

**SOUTH CAROLINA
DEPARTMENT OF TRANSPORTATION
SUPPLEMENTAL FEDERAL FINANCIAL
ASSISTANCE REPORTS
YEAR ENDED JUNE 30, 2018**

SCOTT  COMPANY



December 27, 2018

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, 2018, 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,

George L. Kennedy, III, CPA
State Auditor

GLKIII/cmw

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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, the major funds, and the aggregate remaining fund information of the South Carolina Department of Transportation (the "Department"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated September 26, 2018. 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. The financial statements of Connector 2000 Association, Inc. were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditor's 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 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.

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 over financial reporting that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

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 purpose.

Scott and Company LLC

Columbia, South Carolina
September 26, 2018



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

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, 2018. 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, 2018.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 funds, and the aggregate remaining fund information of the Department, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements. We issued our report thereon dated September 26,

2018, 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 the 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
December 27, 2018

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING JUNE 30, 2018**

Federal Grantor / Pass Through Agency / Program or Cluster Title	Pass- through Entity Identifying Number	Federal CFDA Number	Total Federal Expenditures	Expenditures To Subrecipients
Direct Programs:				
U.S. Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction		20.205	<u>928,937,531</u>	<u>19,700,346</u>
Total Highway Planning and Construction Cluster			<u>928,937,531</u>	<u>19,700,346</u>
Highway Research and Development		20.200	39,993	—
Highway Fuel Tax Evasion-Intergovernmental Enforcement Effort		20.240	1,209	—
Federal Transit - Metropolitan Transit Planning and State and Non-Metropolitan Planning and Research Grants		20.505	105,003	105,003
Formula Grants for Rural Areas		20.509	12,586,951	11,720,522
National Infrastructure Investment		20.933	11,099,246	10,669,950
Federal Transit Cluster				
Bus and Bus Facilities Formula Program		20.526	<u>1,134,059</u>	<u>1,134,059</u>
Total Federal Transit Cluster			<u>1,134,059</u>	<u>1,134,059</u>
Transit Services Program Cluster				
Enhanced Mobility for Seniors and Individuals with Disabilities		20.513	2,708,628	2,527,250
Job Access and Reverse Commute Program		20.516	33,464	33,464
Total Transit Services Program Cluster			<u>2,742,092</u>	<u>2,560,714</u>
Total Direct Programs			<u>956,646,084</u>	<u>45,890,594</u>

The accompanying notes are an integral part of this schedule.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING JUNE 30, 2018 (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	268,278	—
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	FEMA-4241- PA-SC	97.036	1,472,786	—
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	FEMA-4286- PA-SC	97.036	26,430,181	—
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	FEMA-4346- PA-SC	97.036	1,682,921	—
Total Passed Through From S.C. Emergency Management Division			29,854,166	—
Total Expenditures of Federal Awards			\$ 986,500,250	\$ 45,890,594

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

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, 2018. 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 net position or changes in net position of the Department.

Note B - Summary of Significant Accounting Policies

1 – Expenditures reported on the Schedule are reported on the accrual basis of accounting. 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, 2018**

Section I—Summary of Auditor’s Results

Financial Statements:

We have issued an unmodified opinion dated September 26, 2018 on the basic financial statements of South Carolina Department of Transportation.

Internal control over financial reporting:

- Material weaknesses identified? No
- 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? None Reported

We have issued an unmodified opinion dated December 27, 2018 on South Carolina Department of Transportation’s compliance for its major program.

- Any audit finding disclosed that is required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.205	Highway Planning and Construction Cluster

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 Finding

None Reported.

Section III- Federal Award Finding Findings and Questioned Costs

None Reported.

Summary Schedule of Prior Audit Findings:

Finding 2017-001 – Year End Closing Adjustments for the Annual Financial Statements

Condition: The Department's accounts payable and accounts receivable were not presented accurately for the year ended June 30, 2017 due to an error in recording the accounts payable accrual. This error had a corresponding effect on accounts receivable for federally reimbursable projects.

Current Status: The Department implemented the new procedures that included using separate disbursement reports which included all types of payments subsequent to fiscal year end to assist management's review of completeness of accounts payable. Management also performed a reconciliation of the total disbursements provided in the accounts payable accrual reconciliation to SCEIS to ensure completeness. Lastly, once all accounts payable were recognized, those amounts related to federal disbursements were recorded as federal revenue and accounts receivable. There were no similar findings noted in the 2018 audit.