

URBAN STATE MATCH

State Authorization: N. C. G. S. Article 2B of Chapter 136

**N. C. Department of Transportation
Integrated Mobility Division (IMD)**

Agency Contact Person – Program

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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 NCDOT Office of Inspector General (OIG) reviews all single audits, financial audits, and management letters of all “subrecipients”. 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 (“Urban State Match”), DOT number (“DOT-19”) and WBS number on the Schedule of Expenditures of Federal and State Awards. This information is available from the agreement with NCDOT; Grantor and program title 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 funds are shown by DOT number “DOT-19”.

I. PROGRAM OBJECTIVES

Grants are for Urban State Match Funding to be used as a match for both Federal (FTA and FHWA) and Local funded NC Urban Transit Projects. Federal Fund Sources include 5307 Urbanized Area Formula Grants, 5339 Bus and Bus Facilities, 5337 State of Good Repair Grants, 5310 Elderly and Disabled, and Discretionary grants from the U.S. Department of Transportation Federal Transit Administration (FTA). In addition, local funded projects are eligible for state match.

II. PROGRAM PROCEDURES

The (match) program funding is administered by the State. Local recipients are local governments, non-profit agencies designated as the public transit provider and transportation authorities designated as the public transit provider and each must submit funding applications.

Local recipients apply to the Integrated Mobility Division (IMD) by application that includes a copy of the approved Federal Transit Administration (FTA) application the purpose, scope, and proposed budget for the project. Following IMD review and approval, it will make a recommendation to the North Carolina Board of Transportation (BOT) regarding approval. Once the BOT approves the funding, IMD prepares the grant agreement between NCDOT and the local recipient. The electronic grant agreement is sent to the local recipient for signature and return to NCDOT. Once NCDOT signs the agreement an electronic copy will be saved for NCDOT, and the original will be sent to the local recipient. The grant agreement includes the purpose and scope of the project, identifies the total grant award, states the conditions for receipt of the financial assistance, specifies the state and local shares and the period of availability.

IMD also prepares and sends the local recipient an award letter, project budget and instructions/forms for invoicing and reporting. The agreement specifies that invoices shall be submitted quarterly but no more frequently than monthly. Any supporting documentation required of the subrecipient will be specified in the executed contract transmittal package. All forms and instructions are available through IMD.

Availability of Other Program Information

Refer to the FTA Capital Program (Section 5309) [Circular 9300.1B](#) and FTA Urbanized Area Formula Program (Section 5307) [Circular 9030.1E](#) on the FTA website for further information. (<https://www.transit.dot.gov/regulations-and-guidance/fta-circulars/final-circulars>).

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 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.

CC	1	2	3	4	5	6	7	8	9	10	12	13	14
Cross-cutting requirements	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	N	Y	Y	Y	N	Y	Y	Y	Y	N	N	N	N

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.

1. ACTIVITIES ALLOWED OR UNALLOWED

Compliance Requirement - Funds must be expended as specified in the funding application; the FTA Capital Program (Section 5309) [circular 9300.1B](#) and FTA Urbanized Area Formula Program (Section 5307) [circular 9030.1E](#), rules and regulations; the award letter; and the grant agreement, which incorporates the subrecipient's application (scope of services) by reference. On occasion, grants are made that do not match FTA funding, with only a local matching requirement. Eligible uses of the funds are limited to the subrecipient's approved application as defined in the approved Board of Transportation agenda for the Program. Applications are reviewed by IMD staff to determine if eligible projects are proposed. If ineligible projects are proposed, IMD staff informs applicants and applications are denied.

No testing is needed at the local level.

2. ALLOWABLE COSTS/COSTS PRINCIPLES

Compliance Requirement – Costs must be reasonable, necessary, allowable, and allocable and conform to any limitation or exclusion set forth by FTA and NCDOT laws, agreements, or circulars. A list of required documentation for each G-code is provided in the External Procedures - [Appendix EX-302-1](#).

Audit Objective – Determine whether costs charged are allowable, accurately, and adequately documented.

Suggested Audit Procedure – Select a sample of transactions charged to approved G-codes and perform procedures to verify that expenditures are accurate, properly allocated to the award, and adequately documented. Examine supporting documentation submitted by all subrecipients with requests for reimbursement (claims) to determine the claims are adequately supported.

3. CASH MANAGEMENT

Compliance Requirement - Project Agreements specify that this is a cost reimbursement program. If the subrecipient receives payment of federal and state funds in advance of incurring the cost, which is an exception to the general method of payment and only in extenuating situations, the funds must be paid to the vendor within three (3) days of receipt from the department. NCDOT relies on the Federal Compliance Supplement, Part 3, Cash Management for guidance.

Audit Objective – Determine if advanced funds were paid to the vendor within three (3) days of the subrecipient receiving reimbursement from the Department.

Suggested Audit Procedure – Examine documentation of transactions related to an advance to ensure it was approved by the Department and properly disbursed to the vendor.

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. Regional Grant Specialist (RGS) staff requires each subrecipient to submit Conflict of Interest statements from each member of the governing boards over seeing fiscal and program decisions, annually.

Audit Objective – Determine that public officials have avoided a conflict of interest.

Suggested Audit Procedure – Review a sample of conflict of interest statements from public officials involved in the contract.

Please refer to the DOT Cross-Cutting Supplement for additional testing procedures

5. ELIGIBILITY

Compliance Requirement - There are three categories of eligible subrecipients of these program funds:

- a. Private non-profit organizations.
- b. State or local governmental authority; and
- c. Operators of public transportation services, including private operators of public transportation services.

RGS staff reviews application documents to determine the type of entity an applicant is classified as during the application process. Applicants are required to submit proof of a current UEI registration number. In reviewing the UEI Registration Summary, the Business Type is listed under the Entity Registration Summary. If it is determined the applicant does not meet the requirement above as being classified as one of the three (3) types, the applicant is ineligible to apply for grant funding.

No testing is needed.

6. EQUIPMENT AND REAL PROPERTY MANAGEMENT

Recipients, with FTA approval, are allowed to transfer, sell, or lease property, equipment, or supplies acquired with Federal transit funds that are no longer needed for transit purposes. FTA may authorize the recipient to transfer the asset to a local governmental authority to be used for a public purpose (49 USC 5334 (h) (1) through (3)). If a recipient sells the asset, the proceeds must be used to reduce the gross project costs of another federally funded capital transit project (49 USC 5334(h)(4) or handled as stated in 49 CFR sections 18.31 or 18.32 (49 USC 5334(h)).

Vehicle Maintenance

Compliance Requirement - The subrecipient shall maintain all project equipment at a high level of cleanliness, safety, and mechanical soundness in accordance with the minimum maintenance requirements recommended by the manufacturer. The

subrecipient shall register all vehicle maintenance activities in a Comprehensive Maintenance Record or an electronic version of same. Vehicles and equipment acquired by designated Community Transportation Providers may be used only by:

- a. organization(s) as described in its application,
- b. organization(s) in coordinated services for a variety of elderly and/or persons with disabilities,
- c. operators under lease or other contractual agreement to provide only the services identified in the grant application or
- d. with the **prior** written approval of the Department of Transportation, vehicles and equipment may be used for other purposes provided that these other uses are consistent with uses outlined in the Community Transportation Services Plan (the subrecipient has a copy) and do not interfere with the primary purpose of service provision to elderly and disabled persons.

Audit Objective – Determine that the maintenance records were established as required by the agreement and that the agency has met the manufacturer’s minimum maintenance requirements.

Suggested Audit Procedure - Inspect the maintenance records to determine if the recipient’s maintenance program meets the minimum requirements as established by NCDOT and the agreement.

Disposition – Useful Life of Project Property

Compliance Requirement - Disposals of realty and related transit equipment must be in accordance with procedures established by the Department of Transportation and a portion of the funds received, as applicable, must be returned to the State and FTA in proportion to the original percentage of funds contributed. FTA and IMD provide useful life policies for vehicles and some equipment. Where a useful life policy has not been defined, the subrecipient must “make the case” by identifying the period of use for equipment valued more than \$5,000, and procured with federal funds. In the grant application, the subrecipient shall propose and identify the period of life used for the capital asset to be replaced with federal funds.

Audit Objective - Determine that the disposal and replacement for rolling stock and some equipment followed the policies outlined by FTA and/or IMD.

Suggested Audit Procedure

1. Interview responsible officials and review disposition records and determine whether there were any disposals of realty or related transit equipment.
2. Ascertain disposal prices for disposed items.
3. Review financial records and determine amounts credited or returned to the State, as applicable.

4. Determine that disposition approval was received from the NCDOT.

Proceeds from the Disposition of Vehicles and Equipment

Compliance Requirement - Proceeds retained from the disposition of vehicles and project equipment as established by the Department of Transportation must be used for transportation purposes. The funds cannot go to the general fund; a separate account is required. The State Management Plan for the Non-urbanized Area Formula Program, and any revisions or amendments to these documents.

Audit Objective - Determine if the proceeds from the disposition of vehicles and equipment were deposited to the proper account and if the proceeds were used correctly.

Suggested Audit Procedure - Ascertain that proceeds were used for transportation purposes.

Early Disposition

Compliance Requirement: Removal of an FTA-funded vehicle from revenue service before the end of its minimum useful life, except for reasons of fire, collision, or natural disaster, leaves the recipient liable to FTA for the federal share of the vehicle's remaining value. In the case of project equipment or supplies lost or damaged by fire, casualty, or natural disaster, the fair market value must be calculated on the basis of the condition of the equipment or supplies immediately before the fire, casualty, or natural disaster, irrespective of the extent of insurance coverage. Subrecipients are required to report to IMD within 24 hours, provide the police report and any other relevant documentation pertinent to the identification of and possible replacement of said vehicle or project equipment. Consistent with this policy, the suggested vehicle or project equipment's useful life standards stated above in years refer to time in normal service, not time spent stockpiled or otherwise unavailable for regular transit duty. Please see FTA's Grant Management Requirements Circular 5010.1 for more information on disposition.

Audit Objective – Determine the reason for early disposition and verify documentation was adequately provided. Determine the timeliness of subrecipient reporting of the reason for early disposal.

Suggested Audit Procedure – Secure relevant documentation that outlines the use of the vehicle or project equipment in accordance under which the Agreement is implemented.

6. MATCHING, LEVEL OF EFFORT, EARMARKING

Matching

Compliance Requirement – The grant agreement, the proposed budget and the award letter will identify the State share and the local share. The State participation cannot exceed the amount stated in the grant agreement, grant award letter and approved project budget. The local share may increase for unallowable costs or costs exceeding project budget that must be absorbed at the local level.

The local match is usually in the form of cash contribution towards allowable costs incurred. However, in-kind matches are allowable for **some** projects with **prior** written permission of NCDOT.

Audit Objective - Determine whether the subrecipient provided the minimum amount or percentage of local contributions or matching funds set forth in the grant agreement.

Suggested Audit Procedures

1. Examine the approved project budget and any subsequent budget revisions and amendments. Ascertain the total project costs. Review financial records and determine the amount which can be claimed as the Federal and State share. Ascertain that if total project costs were exceeded, the local share increased and covered the costs.
2. Ascertain the sources of matching contributions and verify that they were from an allowable source.
3. Test transactions used to satisfy the local match requirements for compliance with the allowable costs/cost principles requirements.

Level of Effort – No testing is required at the local level.

Earmarking – No testing is required at the local level.

8. PERIOD OF AVAILABILITY OF STATE FUNDS

Compliance Requirement - The eligible project costs are to be completed within the timeframe specified in the agreement unless a written authorization was requested and received from NCDOT prior to the end of the period of performance identifying the new contract end date.

Audit Objective – Determine whether funds were obligated and expended in accordance with the time frame specified in the agreement or in accordance with a period of performance approval letter if the project exceeded the initial contract period.

Suggested Audit Procedure - Test transactions recorded during the period of availability and verify that expenditures occurred within the period of availability. Test adjustments (i.e. manual journal entries) and verify that adjustments were for transactions during the period of availability. Test transactions charged to the program after the end of the period of availability to verify that the underlying obligation occurred within the period of availability.

9. PROCUREMENT AND SUSPENSION AND 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 purchases of apparatus, supplies, material, or equipment 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 bids were properly solicited and that the contract was awarded to the lowest qualified bidder.

10. PROGRAM INCOME

IMD does not pass this requirement to its subrecipients.

No testing is required at the local level.

11. RESERVED

12. REPORTING

Compliance Requirement - Invoices are submitted, after expenses have been incurred, for reimbursement as set forth in the grant agreement. Other support documents are required to be submitted with the claim such as: DBE Report, Program Progress Report, and support documents to show proof of payment for the expenses being reimbursed. IMD staff reviews documents at two levels prior to costs being submitted for approval. The RGS staff reviews documents, advances the claim request to Finance for review and approval prior to submitting for payment.

No testing needed at the local level.

13. SUBRECIPIENT MONITORING

NCDOT passes this oversight requirement to its subrecipients when they choose to pass the funds down further to another subrecipient. Oversight requirements include periodic program and financial reporting, on-site visits, attendance at required trainings and periodic compliance reviews. If subrecipients pass grant funds to a third party, the IMD subrecipient is required to complete all required grant reports to the extent that it may involve collecting data from the third party.

No testing is needed at the local level.

14. SPECIAL TESTS AND PROVISIONS

No testing is required at the local level.