

**20.507 FEDERAL TRANSIT — FORMULA GRANTS (URBANIZED AREA FORMULA PROGRAM)**

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**State Project/Program: URBANIZED AREA FORMULA GRANT PROGRAM  
STATEWIDE MATCH – DOT-11  
URBAN STATE MATCH – DOT-19**

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**U. S. DEPARTMENT OF TRANSPORTATION**

**Federal Authorization:**

**Urbanized Area Formula Program 49 U.S.C. 5307**

**State Authorization:**

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The auditor should not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in an 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 in the Office of Inspector (OIG) reviews all 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.

Grants must be properly identified by program name (Urbanized Area Formula Grant Program), CFDA number (“20.507”), and WBS number on the Schedule of Expenditures of Federal and State Awards. This information is available in the agreement with NCDOT; the funding program name, project number, FAIN, DUNS and total amount of the award are on the first page of the Agreement. The WBS number, grantor and/or pass-through grantor, program funding title and CFDA number (20.507) are included in the Agreement. 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 the NCDOT’s confirmation from the Grant Master List (GML), these funds are shown as part of CFDA Number 20.507.

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### **I. PROGRAM OBJECTIVES**

The objective of the Urbanized Area Formula Program (5307 program) is to assist in financing the planning, acquisition, construction, preventive maintenance, and improvement of facilities and equipment in public transportation services. An urbanized area is an incorporated area with a population of 50,000 or more that is designated as such by the U.S. Department of Commerce, Bureau of the Census. Funding is made available to designated recipients that are public bodies with the legal authority to receive and dispense federal funds. Governors, responsible local officials and publicly owned operators of transit services shall designate a recipient to apply for, receive, and dispense funds for urbanized areas pursuant to [49USCA5307\(a\)\(2\)](#). The Governor or Governor's designee acts as the designated recipient for urbanized areas between 50,000 and 200,000.

### **II. PROGRAM PROCEDURES**

Funding is apportioned through legislative formulas. For areas of 50,000 to 199,999 in population, the formula is based on population and population density. For areas with populations of 200,000 and more, the formula is based on a combination of bus revenue vehicle miles, bus passenger miles, fixed guideway revenue vehicle miles, and fixed guideway route miles as well as population and population density. The federal share is not to exceed eighty (80) percent of the net project cost for capital expenditures. The federal share may be ninety (90) percent for the cost of vehicle-related equipment attributable to compliance with the Americans with Disabilities Act and the Clean Air Act. The federal share may not exceed fifty (50) percent of the net project cost of operating assistance.

Eligible activities include: planning, engineering, design and evaluation of transit projects and other technical transportation-related studies; capital investments in bus and bus-related activities such as replacement, overhaul and rebuilding of buses, crime prevention and security equipment and construction of maintenance and passenger facilities; and capital investments in new and existing fixed guideway systems including rolling stock, overhaul and rebuilding of vehicles, track, signals, communications, and computer hardware and software. In addition, associated transit improvements and certain expenses associated with mobility management programs are eligible under the program. All preventive maintenance and some Americans with Disabilities Act complementary paratransit service costs are considered capital costs.

For small urbanized areas with populations of at least 50,000 but less than 200,000 operating assistance is an eligible expense. Urbanized areas greater than 200,000 may not use funds for operating assistance unless identified by FTA as eligible under the Special Rule.

**Coronavirus Aid, Relief, and Economic Security (CARES) Act:** On Friday, March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law. The CARES Act provides emergency assistance and health care response for individuals, families and businesses affected by the COVID-19 pandemic and provide emergency appropriations to support Executive Branch agency operations during the COVID-19 pandemic.

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FTA allocated \$25 billion to recipients of urbanized area and rural area formula funds, with \$22.7 billion to large and small urban areas and \$2.2 billion to rural areas. Funding was provided at a 100-percent federal share, with no local match required, and available to support capital, operating, and other expenses generally eligible under those programs to prevent, prepare for, and respond to COVID-19.

Operating expenses incurred beginning on January 20, 2020 for all rural and urban recipients, even those in large urban areas, are also eligible, including operating expenses to maintain transit services as well as paying for administrative leave for transit personnel due to reduced operations during an emergency.

For the most current guidance from FTA, please visit <https://www.transit.dot.gov/cares-act>.

### **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; however, the State Agency may have added the Type and this is noted by “Y.” If the State determines that the federal requirement does not apply at the local level or if the State modifies the federal requirements, this is noted in the supplement under the type of compliance requirement. If the federal and/or State agencies have determined that the type is not applicable, it is noted by “N.”

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.

If there is no program listed on the “Matrix” in Part 2 or Part 4, the State has determined the Type that is applicable. If a Type is determined direct and material, the auditor should refer to the requirements found in Part 3 and listed in this supplement.

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CC	A	B	C	E	F	G	H	I	J	L	M	N
Cross Cutting Requirements	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 &	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N

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The federal granting agency has issued a compliance supplement that should be used in conjunction with this compliance supplement issued by the State Agency. Please refer to [2 CFR 200](#) Final Rule.

## A. ACTIVITIES ALLOWED OR UNALLOWED

**Compliance Requirement** - Eligible uses of grant funds are limited to the subrecipient's approved application and signed grant award as defined in the approved Board of Transportation agenda for the Program. Section 5307 funds are available for the planning, engineering, design, and evaluation of public transportation projects and for other technical transportation-related studies. Eligible activities include, but are not limited to: studies relating to management, operations, capital requirements, and economic feasibility; work elements and related activities preliminary to and in preparation for constructing, acquiring, or improving the operation of facilities and equipment; plans and specifications; evaluation of previously funded projects; job access and reverse commute projects; and other similar or related activities before and in preparation for the construction, acquisition, or improved operation of public transportation systems, facilities, and equipment.

**CARES Act** - The CARES Act provides funds to prevent, prepare for, and respond to COVID-19 and provides funds for expenses eligible under Section 5307. Funds available under the CARES Act are available for all operating activities (net fare revenues) that occur on or after January 20, 2020. The CARES Act provides funds for eligible expenses under Sections 5307. In general, operating expenses are those costs necessary to operate, maintain, and manage a public transportation system. Operating expenses usually include such costs as driver salaries, fuel, and items having a useful life of less than one year, including personal protective equipment and cleaning supplies.

Administrative leave is an eligible expense for operations and maintenance personnel whether those personnel are in-house or employed by contractors. Recipients may also modify contracts to pay for eligible operating/maintenance expenses required to retain readiness or eligible fixed operations/maintenance expenses such as rent, even if service is reduced.

Only expenses directly related to responding to COVID-19 are considered emergency relief and eligible for Section 5307 funds under the FTA's Emergency Relief Program. See the [Emergency Relief Manual](#) (49 U.S.C. 5324). Examples of such expenses include:

- Removal of health and safety hazards, such as cleaning of vehicles and facilities
- Costs associated with shutting down or restarting service
- Materials such as hand sanitizer, gloves, soap, and cleaners
- Emergency protective gear relevant to the emergency
- Temporary service, that is not part of regular service, provided in response to the emergency

**Audit Objective** – Determine whether grant funds were spent for only allowable activities approved in the subrecipient's application approved by the Board of Transportation.

**URBANIZED AREA FORMULA GRANT PROGRAM****Suggested Audit Procedures –**

1. Review the approved application to determine activities allowed categorized by M-Codes
2. Select a sample of transactions charged to approved M-Codes and perform procedures to verify that:
  - a. Activities were allowable.
  - b. Individual transactions were properly classified and accumulated into the activity.

**B. ALLOWABLE COSTS/COST PRINCIPLES**

**Compliance 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. The costs must be reasonable, necessary, allowable and allocable and conform to any limitation or exclusion set forth by laws, agreements or circulars. Program funds must be used for public transportation capital projects, operating assistance, job access and reverse commute projects, and for transportation-related planning to support the continuation and expansion of public transportation services the in provider's service area. Section 5307 supports public transportation by:

- a. assisting in the planning, engineering, design, construction, evaluation, and maintenance of public transportation projects, equipment, and facilities;
- b. facilitating cooperation between public transportation companies and private companies engaged in public transportation to encourage the planning and establishment of areawide public transportation systems needed for economical and desirable urban development;
- c. encouraging mobility management, employment-related transportation alternatives, joint development practices, and transit-oriented development;
- d. providing financial assistance to states and local governments to help carry out national goals related to mobility for all, including elderly individuals, individuals with disabilities, and economically disadvantaged individuals;
- e. investing in bus and bus-related activities such as replacement, overhaul, and rebuilding of buses; and
- f. investing in crime prevention, public transportation safety, and security equipment.

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

**Suggested Audit Procedure** - Examine supporting documentation submitted with requests for reimbursement (claims) to verify only eligible costs were reimbursed.

**C. CASH MANAGEMENT**

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**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.

**Audit Objective** – Determine if advanced funds were disbursed within three days and that remaining costs were reimbursed following grantee expenditure.

**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.

D. RESERVED

E. ELIGIBILITY

**Compliance Requirement** - Eligible subrecipients are Small Urban Transit System for which NCDOT has oversight. *Large Urban Sub Allocations:* Designated recipients of 5307 funds are required to create a method to allocate 5307 funds to all providers inside the urbanized area. IMD requires this from all designated recipients; however, the method to allocate the funds is entirely up to the designated recipient. If the designated recipient chooses to sub-allocate any funds, a split letter must be created and sent to FTA for funds to go to the correct recipient. The providers to which funds are sub-allocated can be or become direct recipients to FTA or subrecipients of the designated recipient. Integrated Mobility Division (IMD) may take oversight of these subrecipients on behalf of the designated recipient if the subrecipient receives Section 5311 funds. If this situation does not occur, the designated recipient has full oversight of their subrecipients.

*5307 Governor's Apportionment:* When the population of an area reaches 50,000-200,000 the area is considered to be a small urban and is eligible to receive 5307 funding. IMD is responsible for allocating funds apportioned to small urban areas (populations of 50,000-200,000), through the 5307 Governor's Apportionment. IMD allocates these funds through a split letter to FTA. IMD creates one split letter per fiscal year and designates funds based on eligible recipient's 5-year, needs-based budgets which are submitted to IMD. Only small urban providers that receive Section 5311 funds may become IMD subrecipients for Section 5307 funds. All other providers must apply to FTA for the funds.

*Needs-based budget:* Small urban transit systems are required to submit a 5-year needs-based budget annually to IMD which outlines the status of current FTA grants and projected expenses and revenues for the next 5 fiscal years.

No testing is needed.

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### **F. EQUIPMENT AND REAL PROPERTY MANAGEMENT**

NCDOT approves the subrecipient's application, and FTA receives a list of subrecipients. Section 14. Real Property, Equipment and Supplies of the contract between NCDOT and the subrecipient outlines the terms and conditions of project activities for which the subrecipient may be reimbursed. The Subrecipient understands and agrees that the Federal or State Government retains an interest in any real property, equipment, and supplies financed with Federal or State assistance (Project property) until, and to the extent, that the Federal or State Government relinquishes its Federal or State interest in that Project property. With respect to any Project property financed with Federal or State assistance under Agreements with IMD, the Subrecipient agrees to comply with all provisions included in the Agreement/Contract, except to the extent FTA or the Department determines otherwise in writing.

#### Useful Life of Project Property

1. **Compliance Requirement** - FTA provides a useful life policy for rolling stock, trolleys, ferries, facilities, and some equipment. Where a useful life policy has not been defined by FTA, the grantee, in consultation with the FTA regional or metropolitan office, must "make the case" by identifying a useful life period for all equipment, rolling stock, and facilities with an acquisition value greater than \$5,000 to be procured with federal funds. In the grant application, the grantee shall propose and identify a useful life for the capital asset to be purchased with federal funds. FTA approval of the grant represents FTA concurrence of the final determination of useful life for the purpose of project property acquisition. This in turn will identify the useful life of the federal interest for the disposition of the project property in later years. For additional information on useful life policy for a bus, van, trolley, rail rolling stock, and ferries, and to determine the useful life of such project property, please refer to FTA's Grant Management Requirements Circular 5010.1.

**Audit Objective** – Determine the maintenance records were established as required by the Agreement and that the agency has met the FTA & IMD Capital Replacement Schedule to verify 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.

#### Early Disposition

2. **Compliance Requirement** -

FTA calculates the value of vehicles before the end of their minimum useful life on the basis of a formula using straight-line depreciation. Straight-line depreciation is a term most often used to indicate that personal property has declined in service potential. 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

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extent of insurance coverage. Consistent with this policy, the suggested vehicle 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 that the disposals of realty and equipment followed procedures.

**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. Determine whether dispositions received a Fair Market Value (FMV) assessment prior to disposal.
3. Ascertain disposal prices for early disposed realty and equipment.
4. Review financial records and determine amounts credited or returned to the state, as applicable.
5. Determine whether disposition approval was received from the NCDOT.
6. Select a sample of early disposed vehicles to verify proper disposal steps were implemented.

Proceeds from the Disposition of Vehicles and Equipment

3. **Compliance Requirement** - Proceeds retained from the disposition of vehicles and related 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 Asset Management/Maintenance & Disposition Sections of the [2016 State Management Plan](#) addresses disposition of equipment.

**Audit Objective** - Determine if the proceeds from the disposition of vehicles and equipment were deposited to the proper account, reported to IMD and if the proceeds were used to further public transportation activities correctly.

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

## G. MATCHING, LEVEL OF EFFORT, EARMARKING

## 1. Matching

**Compliance Requirement** – The grantee must pay at least the local share percentage specified in the grant contract. Local funds must be applied to the uses for which they were committed. Under the 5307 program, the maximum Federal share is eighty (80) percent of the net project cost for a capital project and fifty (50) percent of the net project cost for operating assistance ([49 USC 5307\(d\)\(1\) and \(2\)](#)).

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**CARES Act** - Funds provided under the CARES Act are available at a 100-percent federal share to maintain operations. CARES Act funds generally may not be used to meet the local match requirement for other FTA or DOT grants (49 U.S.C. § 5307(d)(3)).

**Audit Objective** - Determine whether the minimum percentage of contributions for matching funds was provided and from the allowable source.

### **Suggested Audit Procedure –**

1. Examine the agreement renewal letter and any subsequent budget revisions and amendments.
  2. Ascertain the total project costs, including those eligible for NCDOT participation.
  3. Review financial records and determine the amount which can be claimed as the Federal and State share. The Uniform Public Transportation Accounting System ([UPTAS](#)), revised May 2018, defines eligible reimbursable line item expenditures.
  4. Verify the match source is from the allowable source as identified in the approved local share certification form submitted to IMD.
2. Level of Effort – Not Applicable
  3. Earmarking – Not Applicable
    - a. One percent of 5307 program funds apportioned to urbanized areas with a population of at least 200,000 shall be expended for public transportation security projects. These projects may include increased lighting in, or adjacent to, a public transportation system (including bus stops, subway stations, parking lots, and garages); increased camera surveillance of an area in or adjacent to that system; providing an emergency telephone line to contact law enforcement or security personnel in an area in or adjacent to that system; and any other project intended to increase the security and safety of an existing or planned public transportation system. If the recipient certifies that the expenditure for security projects is not necessary, the one percent expenditure is not required. This requirement applies at the UZA level, not to an individual grant or grantee ([49 USC 5307 \(d\)\(1\)\(J\)\(i\)](#)).
    - b. Under the 5307 program, not more than 0.5 percent of funds may be expended for human resources and workforce development activities, including training. An additional 0.5 percent may be expended for training provided at the National Transit Institute or through a State-contracted training provider (49 USC 5314 (b) and (c)).

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### H. PERIOD OF PERFORMANCE

**Compliance Requirement** - The federal funds are available for the state fiscal year of the Unified Planning Work Program (July 1 through June 30). All tasks must be completed within the period specified on the annual program budget that is provided following federal grant award. With approval of NCDOT, the period of performance may be extended an additional three months through September 30 for tasks that have been initiated, but not completed. Expenses incurred beyond September 30 are ineligible for reimbursement by the division. Period of Performance extensions are granted on a case by case basis under eligibility requirements established in IMD's [External Procedures in Section EX-202](#).

**CARES Act** - Grants for operating assistance and preventive maintenance using CARES Act may cover a period of time that corresponds to the expected spend-down rate of the funds, and NCDOT will establish the end of the period of performance of the grant in the grant agreements.

FTA generally will consider all expenses normally eligible under the Section 5307 program that are incurred on or after January 20, 2020 to be in response to economic or other conditions caused by COVID-19 and thus eligible under the CARES Act. Funds available under the CARES Act are available for all operating activities (net fare revenues) that occur on or after January 20, 2020.

**Audit Objective** – Determine whether subrecipients charged only allowable costs incurred during the period of performance.

#### **Suggested Audit Procedures –**

1. Review the grant agreement and determine the period of performance.
2. Test transactions for costs recorded during the beginning of the period of performance and verify that the costs were not incurred prior to the start of the period of performance.
3. Test transactions for costs recorded during the latter part and after the period of performance and verify costs were incurred within the period of performance.
4. If transactions were incurred outside the period of performance, determine if a performance extension was executed between IMD and the grantee.

### I. PROCUREMENT, SUSPENSION AND DEBARMENT

**Compliance Requirement** – Subrecipients must comply with the federal and state procurement guidelines. All procurements in excess of \$10,000 must be approved by NCDOT. Procurement guidelines are developed by the NCDOT and outlined in the Agreement between the grantee and NCDOT. Nonprofit agencies must develop a written procurement policy and guidelines as required by [FTA Circular 4220.1F](#). The guidelines must be approved by NCDOT. An award term is required in all awards for construction, alteration, maintenance, or repair of a public building or

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public work (2 CFR section 176.140). Further information about this requirement, including applicable definitions, is found in 2 CFR part 176, Subpart B.

**1. Buy America**

All steel, iron, and manufactured products used in the project must be produced in the U.S., as demonstrated by a Buy America certificate. In the case of rolling stock, the cost of components produced in the United States is more than 60 percent of the cost of all components of the rolling stock and final assembly of the vehicle takes place in the U.S. ([49 CFR part 663.13](#)).

**1. Buy America**

- a. The FTA Administrator may grant specific waivers following case-by-case determinations that (1) applying the requirement would be inconsistent with the public interest; (2) the goods are not produced in the U.S. in a sufficient and reasonably available quantity and of satisfactory quality; or (3) the inclusion of the domestically produced material will increase the overall project cost by more than 25 percent ([49 CFR sections 661.7\(b\) through \(d\)](#)).
- b. Appendix A to 49 CFR section [661.7](#) provides general waivers for the following items.
  - (1) Those articles, materials, and supplies listed in 48 CFR section 25.104;
  - (2) Microprocessors, computers, microcomputers, or software, or other such devices, which are used solely for the purpose of processing or storing data; and
  - (3) All “small purchases” (under \$150,000) made by FTA recipients with capital, planning, or operating assistance.
- c. Appendix A to 49 CFR section 661.11 provides a general Buy America waiver when foreign-sourced spare parts for buses and other rolling stock (including train control, communication, and traction power equipment) whose total cost is 10 percent or less of the overall project contract cost are being procured as part of the same contract for the major capital item.

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d. A recipient that purchases rolling stock for transportation of passengers in revenue service must conduct, or cause to be conducted, a pre-award audit before entering into a formal contract for the purchase of rolling stock, and certify that a post-delivery audit is complete before title to the rolling stock is transferred to the recipient, or the rolling stock is put into revenue service, whichever occurs first. Pre-award and post-delivery audits verify the accuracy of the Buy America certification, purchaser's requirements certification, and certification of compliance with or inapplicability of Federal motor vehicle safety standards [in 49 CFR part 571](#).

### **2. *Disadvantaged Business Enterprises (DBE)***

Recipients shall require that each transit vehicle manufacturer certify that it has complied with the requirements of 49 CFR section 26.49, as a condition to bid on a transit vehicle procurement in which FTA funds are involved. Recipients may, with FTA approval, establish project-specific goals for DBE participation in the procurement of transit vehicles that a transit vehicle manufacturer must meet ([49 CFR section 26.49\(d\)](#)).

### **3. *Procurement of Vehicles and Facilities***

In prohibiting discrimination in the provision of transportation services against persons with disabilities, the Americans with Disabilities Act of 1990 requires that vehicles purchased or leased after August 25, 1990, and new and altered facilities designed and constructed (as marked by the notice to proceed) after January 25, 1992, must comply with the applicable standards of accessibility in 49 CFR [PART 37](#) and [PART 38](#).

**Audit Objective** - Determine whether procurements and contracts were approved by IMD and followed the appropriate policies and procedures.

#### **Suggested Audit Procedure**

1. Interview responsible officials and review purchasing records to determine whether there were any purchases or outside contracts.
2. Verify that appropriate policies/procedures were followed when making purchases or entering into contracts.

### **4. *Debarment***

**Compliance Requirement** – Recipients are prohibited from procuring goods or services from a company, firm or organization that is suspended or debarred by the State of North Carolina or the Federal Government.

**Audit Objective** – Determine that the entity has not entered into any agreements with parties that have been debarred by any government agency.

#### **Suggested Audit Procedures**

1. Review the contract between the subrecipient and the subcontractor to identify language which prohibits a subrecipient from procuring goods or services from a company, firm, or organization that has been suspended or debarred by the State of North Carolina or Federal Government.

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a. Ascertain if the required suspension and debarment certifications were received for covered contracts. The FTA Administrator may grant specific waivers following case-by-case determinations that:

- (1) applying the requirement would be inconsistent with the public interest;
- (2) the goods are not produced in the U.S. in a sufficient and reasonably available quantity and of satisfactory quality;
- (3) the inclusion of the domestically produced material will increase the overall project cost by more than 25 percent (49 CFR sections 661.7(b) through (d))

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

J. PROGRAM INCOME

**Compliance Requirement** – Subrecipients are required, per the Agreement, to use project property for the purposes which it was approved by the BOT. The generation of program income, both during and after the award period must be reported to the Department’s Finance Manager. Any program income must be used to support public transportation activities for the duration of the useful life of that property, as required by FTA or NCDOT.

**Audit Objective:** Determine if 5307 program income reports were submitted per the [Master Timeline](#) schedule and reported accurately.

**Suggested Audit Procedures:** Secure a sample of 5307 Quarterly Program Income reports and review the reports for accuracy. Review associated documentation of program income.

K. RESERVED

L. REPORTING

*Performance & Financial Reports*

**Compliance Requirement** – Grantees are required to report the progress of projects regardless of financial activity. Grantee must report on both quantitative and qualitative information regarding Progress reports must be submitted to NCDOT on a monthly or quarterly basis with any claims for reimbursement.

**Audit Objective** – Determine if reports submitted were accurate and supported by adequate documentation.

**Suggested Audit Procedure** - Trace quantitative information reflected in the reports to underlying accounting records.

*DBE*

**Compliance Requirement** - Grantees must submit quarterly DBE Report of Awards and Report of Payments documenting actual utilization (CFR Parts 23 and 26 and FTA Circular 4716.1A, and the U.S. DOT DBE Final Rule, Federal Register dated February 2, 1999 - Participation by Disadvantaged Business Enterprises in Department of Transportation Programs). Additional required reports include Project Progress Reports

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and reports of significant events (FTA Circular 5010.1C). Based on the level of FTA funding, exclusive of transit vehicle purchases, recipients are required to implement a DBE program. To monitor the progress of the DBE program, recipients are required to submit quarterly reports based on a record keeping system (49 CFR Section 23.49, 23.11).

**CARES Act** – The USDOT Office of Civil Rights has issued guidance related to the DBE goals and reporting at <https://www.transportation.gov/mission/civil-rights/covid-19-guidance>.

**Audit Objective** - Determine DBE reports are supported by adequate documentation.

### **Suggested Audit Procedure**

1. Review grantee’s DBE contract expenditures (as opposed to contract awards) as outlined in FTA Circular 5010.1D and 49 CFR Part 26.
2. Review the reports and trace the information to underlying data to determine completeness and accuracy.

### *Nongovernmental Reports*

**Compliance Requirement** – North Carolina General Statute 143C-6-23 “Use of State Funds by Non-State Entities,” and North Carolina Administrative Code Chapter 9, Subchapter 03M “Uniform Administration of State Grants” addresses reporting requirements for nongovernmental entities. Subrecipients are required to submit the report in EBS. The designated NCDOT Mobility Development Specialist verifies the report has been submitted by the due date in the Master Timeline.

**Audit Objective** – Determine whether the organization is subject to G.S. 143C-6-23 and the applicable reporting requirements.

### **Suggested Audit Procedure**

1. Determine the entity’s reporting level and applicable reports that should be submitted to NCDOT to comply with 09 NCAC 03M.
2. Determine whether reports were accurately prepared and filed timely.

## **M. SUBRECIPIENT MONITORING**

**Compliance Requirement** - The receipt of federal and state funds brings oversight expectations. Systems receiving program funding from NCDOT have oversight requirements. 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 needed.

## **N. SPECIAL TEST AND PROVISIONS – No Special Testing Required.**