

SOUTH CAROLINA
DEPARTMENT OF TRANSPORTATION

SUPPLEMENTAL FEDERAL FINANCIAL
ASSISTANCE REPORTS

YEAR ENDED JUNE 30, 2011

State of South Carolina



Office of the State Auditor

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RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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December 1, 2011

The Honorable Nikki R. Haley, Governor
and
Members of the South Carolina Transportation Commission
South Carolina Department of Transportation
Columbia, South Carolina

The Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* and the Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards of the South Carolina Department of Transportation for the fiscal year ended June 30, 2011, were issued by Scott and Company, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with the basic financial statements of the South Carolina Department of Transportation for the fiscal year ended June 30, 2011, issued by Scott and Company, L.L.P., Certified Public Accountants, dated October 17, 2011.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

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**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING JUNE 30, 2011**

Federal Grantor / Program Title	Federal CFDA Number	Total Federal Expenditures	Expenditures To Sub-recipients
Direct Programs:			
U.S. Department of Transportation			
Highway Planning and Construction	20.205	\$ 515,257,934	\$ 1,777,256
Highway Planning and Construction - American Recovery & Reinvestment Act - ARRA	20.205	187,968,372	—
Federal Transit - Capital Investment Grants	20.500	1,754,408	1,754,408
Federal Transit - Metropolitan Planning Grants	20.505	159,975	159,975
Formula Grants for Other Than Urbanized Areas - ARRA	20.509	16,692,583	16,692,583
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513*	1,770,047	1,672,356
Job Access and Reverse Commute	20.516*	749,861	694,125
New Freedom Program	20.521*	488,219	472,153
Alternatives Analysis	20.522	99,359	99,359
Totals		<u>\$ 724,940,758</u>	<u>\$ 23,322,215</u>

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

1. Basis of Presentation:

The information in the Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of *OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations* (as amended).

The financial information shown in the Schedule of Expenditures of Federal Awards reflects amounts recorded by the South Carolina Department of Transportation during its fiscal year July 1, 2010 through June 30, 2011. This information is presented on the accrual basis of accounting.



**Report on Internal Control over
Financial Reporting and on Compliance and Other Matters based
on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Mr. Richard H. Gilbert, Jr., CPA,
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Carolina Department of Transportation (the "Department") as of and for the year ended June 30, 2011, which collectively comprise the Department's basic financial statements and have issued our report thereon dated October 17, 2011. Our report was modified to include a reference to other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Connector 2000 Association, Inc., as described in our report on the Department's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies 2011-01 through 2011-03 described in the accompany schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the South Carolina Office of the State Auditor, the Governor of the State of South Carolina, commission members, and management of the Department, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Scott and Company LLP

Columbia, South Carolina
October 17, 2011

**Report on Compliance with Requirements
that could have a Direct and Material Effect on Each Major Program
and on Internal Control Over Compliance in
Accordance with *OMB Circular A-133***

Mr. Richard H. Gilbert, Jr., CPA,
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the South Carolina Department of Transportation's (the "Department") compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2011. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal controls that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies 2011-01 through 2011-03 described in the accompany schedule of findings and questioned costs to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Department as of and for the year ended June 30, 2011, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 17, 2011, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in

accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Department's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the South Carolina Office of the State Auditor, the Governor of the State of South Carolina, commission members, management of the Department, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Scott and Company LLP

Columbia, South Carolina
November 21, 2011

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

Section I—Summary of Auditors’ Results

Financial Statements

1. Type of auditor’s report issued: Unqualified Opinion
2. Internal control over financial reporting:
Material weakness identified: ___ yes X no
Significant deficiencies identified not considered to be
material weaknesses? X yes ___ no
3. Noncompliance material to the Financial Statements noted? ___ yes X no

Federal Awards

4. Internal control over major programs:
Material weaknesses identified: ___ yes X no
Significant deficiency identified not considered to be a
material weakness? X yes ___ no
5. Type of auditor’s report on compliance for
major programs: Unqualified Opinion
6. Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section .510(a)? ___ yes X no
7. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.205	Highway Planning and Construction
20.205ARRA	Highway Planning and Construction – American Recovery & Reinvestment Act
20.509ARRA	Formula Grants for Other Than Urbanized Areas - American Recovery & Reinvestment Act

8. Dollar threshold used to be distinguished between Type A
and Type B Programs: \$3,000,000
9. Auditee qualified as low-risk auditee? ___ yes X no

Section II – Internal Controls over Financial Reporting

Conditions Considered to be a Significant Deficiencies

2011-01 Disaster Recovery Plan and Business Contingency Plan

Condition:

Through inquiry of the Department Chief Information Officer, we noted that the Information Technology (“IT”) department has been proactive in the development and deployment of a disaster recovery site for the Department IT infrastructure. The first phase has been completed to the extent of deploying VMware to virtualize the server infrastructure and establishing secondary data center. The first phase of disaster recovery has been deployed with the replication of the Department data to the secondary site. Now they have the data at the secondary data center. The second phase is to replicate the server infrastructure that exists to the secondary data center. This will be accomplished with the deployment of VMware’s Site Recovery Manager Software. The implementation of Site Recovery Manager is scheduled for December 2011. Per inquiry of Lee Foster, System Manager, we noted that due to vendor contract expiration and new bids, the implementation of Site Recovery Manager is delayed. The business contingency plan (including disaster recovery plan) and related testing are incomplete at the point the 2011 audit is conducted.

Cause:

Due to technical difficulty, limited resources, and time constraints, the Department has not completed the second phase of disaster recovery infrastructure and related business contingency plan.

Effect:

The Department’s business and operations could be interrupted without a business contingency plan to recover timely from uncertainties.

Criteria:

A replication/backup host site, business contingency plan (including disaster recovery plan), and related testing should be completed timely as planned.

Recommendation:

The Department IT department should continue to complete the second phase of IT disaster recovery infrastructure and keep updating the status of completion.

2011-02 Change Management

Condition:

Each functional group manages their changes separately within the Department's IT department. There are three departments within the IT department. Per inquiry of the manager of application development, we noted that the software support group has adopted formalized software change management policies and procedures. Per inquiry of the system manager and network manager, we noted that the operating system and network changes departments have not adopted written change management policies and procedures in place, although the managers closely monitor and manage the system changes and network changes with controls that are in place.

Cause:

Network change, system change and system related database change, did not have formal written change management policies and procedures.

Effect:

There is no audit trail to validate or verify the changes that have been made, specifically the emergency changes. It's also difficult to track the status of certain changes with many changes occurring.

Criteria:

General computer controls indicate that written change management policies and procedures be documented and implemented.

Recommendation:

Taking Software support group's policy and procedures as a model, Network group and System group should formalize their change management policies and procedures, including policies and procedures related to emergency changes, and document the minimum requirements for major system changes and system acquisition and development on an entity-wide basis. The documentation could be at a high-level to maintain efficiency but also promotes consistency.

2011-3 Improve Capital Asset Capitalization Controls

Condition:

The Department included several items accrued in vouchers payable that were included in repairs and maintenance expense that should have been capitalized under the Department's capital asset capitalization policy in the current year. Due to the lack of capitalization of the repairs and maintenance costs, capital assets were understated by approximately \$25,000,000 and maintenance costs were overstated by \$25,000,000.

Cause:

The error was discovered by the auditors and the adjustment amount was determined by the accounting department. The cause of the adjustment is that the Department has historically not considered which vouchers payable were expense and which were capital at year end. The adjustment amount was based on a review by Department staff of all projects included in the year end vouchers payable with outstanding amounts in excess of \$200,000.

Effect:

An adjustment was made during the current year to remove approximately \$25,000,000 in maintenance costs that were incorrectly classified as expense.

Criteria:

This is not in accordance with Generally Accepted Accounting Principles. Good accounting practices include the proper classification and evaluation of capital assets as well as a fully functioning review process for all critical accounting areas.

Recommendation:

We recommend that the Department implement a review process for the determination of capital or repair and maintenance expenditures in year-end vouchers payable before the year-end close. Expenditures that qualify for capitalization according to the Department's policy should be reclassified to capital assets from repairs and maintenance expense.

Section III - Federal Award Findings

None noted.

Summary Schedule of Prior Audit Findings:

During the current year audit, we reviewed the status of corrective action taken on the Financial Statement Findings and Federal Award Findings and Questioned Costs as reported in our prior year's reports on internal control and compliance of the Department dated November 29, 2010. We found that adequate corrective action was taken for all of the findings.



South Carolina
Department of Transportation

November 30, 2011

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Gilbert,

The South Carolina Department of Transportation respectfully submits the following Corrective Action Plan for the year ended June 30, 2011.

The Plan outlines actions taken, or to be taken, to address each significant deficiency contained in the audit report prepared by Scott and Company dated October 15, 2011 (financial statements and GAS Report) and November 29, 2011 (OMB Circular A-133 Report).

The Department takes the recommendations of the Auditor seriously and views them as an opportunity to make improvements in controls and reporting. Each audit recommendation is repeated prior to our response and numbered as in the audit report.

Internal Control over Financial Reporting

Conditions Considered to be Significant Deficiencies but not Material Weaknesses

2011-01 Disaster Recovery Plan and Business Contingency Plan

Condition:

Through inquiry of the Department's Chief Information Officer, we noted that the Information Technology ("IT") department has been proactive in the development and deployment of a disaster recovery site for the Department IT infrastructure. The first phase has been completed to the extent of deploying VMware to virtualize the server infrastructure and establishing a secondary data center. The first phase of the disaster recovery has been deployed with the replication of the Department data to the secondary site. Now they have the data at the secondary data center. The second phase is to replicate the server infrastructure that exists to the secondary data center. This will be accomplished with the deployment of VMware's Site Recovery Manager Software. The implementation of the Site Recovery Manager is scheduled for December 2011. Per inquiry of Lee Foster, System Manager, we noted that due to vendor contract expiration and new bids, the implementation of Site Recovery Manager is delayed. The business contingency plan (including disaster recovery plan), and related testing are incomplete at this point of 2011 audit.

Recommendation:

The Department's IT Department should continue to complete the second phase of the IT disaster recovery infrastructure and keep updating the status of completion.

Corrective Action:

SCDOT agrees with the recommendation to implement the second phase of the disaster recovery plan. The plan has been delayed due to technical difficulty and limited resources. This particular concern was also noted in a review of the SCEIS system by the Federal Highway Administration. SCDOT intends, as resources are identified, to complete the disaster recovery plan by March 2012.

2011-02 Change Management

Condition:

Each Functional group manages their changes separately within the Department's IT department. There are three departments within the IT department. Per inquiry of the manager of application development, we noted that the Software Support group has adopted formalized software change management policies and procedures. Per inquiry of the System manager and Network manager, we noted that the operating system and network changes departments have not adopted written change management policies and procedures in place, although the managers closely monitor and manage the system changes and network changes with controls that are in place.

Recommendation:

Taking Software Support group's policy and procedures as a model, Network group and System group should formalize their change management policies and procedures, including policies and procedures related to emergency changes, and document the minimum requirements for major system changes and system acquisition and development on an entity-wide basis. The documentation could be at a high-level to maintain efficiency but also promotes consistency.

Corrective Action:

SCDOT concurs with the recommendation. The Network and System Support group will formalize their change management policies and procedures, including policies and procedures related to emergency change, and document the minimum requirements for major system changes and acquisition to include software versioning and service pack upgrades on an entity-wide basis. These upgrades will be made available to all system and Network users via the SCDOT Help Desk Web Application.

2011-03 Improve Capital Asset Capitalization Controls

Condition:

The Department included several items accrued in vouchers payable that were included in repairs and maintenance expense that should have been capitalized under the Department's capital asset capitalization policy in the current year. Due to the lack of capitalization of the repairs and maintenance costs, capital assets were understated by approximately \$25,000,000 and maintenance costs were overstated by \$25,000,000.

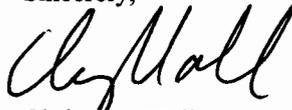
Recommendation:

We recommend that the Department implement a review process for the determination of capital or repair and maintenance expenditures in year-end vouchers payable before the year-end close. Expenditures that qualify for capitalization according to the Department's policy should be reclassified to capital assets from repairs and maintenance expense.

Corrective Action:

The Department concurs with the recommendation to implement an additional review process in determining the correct classification of accounts payable. All accounts payable accruals will be reviewed and signed off by management prior to posting to the financial statement. The Department also concurred with the entry and posted the correction; therefore, maintenance repair and expenditures and capital expenditures were properly classified for the audit.

Sincerely,



Christy A. Hall,
Deputy Secretary Finance & Administration