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, pass-through and state funding, NC Department of Transportation (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 (“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; program name is in the second/third paragraph while the work order number is on the upper right hand corner of the first page. Grantor and/or pass-through grantor 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 CFDA number 20.106.
I. PROGRAM OBJECTIVES

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

States, counties, municipalities, U. S. territories and possessions, and other public agencies, including Indian tribes or Pueblos are eligible for airport development grants if the airport on which the development is required is listed in the National Plan of Integrated Airport Systems (NPIAS). Applications for grants must be submitted to the nearest Federal Aviation Administration (FAA) Airports District Office (ADO). Primary airport sponsors must notify FAA by January 31 or another date specified in the Federal Register of their intent to apply for funds that they are entitled to under 49 USC Subtitle VII Aviation Programs (www4.law.cornell.edu/uscode/49/ or www.access.gpo.gov). A reminder is published annually in the Federal Register. Other sponsors are encouraged to submit early in the fiscal year and to contact the appropriate FAA Airports District Office representative for any local deadlines. Sponsors must formally accept grant offers no later than September 30 for grant funds appropriated for that fiscal year.

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 Federal Aviation Administration 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 and cannot opt to work directly with the Federal Aviation Administration.

Grants are made by the North Carolina Department of Transportation as part of the annual Transportation Improvement Program (TIP). Requests must be submitted on forms provided by the Department of Transportation. Review and approval of the grants are then made in the Transportation Improvement Program published in mid-year. In addition, if funds are available later, grants may be made for new or expanded projects later in the year. All grants requests are made to the Division of Aviation, and given final approval by the Secretary of Transportation. (Non-Primary Entitlement (NPE-Vision 100) projects do not require approval of the Secretary of Transportation.)

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 OMB Circular A-133 Compliance Supplement (Sect. A of the State Compliance supplement).

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to OMB A-133 Compliance Supplement, Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements. The OMB A-133 Compliance Supplement may be found at www.whitehouse.gov/omb/circulars.

OMB has issued an addendum to Circular A-133 on June 30, 2009. This addendum supplements the 2010 OMB Circular A-133 Compliance Supplement (Supplement) to provide additional guidance for programs (including clusters of programs) with expenditures of American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5) (ARRA) awards that the auditor determines are major programs in audits performed under OMB Circular A-133. This addendum is effective for audits of fiscal years beginning after June 30, 2008. It should be used in conjunction with other Parts and Appendices of the Compliance Supplement in determining the appropriate audit procedures to support the auditor’s opinion on compliance for each major program with expenditures of ARRA awards. This addendum may be found at http://www.whitehouse.gov/omb/assets/a133_compliance/arra_addendum_1.pdf.

A. ACTIVITIES ALLOWED OR UNALLOWED

**Compliance Requirement** - Grants can generally 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 federal fiscal year 2004 reauthorization of the AIP bill (short title – Vision 100) allows for non-primary entitlement funds to be used for terminal buildings and parking, fuel farms, hangars and reimbursement for pre approved construction projects.

**Program guidance is provided in FAA Order 5100.38C, Airport Improvement Program Handbook. FAA Order 5100.38C may be found at**
http://www.faa.gov/airports/aip/aip_handbook/


A list of non-allowable items under the grant program can be found at in FAA Order 5100.38C, Chapter 3, Section 2.

B. ALLOWABLE COSTS/COST PRINCIPLES

**NOTE:** State Block Grant Program is a Federal program under 49 USC 47128 and is subject to Federal cost principles under OMB Circulars A-87 and A-122.
1. **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.

2. **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.

C. **CASH MANAGEMENT**

**Compliance Requirement** – Grantees of NCDOT are funded on a reimbursement basis. Grantees should pay vendors prior to or within 3 business days of receipt of the NCDOT reimbursement.

**Audit Objective** - Determine whether the grantee followed procedures to minimize the time elapsing between the receipt of the NCDOT reimbursement and the payment to the vendor.

**Audit Procedure** – Select a sample of reimbursement 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.

F. **EQUIPMENT AND REAL PROPERTY MANAGEMENT**

NOTE: Equipment purchased with State Block Grant funds is subject to Federal regulations as applicable under A-102 Common Rule, OMB Circular A-110, and FAA AC No. 150/5100-10A.

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.

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

Matching
1. **Compliance Requirement** - The share of allowable costs for a particular grant to be borne by FAA and other parties is established in the grant agreement.

   For the State Block Grant Program, the North Carolina Department of Transportation administers both state* and federal funds for airports classified by the Federal Aviation Administration as "general aviation", "general aviation-reliever", and "commercial service". Matching ratios are:

   For existing airports, the federal share may not exceed 90% of the total final eligible project costs. The state share may not exceed 50% of the total final non-federal share of eligible project costs.

   For the initial construction of new airports, the federal share may not exceed 90% of the total final eligible project costs.

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 (www.gpoaccess.gov/cfr/index.html).

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

   **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, Subtitle A, Part 18.24.

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.

   **Audit Objective** - Determine if construction or purchase is subject to the bid process, formal or informal.

   **Suggested Audit Procedure** - Verify that municipality has properly solicited bids and that the contract was awarded to the lowest qualified.

   **Procurement**

   **Compliance Requirement - American Recovery and Reinvestment Act Reporting (ARRA).** In addition to those statutes listed in the A-102 Common Rule and OMB Circular A-110,
Section 1605 of ARRA prohibits the use of ARRA funds for a project for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. ARRA provides for waiver of these requirements under specified circumstances. An award term is required in all awards for construction, alteration, maintenance, or repair of a public building or public work (2 CFR section 176.140). Further information about this requirement, including applicable definitions, is found in 2 CFR part 176, Subpart B located at http://edocket.access.gpo.gov/2009/pdf/E9-9073.pdf.

**Audit Objective** – Determine whether an award using ARRA funding includes a Buy-American award term and, if so, whether the recipient is complying with the Buy-American provisions of ARRA or if any waivers have been granted.

**Suggested Audit Procedure** – Select a sample of ARRA-funded procurements, if any, for activities subject to Section 1605 of ARRA and test whether the non-Federal entities requested and received any exceptions to Buy-American requirements; and test the sample of procurements to ascertain if entities are otherwise in compliance with the ARRA requirements.

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.

L. REPORTING

**Compliance Requirement**- The Department of Transportation requires that certain "AV Forms" be submitted by the local government/authority to the NC Department of Transportation at various stages of the project.

**The forms, which must be used by projects are:**

- AV-CERT (AV-500) “Certification of Local Funds and Accounting Information” (submitted after notification of grant approval)
- AV-REQUEST (AV-501) “Request for Aid” (submitted prior to execution of Grant Agreement.
- AV-STATUS (AV-502) “Quarterly Project Status Report” (submitted quarterly beginning after notification of grant approval until project has been completed and accepted by the Department of Transportation)
- AV-CONCUR (AV-503) “Project Concurrence and Notice to Proceed” (submitted after execution of Grant Agreement and before work commences on the project)
- AV-BUDGET (AV-504) “Projected Project Budget” (effective January 1, 2011 the AV-504 Budget is submitted with the Grant application package and revised as necessary to reflect current project budget)
- AV-PAY (AV-505) “Request for Interim Payment” (submitted for each payment requested as work progresses, no more frequently than monthly). Effective May 1, 2004 invoices must accompany each request.
AV-FINAL (AV-506) “Project Completion and Final Payment Request” (submitted when all work on the project is complete and accepted, and all invoices for work on the project have been paid). Effective May 1, 2004 invoices must accompany each request.

AV-TIME (AV-507) “Request for Extension of Time to Complete Project” (submitted when the period of performance is expiring and the project cannot be completed prior to the expiration date. This is not automatic with filing the form; this must be approved by the Division of Aviation in order not to violate the Grant Agreement. The airport should not assume the time will be extended prior to receiving the notice of approval.)

AV-DBE Pre Bid (AV-508) DBE/MBE/WBE Goal Notification and Certification (submitted when the “goal” has been determined

AV-POSTBID (AV-509) DBE/MBE/WBE/HUB VENDOR COMMITMENT/AWARDS (submitted after bids have been made, making sure to include all DBE/MBE/WBE/HUB to be used on the project.)

AV-VENDPAY (AV-510) DBE/MBE/WBE/HUB VENDOR PAYMENTS (submitted with each pay request that involves a sub recipient payment to an approved DBE/MBE/WBE/HUB.)

RS 2 PRIME CONSULTANT
(To be used with Professional Services Contract Only – Race & Gender Neutral)

RS 2 SUB CONSULTANT
(To be used with Professional Services Contract Only – Race & Gender Neutral)

Compliance Requirement - American Recovery and Reinvestment Act Reporting (ARRA). The NC Department of Transportation (NCDOT) is responsible for reporting project ARRA data to the Federal awarding agency. The subrecipient is responsible for reporting project ARRA data to NCDOT. Appropriate documents to meet the reporting requirements are provided to the subrecipient independent of the contract. In all cases (including months where no project work was performed), Project Status Reports are due to NCDOT by the 5th of each month and Employment Data Reports are due to NCDOT by the 7th of each month until the completion of the project.

Audit Objective – Determine that monthly Project Status Reports and Employment Data Reports were submitted timely and are accurately prepared.

Suggested Audit Procedure - Ascertian that the grantee has accurately prepared the two ARRA data reports and documentation supports the reports.

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 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.

Special Tests and Provisions for Awards with ARRA Funding:

1. Compliance Requirement – As provided in 2 CFR section 176.210, recipients of ARRA funds must maintain records that identify adequately the source and application of ARRA awards.

   Audit Objective – Determine whether accounting records for ARRA funds provide for the separate identification and accounting required for ARRA awards and activity.

   Suggested Audit Procedure – Ascertain if expenditures of ARRA awards are accounted for separately from expenditures of non-ARRA awards.

2. Compliance Requirement – Recipients of ARRA funds must identify the ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA).

   Audit Objective – Determine whether the entity met the requirements for reporting expenditures of ARRA awards on the SEFA and that reported amounts are supported by the
accounting records and fairly presented in accordance with ARRA and program requirements.

**Suggested Audit Procedure** – Verify that the SEFA properly identifies and reports expenditures of ARRA awards and that reported expenditures are supported by accounting records.

3. **Compliance Requirement** – If ARRA funds are passed from an entity to a subrecipient, the entity must: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification (as noted in Compliance Requirement number 2 above) in their SEFA and reporting of data.

**Audit Objective** – If subawards of ARRA funds were made, determine whether the entity met the requirements for separately identifying to each subrecipient, and documenting at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and required their subrecipients to provide appropriate identification in their SEFA and reporting data.

**Suggested Audit Procedure** – Verify that the entity separately identified to each subrecipient, and documented at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and required their subrecipients to provide appropriate identification in their SEFA and reporting data.