

SOUTH CAROLINA  
DEPARTMENT OF TRANSPORTATION

SUPPLEMENTAL FEDERAL FINANCIAL  
ASSISTANCE REPORTS

YEAR ENDED JUNE 30, 2016



**South Carolina  
Office of the State Auditor**

**George L. Kennedy, III, CPA  
State Auditor**

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January 6, 2017

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

The supplemental federal financial assistance reports of the South Carolina Department of Transportation and the accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), for the fiscal year ended June 30, 2016, 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 cursive script that reads "George L. Kennedy, III".

George L. Kennedy, III, CPA  
State Auditor

GLKIII/sag

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**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. George L. Kennedy, III, CPA  
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, 2016, 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 3, 2016. Our report includes a reference to other auditors who audited the financial statements of the Connector 2000 Association, Inc., a discretely presented component unit of the Department, 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. The financial statements of Connector 2000 Association, Inc. were not audited in accordance with *Government Auditing Standards*.

**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 purposes 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. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of the 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 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 Department's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2016-001 to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2016-002 to be a significant deficiency.

### **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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2016-002.

### **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes

*Scott and Company LLC*

Columbia, South Carolina  
November 3, 2016

**Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance and Report on Schedule of Expenditures of Federal Awards**

Mr. George L. Kennedy, III, CPA  
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 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, 2016. 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 federal statutes, 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

## **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-002. Our opinion on each major federal program is not modified with respect to this matter.

The Department's response to the noncompliance 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 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 the Uniform Guidance, 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 reasonable possibility that 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 accompanying schedule of findings and questioned costs as item 2016-002 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

#### **Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements. We issued our report thereon dated November 3, 2016, 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 purpose of additional analysis as required by the Uniform Guidance 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 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 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.

*Scott and Company LLC*

Columbia, South Carolina

January 6, 2017

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDING JUNE 30, 2016**

<b>Federal Grantor / Program Title</b>	<b>Pass- through Entity Identifying Number</b>	<b>Federal CFDA Number</b>	<b>Total Federal Expenditures</b>	<b>Expenditures To Subrecipients</b>
Direct Programs:				
<b>U.S. Department of Transportation</b>				
Highway Planning and Construction		20.205	\$ 596,515,437	\$ 16,155,238
National Infrastructure Investment		20.933	3,383,784	2,930,781
Technology and Innovation & Research		20.200	757,922	—
Fixing America's Surface Transportation		20.515	182,412	—
Training and Education MAP-21		20.515	144,357	—
Training and Education MAP-21		20.240	1,950	—
Federal Transit - Metropolitan Transit Planning and State and Non-Metropolitan Planning and Research Grants		20.505	117,983	117,983
Formula Grants for Rural Areas		20.509	12,818,922	9,051,296
Federal Transit Cluster				
Federal Transit - Capital Investments Grants		20.500	2,083,436	235,003
Bus and Bus Facilities Formula Program		20.526	2,911,291	1,012,576
Total Federal Transit Cluster			<u>4,994,727</u>	<u>1,247,579</u>
Transit Services Program Cluster				
Enhanced Mobility for Seniors and Individuals with Disabilities		20.513	1,700,295	1,531,885
Job Access and Reverse Commute Program		20.516	653,012	512,417
New Freedom Program		20.521	168,482	114,073
Total Transit Services Program Cluster			<u>2,521,789</u>	<u>2,158,375</u>
Total Direct Programs			<u>621,439,283</u>	<u>31,661,252</u>

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDING JUNE 30, 2016 (CONTINUED)

Federal Grantor / Program Title	Pass- through Entity Identifying Number	Federal CFDA Number	Total Federal Expenditures	Expenditures To Subrecipients
Passed Through S.C. Emergency Management Division:				
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	FEMA- 4166- PA-SC	97.036	\$ 4,276,961	\$ —
Total Passed Through From S.C. Emergency Management Division			4,276,961	—
Total Expenditures of Federal Awards			\$ 625,716,244	\$ 31,661,252

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2016**

**Note A - Basis of Presentation:**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the South Carolina Department of Transportation (the "Department") under programs of the federal government for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended and does not present the financial position or changes in net assets of the Department.

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, 2015 through June 30, 2016. This information is presented on the accrual basis of accounting.

**Note B - Summary of Significant Accounting Policies**

1 - 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, 2015 through June 30, 2016. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

2 – The Department has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**Section I—Summary of Auditor’s Results**

**Financial Statements:**

We have issued an unmodified opinion dated November 3, 2016 on the basic financial statements of South Carolina Department of Transportation.

**Internal control over financial reporting:**

- Material weaknesses identified? Yes
- Significant deficiency identified? None Reported
- Noncompliance material to financial statements noted? None Reported

**Federal Awards:**

**Internal control over major federal programs:**

- Material weaknesses identified? No
- Significant deficiency identified? Yes

We have issued an unmodified opinion dated January 6, 2017 on South Carolina Department of Transportation’s compliance for its major programs.

- Any audit finding disclosed that is required to be reported in accordance with 2 CFR 200.516(a)? Yes

**Identification of Major Programs:**

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.205	Highway Planning and Construction
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
20.933	National Infrastructure Investments
20.509	Formula Grant for Rural Areas

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 – Financial Statement Findings**

### *Condition Considered to be a Material Weakness*

2016-001 – Year end closing adjustments for the annual financial statements

**Condition:** The Department did not record a year-end adjustment to recognize a receivable and associated revenue for motor fuel user fees that were due to the Department for the month of June 2016. Therefore, both State agency receivables and motor fuel user fee revenue were understated.

**Criteria:** Generally accepted accounting principles require that revenues be recorded when they are earned or due to the Department and if not received in cash, a receivable should be recorded to accrue for the amounts due to the Department.

**Context:** During our analytical testing of accounts receivable and revenues, we identified a significant decrease in both receivables and revenues related to motor fuel user fees. Detail testing of the account balances revealed that the amounts for June 2016 had not been recorded.

**Effect:** State agency receivables and motor fuel user fee revenue were understated by approximately \$35.1 million.

**Cause:** The Department omitted recording an accrual for this amount due to an oversight during the year end closing process.

**Recommendation:** We recommend that the Department perform a review of year end accruals as well as an analysis of current year balances as compared to prior year balances to assist in ensuring that all revenues and receivables are properly recorded in accordance with generally accepted accounting principles.

## **Section III- Federal Award Finding Findings and Questioned Costs**

### *Condition Considered to be a Significant Deficiency*

2016-002

Highway Planning and Construction – CFDA 20.205; Grant period – Year ended June 30, 2016

**Condition:** A former Department employee, Field Operations Manager of the Department's Intelligent Transportation Systems division, was indicted with the following charges: one count criminal conspiracy; one count official misconduct in office; three counts of receiving anything of value to influence action of public employees; and one count of acceptance of rebates or extra compensation. The indictment alleges that while he was with the Department, the employee maintained a secret ownership and financial interest in a company doing contract work for his division at the Department, and the employee participated in the awarding and supervision of work to this company. The indictment alleges that the employee improperly received more than \$360,000 as a result of his unlawful financial interest and secret arrangement.

**Criteria:** Department employees are prohibited from owning a business doing contract work with the Department while employed at the Department. This is also a violation of State law and procurement code.

**Perspective:** The condition was disclosed as part of an ongoing State investigation and was not identified through audit procedures. Additional testing of related transactions was performed, however, additional questioned costs were not identified. The condition appears isolated, however, additional questioned costs may exist. This condition has not been previously reported.

**Effect:** The federal grantor could disallow these charges and require the Department to pay back the amount of reimbursement associated with these charges.

**Cause:** The Department has policies and procedures in place to approve procurement and allowable costs. The employee was approving the procurements for his own company as only one level of field review was required.

**Recommendation:** The Department should add an additional level of field approval for invoices and procurements that occur at all District offices.

**Summary Schedule of Prior Audit Findings:**

There were no prior year audit findings reported.

**Views of Responsible Officials and Planned Corrective Actions:**

**2016-001:** The Department concurs with this finding and proposes implementing processes and controls to ensure revenues are recorded when earned and account receivable balances are accurate at year end. The new processes will include a review of year end accruals as well as comparative analytical review of revenue and receivable balances ensuring that all revenue has been recorded in the proper fiscal year in accordance with generally accepted accounting principles.

**2016-002:** The Department concurs with this finding and will review invoice and procurement approval levels and processes to ensure sufficient approval authority exists in all offices. Additional levels of approval would be added as need to ensure the accuracy of vendor invoices and the verification that goods and services purchased have been received.