

SOUTH CAROLINA
DEPARTMENT OF TRANSPORTATION

SUPPLEMENTAL FEDERAL FINANCIAL
ASSISTANCE REPORTS

YEAR ENDED JUNE 30, 2013

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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November 21, 2013

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

These supplemental federal financial assistance reports of the South Carolina Department of Transportation and the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the fiscal year ended June 30, 2013, was issued by Scott and Company, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

TABLE OF CONTENTS

Supplemental Federal Financial Assistance Reports

Schedule of Expenditures of Federal Awards.....	1
Note to Schedule of Expenditures of Federal Awards.....	2
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-4
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	5-7
Schedule of Findings and Questioned Costs.....	8-10
Summary Schedule of Prior Audit Findings.....	10
Department Response	11-13

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING JUNE 30, 2013**

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	\$ 592,924,121	\$ 1,377,452
Highway Planning and Construction - American Recovery & Reinvestment Act - ARRA	20.205	6,699,405	—
Federal Transit - Capital Investment Grants	20.500	198,611	117,862
Federal Transit - Metropolitan Planning Grants	20.505	184,874	184,874
Formula Grants for Other Than Urbanized Areas	20.509	11,327,780	10,287,471
Formula Grants for Other Than Urbanized Areas - ARRA	20.509	1,705,039	1,705,039
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513*	1,655,224	1,549,863
Job Access and Reverse Commute	20.516*	803,490	773,212
New Freedom Program	20.521*	769,082	735,734
Alternatives Analysis	20.522	77,676	77,676
Totals		<u>\$ 616,345,302</u>	<u>\$ 16,809,183</u>

* These programs are a cluster.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

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, 2012 through June 30, 2013. This information is presented on the accrual basis of accounting.



**Independent Auditor's 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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated November 12, 2013. Our report was modified to include a reference to other auditors. 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 of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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 a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, 2013-1.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2013-2.

Department's Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Columbia, South Carolina
November 12, 2013



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the South Carolina Department of Transportation's (the "Department") compliance with the types of compliance requirements described in the *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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Each Major Federal Program

In our opinion, the Department complied, in all material respects, with the types of 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, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as 2013-02. Our opinion on each major federal program is not modified with respect to this matter.

The Department's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompany schedule of findings and questioned costs as item 2013-02, that we consider to be a significant deficiency.

The Department's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements. We issued our report thereon dated November 12, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Scott and Company LLC

Columbia, South Carolina
November 21, 2013

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

Section I—Summary of Auditors’ Results

Financial Statements:

We have issued an unmodified opinion dated November 12, 2013 on the financial statements of South Carolina Department of Transportation.

Internal control over financial reporting:

- Material weaknesses identified? No
- Significant deficiency identified that is not considered to be material weakness? Yes
- Noncompliance material to financial statements noted? No

Federal Awards:

We have issued an unmodified opinion dated November 21, 2013 on South Carolina Department of Transportation’s compliance for its major program.

Internal control over major program:

- Material weaknesses identified? No
- Significant deficiency identified that is not considered to be a material weakness? Yes
- Any audit finding disclosed that is required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes

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
20.509	Formula Grants for Other Than Urbanized Areas
20.509 ARRA	Formula Grants for Other Than Urbanized Areas – American Recovery & Reinvestment Act

Dollar threshold used to be distinguished between Type A and Type B Programs: \$3,000,000

Auditee qualified as low-risk auditee? No

Section II – Internal Controls over Financial Reporting

Condition Considered to be a Significant Deficiency but not a Material Weakness

2013-1 Improve Capital Asset Capitalization Controls

Condition:

The Department included certain projects in repairs and maintenance expense that should have been capitalized under the Department's capital asset capitalization policy in the current year. A sample of 52 projects was tested with two projects being noted as incorrectly expensing project expenditures. Due to the lack of capitalization of the repairs and maintenance costs, capital assets were understated by approximately \$17,000,000 and maintenance costs were overstated by \$17,000,000.

Cause:

The Department did not properly analyze repairs and maintenance projects at year end to make adjustments to the projects' capital asset flag in the Department's infrastructure projects database system.

Effect:

An adjustment was made during the current year to remove approximately \$17,000,000 in maintenance costs that were incorrectly classified as expenses during the current year and include those costs with the Department's capital assets. This adjustment had no effect on the Department's cash.

Criteria:

Generally accepted accounting principles require the proper classification and evaluation of capital assets and repairs as well as a review process for these areas.

Recommendation:

We recommend that the Department implement a review process for all projects exceeding \$500,000 in expenditures that are classified as repairs and maintenance. This review will aid in the determination and setup of capital or expense projects in the accounting system before the year-end close, rather than waiting for the projects to close to commence review. Repairs and maintenance projects that qualify for capitalization according to the Department's policy should be reclassified to capital assets from repairs and maintenance expense at the end of each year.

Section III- Federal Award Finding – Considered to be a Significant Deficiency but not a Material Weakness

2013-2 Improve Sub-recipient Monitoring and Communication impacting CFDA Numbers 20.205

Condition:

The Department is not notifying the first tier sub-recipients that they must register to the Central Contractor Registration (“CCR”) to obtain a Data Universal Numbering System (“DUNS”) number.

Cause:

The Department does not have adequate controls in place to ensure that the Federal guidelines are followed involving the communication of the registration to the CCR for first tier sub-recipients receiving non-American Recovery and Reinvestment Act (“ARRA”) funding.

Effect:

The Department is not in compliance with the Office of Management and Budget (“OMB”) Circular A-133 Federal requirements for subrecipient monitoring.

Criteria:

The Department did not meet the following governing requirements (OMB Circular A-133).

- *Determining Sub-recipient Eligibility* – In addition to any programmatic eligibility criteria under E, “Eligibility for Sub-recipients,” for sub-awards made on or after October 1, 2010, determining whether an applicant for a non-ARRA subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award (2 Code of Federal Regulations (“CFR”) section 25.110 and Appendix A to 2 CFR part 25).

Recommendation:

We recommend the Department contact the first tier subrecipient and notify them to register to the CCR to obtain a DUNS number and to add a DUNS number to application for funding.

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 December 14, 2012. We found that adequate corrective action was taken for all of the findings.



South Carolina
Department of Transportation

Deputy Secretary for Finance and Administration
Christy A. Hall, P.E., C.P.M.

November 21, 2013

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

RE: Management Response Fiscal Year 2013

Dear Mr. Gilbert:

The South Carolina Department of Transportation (the "Department" or "SCDOT") respectfully submits the following Corrective Action Plan for the year ended June 30, 2013.

The plan outlines actions taken, or to be taken, to address each deficiency contained in the audit report prepared by Scott and Company LLC (the "Auditor") dated November 12, 2013 for the SCDOT FY 2013 Financial Statements and GAS Report and November 21, 2013 for the 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 Controls over Financial Reporting

Conditions Considered to be Significant Deficiencies

2013-1 Improve Capital Asset Capitalization Controls

Condition:

The Department included certain projects in repairs and maintenance expense that should have been capitalized under the Department's capital asset capitalization policy in the current year. A sample of 52 projects was tested with two projects being noted as incorrectly expensing project expenditures. Due to the lack of capitalization of the repairs and maintenance costs, capital assets were understated by approximately \$17,000,000 and maintenance costs were overstated by \$17,000,000.



Cause:

The Department did not properly analyze repairs and maintenance projects at year end to make adjustments to the projects' capital asset flag in the Department's infrastructure projects database system.

Effect:

An adjustment was made during the current year to remove approximately \$17,000,000 in maintenance costs that were incorrectly classified as expenses during the current year and include those costs with the Department's capital assets. This adjustment had no effect on the Department's cash.

Criteria:

Generally accepted accounting principles require the proper classification and evaluation of capital assets and repairs as well as a review process for these areas.

Recommendation:

We recommend that the Department implement a review process for all projects exceeding \$500,000 in expenditures that are classified as repairs and maintenance. This review will aid in the determination and setup of capital or expense projects in the accounting system before the year-end close, rather than waiting for the projects to close to commence review. Repairs and maintenance projects that qualify for capitalization according to the Department's policy should be reclassified to capital assets from repairs and maintenance expense at the end of each year.

SCDOT Corrective Action:

The Department agrees with the recommendation. The two projects in question, totaling \$17MM, were not initially determined to be capital projects by the Department. These items were corrected and are now properly classified in the financial statements. Accounting will run an annual infrastructure maintenance report prior to the end of the fiscal year to determine which projects should be expensed or capitalized each year. This process will be repeated once the year has closed to ensure any additional costs are reviewed. This should ensure that projects are accurately classified and properly expensed in the correct fiscal year.

Federal Award Finding – Considered to be Significant Deficiency but not Material Weakness

2013-2 Improve Sub-recipient Monitoring and Communication impacting CFDA Numbers 20.205

Condition:

The Department is not notifying the first tier sub-recipients that they must register to the Central Contractor Registration ("CCR") to obtain a Data Universal Numbering System ("DUNS") number.

Cause:

The Department does not have adequate controls in place to ensure that the Federal guidelines are followed involving the communication of the registration to the CCR for first tier sub-recipients receiving non-American Recovery and Reinvestment Act ("ARRA") funding.

Effect:

The Department is not in compliance with the Office of Management and Budget ("OMB") Circular A-133 Federal requirements for subrecipient monitoring.

Criteria:

The Department did not meet the following governing requirements (OMB Circular A-133)

- *Determining Sub-recipient Eligibility* – In addition to any programmatic eligibility criteria under E, "Eligibility for Sub-recipients," for sub-awards made on or after October 1, 2010, determining whether an applicant for a non-ARRA subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award (2 Code of Federal Regulations ("CFR") section 25.110 and Appendix A to 2 CFR part 25).

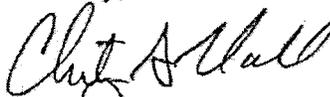
Recommendation:

We recommend the Department contact the first tier subrecipient and notify them to register to the CCR to obtain a DUNS number and to add DUNS number to application for funding.

SCDOT Corrective Action:

The Department agrees with the recommendation. The department will identify our first tier sub recipients and require them to provide the DUNS number.

Sincerely,



Christy A. Hall, P.E. C.P.M.

Deputy Secretary for Finance & Administration

cc: Jim Warren, SCDOT Chief Financial Officer
Alfred Comfort III, SCDOT Controller