

SCRAP TIRE DISPOSAL ACCOUNT GRANTS

SCRAP TIRE PROGRAM

State Authorization: GS 130A-309.51
to 309.63

N.C. Department of Environmental Quality
Division of Waste Management

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The auditor shall not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor shall be prepared to justify departures from the suggested procedures. The auditor may consider the supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current.

The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

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

I. PROGRAM OBJECTIVES

The Scrap Tire Disposal Act is designed to encourage the proper management of discarded tires. Counties are required to accept discarded tires at a collection center(s).

II. PROGRAM PROCEDURES

An advance disposal fee is charged at the point of sale of new tires and collected by the NC Department of Revenue. The Department of Revenue distributes a portion of the proceeds (70%) directly to counties to fund each county’s scrap tire management programs.

As per the Act, counties are not allowed to charge a disposal fee to accept scrap tires when generated in North Carolina in the normal course of business. Scrap tires presented for free disposal must be accompanied by a scrap tire hauler registration and a completed Scrap Tire Certification Form, which documents origin of each load of scrap tires. Counties may charge a disposal fee for scrap tires generated out-of-state, for manufacturer unsalable new tires, tires not generated in the normal course of business in North Carolina, and for tires which were presented for disposal without a completed Scrap Tire Certification Form.

The NC Department of Revenue distributes advance disposal fee proceeds as follows:

- 70%** Distributed directly to all 100 counties
- 30%** Distributed to the Scrap Tire Disposal Account
- Up to \$425,000** retained by NCDOR for the cost of tax proceeds collection

County tax proceeds are distributed quarterly by the Department of Revenue on a per capita basis. This distribution method does not take into account special needs or additional expenses incurred in some counties. For example, some western counties do not have ready access to scrap tire disposal and recycling facilities and incur high transportation costs shipping tires to facilities. Also, some counties have higher than expected volumes of discarded tires due to the presence of regional dealers and repair shops.

The Scrap Tire Disposal Account was established, in part, to provide additional funding counties may need in addition to the amount they receive from the Department of Revenue. The Scrap Tire Disposal Account receives thirty percent (30%) of the net tax proceeds each fiscal year on a quarterly basis from the Department of Revenue. The Department may use the revenue as follows: up to seventy five percent (75%) for Local Grants to counties for program cost overruns, up to fifteen percent (15%) for Use Grants to businesses to encourage the use of processed scrap tire materials, up to one hundred seventy-five thousand dollars (\$175,000) of revenue in the account for administrative costs and to support a position to implement the requirements of the Act, and the Department may use the remaining revenue in the Account to cleanup illegal scrap tire collection sites. During each FY between FY2014-15 to FY2025-26 the NC Department of Environmental Quality (DEQ) received \$420,000 in appropriations from the general fund into this account to make cleanup and cost overrun grants to counties.

At the end of any fiscal year, funds in the Scrap Tire Account in excess of three hundred thousand dollars (\$300,000) shall be credited to the Highway Fund.

Scrap Tire cleanup grants may be awarded on an ongoing basis. Counties must contact DEQ to discuss and submit required documentation. Counties are eligible for a cost overrun grant when their expenses for scrap tire management exceeds their income during the preceding six months prior to the application period. DEQ has designated the six-month periods for which a county may determine if it can apply for a grant. The six-month periods are:

- October - March
- April - September

Counties may apply for Local Grants twice each fiscal year by completing and submitting an application form to DEQ. Each county states its total scrap tire income and costs for the preceding (designated) six-month period. If costs exceeded income, the county is eligible to apply for a grant to cover the difference. The amount of grant funds awarded to each county is based on criteria stated in the Scrap Tire Disposal Act and those developed by the Solid Waste Section.

III. COMPLIANCE REQUIREMENTS

Noted below in the following matrix are the types of compliance requirements identified by the State Agency, noted by “Y” that are that are subject to the audit for the State program. The auditor must determine if the Type noted by “Y” 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	N	Y	N	N	Y	N	Y

1. Activities Allowed or Unallowed

Compliance Requirements

The purposes for which a county may use the grants include:

- Operating costs associated with managing scrap tires generated in North Carolina in the normal course of business and which were accompanied by a completed Scrap Tire Certification Form when presented for disposal. This includes such expenses as transportation and disposal costs charged by scrap tire disposal and recycling facilities and may also include labor at county scrap tire collection sites.

If an expense is partially related to the management of discarded tires, a county may use the grant to finance the percentage of the expense used for scrap tire management.

A county shall not use grants for an expense that does not directly relate to the management of discarded tires. Grants shall not be used for disposal of tires generated out-of-state or tires which were presented for disposal without a completed Scrap Tire Certification form.

A unit of local government (ULG) is not eligible for a grant unless its costs of managing scrap tires for the six-month period preceding the date the ULG files an application for a grant exceeded the amount the ULG received during that period from the quarterly tax proceeds from DOR.

Audit Objectives

1. Determine whether grants are being used only for management of North Carolina scrap tires.

Suggested Audit Procedures

1. Confer with the county solid waste manager and finance officer to determine how scrap tire management expense is determined and how the county is using the funds.

2. Verify how the county is using the funds through accounting records or the General Ledger.
3. Verify expenditures from the General Ledger from the prior six months/applicable application period.
4. Obtain a sample of Scrap Tire Certification Forms to determine the tires are only from North Carolina. This may be accomplished by calling the disposer listed on the form and verifying the information entered on the form, including the number and origin of scrap tires and supporting documentation.

2. Allowable Costs/Costs Principles

Compliance Requirements

Counties are eligible for a grant equal to the amount their expenses exceed their income in their scrap tire management program. Therefore, reported expenses must be accurate. Counties shall not overstate their expenses in order to claim larger deficits and to claim eligibility for larger grant awards.

Audit Objectives

Determine whether the reported expenses are accurate.

Suggested Audit Procedures

1. Confer with the county solid waste manager and finance officer to determine how scrap tire management expense is determined.
 2. Ascertain what categories of expenses are included in the application. After determining what costs are included, verify that expenses are applicable to the program.
 3. Assure the costs reported are only for scrap tire management. If an expense benefits both scrap tires and another program it will be necessary to verify that the costs are pro-rated.
4. Conflict of Interest

Compliance Requirements

Refer to G.S. 14-234 regarding conflict of interest for local governments.

Audit Objectives

Determine compliance with G.S. 14-234.

Suggested Audit Procedures

Verify compliance with G.S. 14-234.

5. Equipment and Real Property Management

Compliance Requirements

The county should follow local procedures and policies for equipment management.

Audit Objectives

Ensure that the county follows any local procedures for equipment management.

Suggested Audit Procedures

Obtain a description of local procedures and policies for equipment management and determine if it is being followed.

8. Period of Performance

Compliance Requirements

Reported expenses must have occurred during the timeframe of the grant cycle: reimbursement of expenses that occurred during the previous six-month period.

Audit Objectives

Determine whether reported expenses occurred during the timeframe of the grant cycle.

Suggested Audit Procedures

Verify the reported expenses were incurred during the grant cycle timeframe.

12. Reporting

Compliance Requirements

Each county shall complete an annual report on a form prescribed by the Division and submit it by September 1 each year. This is part of the requirements in G.S. 130A-309.09A.

Other report requirements are described in G.S. 159-34, regarding reporting to the Local Government Commission.

Audit Objectives

Determine whether reporting is accurate and reliable.

Suggested Audit Procedures

Trace reported costs to the general ledger and accounting records to verify that costs reported were supported by documentation to include invoices if deemed necessary.

14. Special Tests and Provisions

Compliance Requirements

The grant is to provide reimbursement to counties for excess expenditures incurred in the prior six-period for the management of scrap tires. The program's obligation is to ensure collection of a fee for the disposal of scrap tires generated out of state or for those not generated in the normal course of business.

Audit Objectives

Determine if information entered on the application addresses the county efforts to avoid giving free disposal for tires generated out-of-state.

Suggested Audit Procedures

1. Verify that the county's description on the grant application form accurately describes county efforts to deter the disposal of tires generated out-of-state.