

SOUTH CAROLINA  
DEPARTMENT OF TRANSPORTATION

SUPPLEMENTAL FEDERAL FINANCIAL  
ASSISTANCE REPORTS

YEAR ENDED JUNE 30, 2012

# 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 18, 2012

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 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 and on the Schedule of Expenditures of Federal Awards of the South Carolina Department of Transportation for the fiscal year ended June 30, 2012, were issued by Scott and Company, LLC, 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, 2012, issued by Scott and Company, LLC, Certified Public Accountants, dated October 15, 2012.

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, 2012**

| <b>Federal Grantor / Program Title</b>   | <b>Federal<br/>CFDA<br/>Number</b> | <b>Total<br/>Federal<br/>Expenditures</b> | <b>Expenditures<br/>To<br/>Sub-recipients</b> |
|--|------------------------------------|---|---|
| Direct Programs:   |                                    |   |   |
| <b>U.S. Department of Transportation</b>   |                                    |   |   |
| Highway Planning and Construction  | 20.205                             | \$ 705,842,418                            | \$ 974,099                                    |
| Highway Planning and Construction -<br>American Recovery & Reinvestment Act - ARRA | 20.205                             | 74,365,013                                | —   |
| Federal Transit - Capital Investment Grants  | 20.500                             | 4,273,107                                 | 4,273,107                                     |
| Federal Transit - Metropolitan Planning Grants                                     | 20.505                             | 236,427                                   | 236,427                                       |
| Formula Grants for Other Than Urbanized Areas                                      | 20.509                             | 9,961,545                                 | 8,799,601                                     |
| Formula Grants for Other Than Urbanized Areas - ARRA                               | 20.509                             | 2,902,419                                 | 2,902,419                                     |
| Capital Assistance Program for Elderly Persons<br>and Persons with Disabilities    | 20.513*                            | 2,133,256                                 | 1,860,056                                     |
| Job Access and Reverse Commute   | 20.516*                            | 700,461                                   | 473,537                                       |
| New Freedom Program  | 20.521*                            | 781,666                                   | 548,961                                       |
| Alternatives Analysis  | 20.522                             | 36,332                                    | 36,332  |
| Totals   |                                    | <u>\$ 801,232,644</u>                     | <u>\$ 20,104,539</u>                          |

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**  
**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2012**

**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, 2011 through June 30, 2012. 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, 2012, which collectively comprise the Department's basic financial statements and have issued our report thereon dated October 15, 2012. 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

Management of the Department is responsible for establishing and maintaining effective 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.

*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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies 2012-01 through 2012-02 described in the accompany schedule of findings and questioned costs to be significant deficiencies. 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.

### 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 Department's management, South Carolina Office of the State Auditor, the Governor of the State of South Carolina, commission members, 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 LLC*

Columbia, South Carolina  
October 15, 2012



**Independent Auditor's 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 and on the Schedule of  
Expenditures of Federal Awards**

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, 2012. 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, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, 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 item 2012-03.

### 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.

*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.

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 deficiencies, significant deficiencies, or material weaknesses. 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 that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-03. *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.

### **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, 2012, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 15, 2012, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 the Department's management, the South Carolina Office of the State Auditor, the Governor of the State of South Carolina, commission members, 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 LLC*

Columbia, South Carolina  
December 14, 2012

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2012**

**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 <u>  X  </u> no     |
|    | Significant deficiencies identified not considered to be material weaknesses: | <u>  X  </u> yes     _____ no |
| 3. | Noncompliance material to the Financial Statements noted?                     | _____ yes <u>  X  </u> no     |

**Federal Awards**

- |    |   |                               |
|----|---|-------------------------------|
| 4. | Internal control over major programs:   |                               |
|    | Material weaknesses identified:   | _____ yes <u>  X  </u> no     |
|    | Significant deficiency identified not considered to be a material weakness:                                       | <u>  X  </u> 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)? | <u>  X  </u> yes     _____ 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 –<br>American Recovery & Reinvestment Act     |
| 20.509                            | Formula Grants for Other Than Urbanized Areas                                   |
| Transit Services Program Cluster: |   |
| 20.513                            | Capital Assistance Program for Elderly Persons<br>And Persons with Disabilities |
| 20.516                            | Job Access & Reverse Commute  |
| 20.521                            | New Freedom Program   |

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  no

## **Section II – Internal Controls over Financial Reporting**

### **Conditions Considered to be Significant Deficiencies**

#### *2012-01 – Incorrect Amortization and Accrual Procedures Related to Bonds Payable*

##### **Condition:**

Two errors were discovered during our audit of the amortization of bond premiums and accrued interest. The first, regarding bond premiums, was that the premiums were being amortized on a straight-line basis rather than on the bonds outstanding method which has been SCDOT's historical accounting policy. This resulted in excess amortization of the premiums of \$5.2 million. The second error, regarding accrued interest, related to the accrual of interest on an incorrect number of months based on the interest payment dates for the applicable bonds. This resulted in excess interest expense being recognized in the amount of \$2.7 million.

These errors were noted due to their nonconformity with generally accepted accounting principles and Department policy; however, they do not have an effect on the cash balances held by the Department.

##### **Cause:**

The Department incorrectly applied accounting policies as they relate to the amortization of bond premiums and did not reconcile the amount of accrued interest to the interest payment schedule.

##### **Effect:**

Audit adjustments to the Department's financial statements were made to bonds payable, accrued interest, and interest expense due to the incorrect calculations.

##### **Criteria:**

The Department's accounting policy is to amortize bond premiums using the bonds outstanding method. The method currently being used by the Department is not in accordance with that policy. Accrued interest should be calculated based on the number of months passed since the last payment date which was incorrectly calculated at the end of the year.

##### **Recommendation:**

We recommend the Department correct its current working papers to reflect the correct calculation method and accrual dates which will remediate this error going forward.

*2012-02 – Update Schedule that Tracks Participation Projects*

**Condition:**

Two errors were detected during the testing of participation receivables, revenue, and deferred revenue. The first resulted from expenditures applicable to a participation project not being included in the manual excel schedule used to track all of the participation projects. The omission of the expenditures caused revenue not to be recognized and deferred revenue to be overstated in the amount of \$3.98 million. The second error resulted from the participation percentage not being updated on the manual excel schedule due to project modifications resulting in an understatement of revenue and overstatement of deferred revenue in the amount of \$1.09 million.

This error was noted due to nonconformity with generally accepted accounting principles; however, it does not have an effect on the cash balances held by the Department

**Cause:**

The manual excel schedule used to track the participation projects had not been updated with the most recent information.

**Effect:**

Revenue and deferred revenue were misstated and required adjustment.

**Criteria:**

Deferred revenue should be adjusted by the amount of revenue earned by the Department which is based on project expenditures at the rate of participation agreed upon by the Department and the participating governmental entity.

**Recommendation:**

We recommend the Department update the excel schedule for the most recent data for all on-going projects and remove all projects that are closed and will no longer affect the participation schedule.

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

2012-03 Improve Sub-recipient Monitoring and Communication impacting CFDA Numbers 20.509 and 20.513, 20.516, 20.521.

**Condition:**

The Department is not issuing management decisions on audit findings within six months after the receipt of the sub-recipient's audit report.

**Cause:**

The Department did not have adequate controls in place to ensure that the Federal guidelines are followed involving the issuance of management decisions regarding sub-recipient audit reports.

**Effect:**

The Department is not in compliance with the A-133 Federal requirements for sub-recipient monitoring.

**Criteria:**

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

- *Sub-recipient Audits* – Issuing a management decision on audit findings within 6 months after receipt of the sub-recipient's audit report; and ensuring that the sub-recipient takes timely and appropriate corrective action on all audit findings.

**Recommendation:**

The Department had already recognized the deficiency internally and began corrective action to comply with the relative requirements. We recommend the Department continue to improve their audit receipt log to record the receipt of audit reports and issuance of management decisions.

**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 30, 2011. 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.

December 14, 2012

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 (FY) 2012

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, 2012.

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 October 15, 2012 (financials statements and GAS Report) and December 13, 2012 (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**

##### **2012-01 – Incorrect Amortization and Accrual Procedures Related to Bonds Payable**

#### **Condition:**

Two errors were discovered during our audit of the amortization of bond premiums and accrued interest. The first, regarding bond premiums, was that the premiums were being amortized on a straight-line basis rather than on the bonds outstanding method which has been SCDOT's historical accounting policy. This resulted in excess amortization of the premiums of \$5.2 million. The second error, regarding accrued interest, related to the accrual of interest on an incorrect number of months based on the interest payment dates for the applicable bonds. This resulted in excess interest expense being recognized in the amount of \$2.7 million.

These errors were noted due to their nonconformity with generally accepted accounting principles and Department policy; however, they do not have an effect on the cash balances held by the Department.



**Recommendation:**

We recommend the Department correct its current working papers to reflect the correct calculation method and accrual dates which will remediate this error going forward.

**SCDOT Corrective Action:**

SCDOT concurs with the recommendation to correct working papers to match the correct calculation method and accrual dates. SCDOT implemented the recommended changes during the audit. SCDOT will further ensure the proper calculation method and accrual dates are used in the future.

**2012-02 – Update Schedule that Tracks Participation Projects**

**Condition:**

Two errors were detected during the testing of participation receivables, revenue, and deferred revenue. The first resulted from expenditures applicable to a participation project not being included in the manual excel schedule used to track all of the participation projects. The omission of the expenditures caused revenue not to be recognized and deferred revenue to be overstated in the amount of \$3.98 million. The second error resulted from the participation percentage not being updated on the manual excel schedule due to project modifications resulting in an understatement of revenue and overstatement of deferred revenue in the amount of \$1.09 million. This error was noted due to nonconformity with generally accepted accounting principles; however, it does not have an effect on the cash balances held by the Department.

**Recommendation:**

We recommend the Department update the excel schedule for the most recent data for all ongoing projects and remove all projects that are closed and will no longer affect the participation schedule.

**SCDOT Corrective Action:**

SCDOT agrees with the recommendation to update the excel schedule with the most recent project data. SCDOT corrected this issue during the audit. SCDOT will ensure the participation agreement schedule is kept up to date in the future.

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

**2012-03 Improve Sub-recipient Monitoring and Communication impacting CFDA Numbers 20.509 and 20.513, 20.516, 20.521.**

**Condition:**

The Department is not issuing management decisions on audit findings within six months after the receipt of the sub-recipient's audit report.

**Recommendation:**

The Department had already recognized the deficiency internally and began corrective action to comply with the relative requirements. We recommend the Department continue to improve

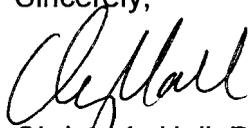


their audit receipt log to record the receipt of audit reports and issuance of management decisions.

**SCDOT Corrective Action:**

This finding specifically relates to Sub-Recipient Monitoring in the Transit Area. As noted in the recommendation, SCDOT identified the deficiency prior to the audit. Action was taken to ensure management decisions on audit findings are completed within six months and at the time of the audit this work was being completed within the required time frame. Delinquent audit decisions were completed as quickly as possible after the problem was identified. SCDOT has implemented a process to ensure that decisions are rendered within the six month requirement.

Sincerely,



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

AC:clb

Enclosures

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

