorities for the purpose of planning, acquiring, constructing, or improving municipal, county and other publicly owned or controlled airport facilities, and to authorize related programs of aviation safety, promotions, and long-range planning.” The objective of the State Aid to Airports Program is to provide financial assistance to local governmental units for planning, land acquisition, construction, navigational aids, terminal buildings, parking, and access roads for airports and heliports that will be open to the public.

Guidance for State Aid to Airports projects is contained in the [North Carolina Airports Program Guidance Handbook](#), reissued April 2016, which is available from the Department of Transportation. State grants are used to fund types of projects listed below:

- 1) Safety/Regulatory/Operations Projects - Airport projects that are needed or required to meet the Airport Development Plan (ADP) system objectives for that airport's classification.
- 2) Capital Improvement Projects - Airport projects that expand the airport for increasing capacity and/or alleviate congestion. The project must exceed the system objectives or regulatory requirements for the airport's infrastructure as listed in the Airport Development Plan (ADP).
- 3) Statewide Programs - Fund a specific type of project that can include, but is not limited to, weather reporting, wildlife services, and maintenance projects.

II. PROGRAM PROCEDURES

Local units of government including cities, counties, and airport authorities and commissions chartered by the General Assembly are eligible for airport grants. Airports/heliports receiving funds must be identified in the [North Carolina Airport System Plan \(NCASP\)](#).

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 North Carolina Department of Transportation (NCDOT) and depends upon the size of the airport, the location of the airport, and the category of project. Additional grants are made by the North Carolina Department of Transportation as part of the annual State Transportation Improvement Program (STIP).

All project requests must be submitted to the Department of Transportation Division of Aviation (DoA) or designee. The requests are currently submitted via a web-based software portal called Enterprise Business Services (EBS). 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.

The NC Airport Economic Development Fund was established in 2015 with the NC Competes Act ([§105-164.44M](#)). The program objective is to support infrastructure development projects at publicly owned and operated general aviation airports in response to time-sensitive economic development needs that will generate jobs and investment in the local community and state. Publicly owned and operated general aviation airports may submit an economic development project for funding consideration to the Aviation Business Development Manager. Projects that include business expansion, business relocation or improvements to the airport that result in net job growth for the state are eligible to apply for the grant.

III. COMPLIANCE REQUIREMENTS

Noted below in the following matrix are the types of compliance requirements that are applicable to the state program. These Types are determined by the State agency noted by "Y."

If the Matrix indicates "Y," the auditor must determine if a particular type of compliance requirement has a direct and material effect on the State program for the auditee.

1	2	3	4	5	6	7	8	9	10	12	13	14
Activities Allowed or Unallowed	Allowable Costs/ Cost Principles	Cash Management	Conflict of Interest	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	N	Y	Y	Y	Y	N	N	N	Y

1. ACTIVITIES ALLOWED OR UNALLOWED

Compliance Requirement - The [Handbook, Appendix F, Funding Eligibility by Project](#) (PDF Pages 105-113) contains a range of typical eligible and ineligible work elements considered to meet the provisions of [North Carolina General Statute Chapter 63](#). As with most compilations, it is not inclusive regarding either eligible or ineligible work elements. Sponsors wishing to undertake a work element that is not listed in this chapter should contact the DoA for further guidance on the eligibility of the specific work element contemplated.

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.

2. ALLOWABLE COSTS / COST PRINCIPALS

- Compliance Requirement** - The Division of Aviation has adopted the Cost and Cost Principals of the OMB Uniform Guidance ([2 CFR Part 200](#)). State funding is used to fund three overarching categories of types of projects:

- 1) **Safety/Regulatory/Operations Projects** - The projects that are eligible for funding are needed or required to meet the NC Airport Development Plan (ADP) system objectives for that airport's classification. Projects can be minor modifications to existing airfield geometric pavement edges. Examples of projects that qualify for Safety/Regulatory/Operations funding include:

- Land Acquisition to meet approach requirements (Clearing, RPZ or RSA)
- Pavement expansions to bring airport up to System Plan Objectives
- Airfield maintenance buildings
- Navigation and airfield lighting & signage
- Pavement overlay and rehabilitation
- Fencing

- 2) Capital Improvement Projects - Airport projects that are eligible for funds include projects that expand the airport for the purpose of increasing capacity and/or alleviate congestion. Several examples of these types of projects (and associated projects such as marking, lighting, etc.) include, but are not limited to, the following:

- Land acquisition for runway development projects
- Major pavement expansions for runway development projects
- New buildings (terminal or hangars)
- Projects that exceed the System Plan objectives and goals
- New airport
- Fuel facilities

- 3) Statewide Programs - The State provides 100% of the funding for most of these projects and there is no local match needed for participation in the programs. However, airports are responsible for ensuring their airports follow the appropriate safety procedures while the projects are underway, including ensuring appropriate insurance is in place, the issuance of Notices to Airmen (NOTAMS) when appropriate, and other assistance as necessary. The following State-funded special programs are available for North Carolina airport participation:

- Airport Safety Preservation Program
- Wildlife Hazard Management Program.
- AWOS Program

Audit Objective - Determine that all costs billed to the grant are allowable per [GS 63-74](#).

Suggested Audit Procedure - Verify through a sample of invoices that costs 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](#) (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 the project.

3. CASH MANAGEMENT

Compliance Requirement – Grantees of NCDOT are paid 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.

Audit Objective - For any reimbursement requests, determine whether supporting documentation was provided that showed costs matched the requested amount submitted to the NCDOT. For advance requests, determine whether the grantee followed procedures to minimize the time elapsing between the receipt of the NCDOT payment and determine if the payment to the vendor was paid within 3 business days of receipt of the NCDOT payment to the sponsor.

Suggested Audit Procedure – Select a sample of reimbursement requests and trace supporting documentation showing that the costs for which reimbursement was requested matches what was paid by the NCDOT.

Suggested Audit Procedure - The primary risk lies with advance payments to the airport sponsors. If any were advanced payment requests, then verify that the vendor was paid by the sponsor airport within three business days of receiving payment from the NCDOT.

4. CONFLICT OF INTEREST

[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 whether any grantee signature authority has personal interest in any grant contract.

Suggested Audit Procedure- Query any grant signature authority (or personnel with ability to 'pin' the grants) to determine if there are any with a personal interest or derive a personal interest in any grant funded project.

5. ELIGIBILITY

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

6. EQUIPMENT AND REAL PROPERTY MANAGEMENT

Each airport Sponsor should recognize that airports are also subject to wide range of state laws and regulations to the same extent that local governments are responsible. [GS Chapter 143: State Departments, Institutions, and Commissions](#) contains language which must be followed by all governmental units, including airports, with regard to purchasing, including bidding for construction, purchase of equipment, and employment of professional services. Airport Fire Fighting Equipment (ARFF) can be purchased on a case by case approval process from NCDOT as outlined in Table 2: ADP System Objections of the [Handbook, page 18.](#)

Compliance Requirement – Records and documentation must be kept supporting any equipment purchased with State funds. These records must support the costs presented to the Division of Aviation.

Audit Objective - Determine whether the:

1. Grantee maintains proper records for equipment and adequately safeguards and maintains the equipment.
2. Grantee has disposed of or encumbered any equipment acquired with State Awards. Verify that action was taken in accordance with the requirements of the Division of Aviation.

Suggested Audit Procedure

1. Select a sample of equipment transactions and test for compliance with the Division of Aviation's policies and procedures for management and disposition of equipment as outlined in the [Handbook](#).
2. Verify that the fixed asset or property records contain information about the equipment purchased with State funds. Such information could include a description, who holds title, acquisition date and cost, percentage of State participation in the cost, location, condition, and any ultimate disposition data, including the date of disposal and sales price, or method used to determine current fair market value.
3. Select a sample of equipment identified as acquired under State awards from the property records and physically inspect the equipment, including whether the equipment is appropriately safeguarded and maintained.

Appendix A of the Sponsor's Grant Assurances: General Conditions of the Executed Grant Agreement contains State Regulations & Statutory Requirements. The following items should be noted:

- A-4. The Sponsor agrees that any land purchased, facilities constructed, or equipment acquired under this Agreement shall not be sold, swapped, leased, or otherwise transferred from the control of the Sponsor without written approval of the Department.
- A-5. The Sponsor agrees that the state share of any land purchased, facilities constructed, or equipment acquired under this Agreement shall be credited to the Department in a manner acceptable to the Department in the event such land, facilities, or equipment are subsequently disposed of through sale or lease.

A copy of the Sponsor's Assurances: General Conditions is also attached to each executed agreement (were revised/updated December 2018).

Compliance Requirement - Grantees must obtain permission of the Department of Transportation to dispose of land acquired with State Aid to Airports funds. 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 (Note: If the land had been acquired with some form of Federal participation, involvement of the Federal Aviation Administration is also required). In addition, any balance of funds from previous land disposals is considered encumbered and must receive similar approval for dispersal.

Audit Objective - Determine if appropriate permission and fair market value was obtained. Determine the handling of funds from the sale.

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.

7. MATCHING, LEVEL OF EFFORT, EARMARKING

Compliance Requirement - For the State Aid to Airports Program, the only funds that are administered by the Department of Transportation are state funds. Matching ratios are specified in each Grant Agreement.

Audit Objective - Determine the level of participation as stated in the Grant Agreement.

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

Compliance Requirement – In-kind contributions are allowable if specified in the project budget in the Grant Agreement. The State Aid to Airports Program has adopted the requirements of [49 CFR Part 18.24](#) for In-kind contributions.

Audit Objective – Determine if the minimum amount or percentage of contributions or matching funds was provided as stated in the Grant Agreement.

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

8. PERIOD OF PERFORMANCE

Compliance Requirement – 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.

9. PROCUREMENT & SUSPENSION & DEBARMENT

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 purchase of apparatus, supplies, materials, or equipment requiring an estimated expenditure of public money 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 ([Page 5 Section 3 of the 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.

10. PROGRAM INCOME

N/A - 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.

11. RESERVED

12. REPORTING

N/A - “Quarterly Status Report” - Submitted quarterly beginning after notification of grant approval (Notice to Proceed) until project has been completed. Completion of the QSR submittals is verified by the Division of Aviation; therefore, no audit procedures are needed at the local level ([FAA Form 5370-1](#)).

13. SUBRECIPIENT MONITORING

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

14. SPECIAL TESTS AND PROVISIONS

Compliance Requirement - The Department of Transportation requires that all terminal buildings built with State Aid to Airports funds be open to the general public and that space within may not be leased or sold for private use without the concurrence of the

Department (except commercial service airports, where policies of the Federal Aviation Administration will govern such use).

Audit Objective - Determine that the building is used properly per the Grant Agreement.

Suggested Audit Procedure

1. Review income records and lease agreements to determine if any space in terminals was leased for private use.
2. Determine if leased space was constructed with State Aid to Airports funds.
3. Determine if any leased space constructed with State Aid to Airports funds did not receive the concurrence of the Department of Transportation for conversion to private use.

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 49 USC Subtitle VII as noted above.

Suggested Audit Procedures

1. Review the policy for using airport revenue.
2. Test 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. 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. 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.