

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
COLUMBIA, SOUTH CAROLINA**

**SINGLE AUDIT SECTION
AND
OTHER INFORMATION**

YEAR ENDED JUNE 30, 2000

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

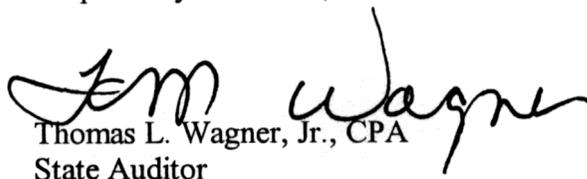
January 18, 2001

The Honorable Jim Hodges, Governor
and
Members of the South Carolina Transportation Commission
South Carolina Department of Transportation
Columbia, South Carolina

This report on the Single Audit and internal control of the South Carolina Department of Transportation for the fiscal year ended June 30, 2000, was issued by Rogers & Laban, PA, 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,


Thomas L. Wagner, Jr., CPA
State Auditor

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

**TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2000**

	Page
SINGLE AUDIT SECTION:	
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	1 and 2
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	3 and 4
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	5
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	6 – 13
OTHER INFORMATION:	
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL	14
OTHER MANAGEMENT LETTER COMMENTS	15 and 16
STATUS OF PRIOR MANAGEMENT LETTER COMMENTS	17
CORRECTIVE ACTION PLAN	APPENDIX A



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the South Carolina Department of Transportation (the Department) as of and for the year ended June 30, 2000, and have issued our report thereon dated November 16, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertion of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 00-1 to 00-9.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described on the accompanying schedule of findings and questioned costs are material weaknesses. We also noted other matters involving the internal control over financial reporting which we have reported to management of the Department in a separate letter dated November 16, 2000 and have described on pages 16 and 17.



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

Robert E. Loban, PA

November 16, 2000



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of the South Carolina Department of Transportation (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2000. 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 generally accepted auditing standards; 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 on the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our 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.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the South Carolina Department of Transportation (the Department) as of and for the year ended June 30, 2000, and have issued our report thereon dated November 16, 2000. Our audit was performed for the purpose of forming an opinion of the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards are presented for purposes of additional analysis as required by OMB Circular A-133 and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

A handwritten signature in cursive script that reads "Logan & Taban, PA". The signature is written in dark ink and is positioned in the lower right quadrant of the page.

November 16, 2000

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Expenditures to Subrecipients</u>
U.S. Department of Transportation:			
Direct Programs:			
Highway Planning and Construction	20.205	\$ 323,862,571	\$
Federal Transit Metropolitan Planning Grants	20.505	366,967	301,367
Formula Grants for Other Than Urbanized Areas	20.509	3,613,709	202,792
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	924,205	690,586
Federal Transit Formula Grants	20.507	701,000	
State Planning and Research Grant	20.515	38,453	
Federal Emergency Management Agency:			
Passed through South Carolina Office of the Adjutant General:			
Flood Mitigation Assistance	83.536	<u>563,426</u>	
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$ 330,070,331</u>	<u>\$ 1,194,745</u>

NOTE: The Department used the accrual basis method of accounting in preparing the above schedule. This is the same basis of accounting used by the Department in the preparation of its annual financial statements which are audited. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000**

SUMMARY OF AUDITOR'S RESULTS

1. An unqualified opinion dated November 16, 2000 on the financial statements of the Department for the year ended June 30, 2000 was issued.
2. Reportable conditions that were determined to be material weaknesses in internal control over financial reporting are described below.
3. No instances of noncompliance that were material to the financial statements were noted.
4. No reportable conditions relating to the audit of the major federal award programs are reported.
5. An unqualified opinion on compliance for major programs dated November 16, 2000 was issued.
6. There are no findings related to internal controls over major programs required to be reported under Section .510(a) of OMB Circular A-133.
7. The major programs of the Department were Highway Planning and Construction (CFDA #20.205) and Formula Grants for Other Than Urbanized Areas (CFDA #20.509).
8. The dollar threshold used to distinguish between Type A and Type B programs was \$3,000,000.
9. The Department was not determined to be a low-risk auditee.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The following reportable conditions are material weaknesses, are related to the Department's financial statements and are required to be reported in accordance with generally accepted government auditing standards.

00-1 FINANCIAL RECORDS NOT MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition:

The Department posted its transactions in its State Transportation Accounting and Reporting System (STARS) for the fiscal year 2000. The Department's accounting system did not contain adequate and accurate financial data to produce financial statements for the Department. The Department's financial statements were prepared using a variety of non-integrated systems and sources of data including manually prepared records. The lack of an integrated financial accounting system capable of maintaining sufficient financial data to produce financial statements affected the Department's ability to report the financial position and activity of the Department in accordance with generally accepted accounting principles.

Several conditions as noted below required a substantial amount of additional work and procedures to be performed at year-end to ensure that the financial statements were in accordance with GAAP.

The Department's financial statements consist of two governmental funds, a fiduciary fund, and two account groups. In addition, one of the governmental funds (the special revenue fund) and the agency fund consist of a number of individual funds. The Department did not maintain complete and accurate records that adequately account for the Department's financial transactions in each fund for the fiscal year.

The trial balances prepared by the Department did not balance so that debits equaled credits.

Schedules and reports that were prepared by the Department and furnished to the audit firm to support certain financial activity were not mathematically correct and the financial information included therein was incorrect. The schedules and reports that provide supporting documentation should be prepared by the Department and used by management throughout its fiscal year.

00-1 FINANCIAL RECORDS NOT MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (CONTINUED)

The Department's policy for classification of highway expenditures as maintenance or capital outlay is based on the source of funding and not the actual nature of the expenditure.

The Department's records were not maintained to allow the accumulation of information necessary to present a budget versus actual statement.

The Department's revenues and expenditures that were posted to the general ledger were not reconciled to the Comptroller General's records on a monthly basis.

Similar findings were included in prior management letters.

Cause:

The Department's accounting system was not properly utilized to produce accurate and complete financial records for management's use and for audit.

Effect:

Failure to maintain accurate and complete financial records results in a lack of accountability and misstatements in the Department's financial statements and other financial reports.

Criteria:

State regulations, good business practices and generally accepted accounting principles require the Department to maintain complete and accurate financial accounting records that reflect all of the financial activities of the Department that will support the Department's financial statements and other financial reports and that will provide management with adequate information to monitor budgeted expenditures.

Recommendation:

We recommend that the Department:

Establish and maintain an accounting system that includes all of the necessary self-balancing funds to properly account for the Department's financial position and all of its financial activities in accordance with GAAP. Also, reports and schedules that are prepared to support financial activities and account balances should include accurate information and be mathematically correct.

Review the manner in which all transactions are being posted to its general ledger to ensure that all transactions are properly and timely posted in accordance with GAAP.

Prepare accurate schedules and reports that provide supporting documentation for certain financial activity throughout the year.

Adopt a policy to properly classify highway expenditures as maintenance or construction.

Record budgets and expenditures in a manner which would allow the preparation of a budget versus actual statement.

Reconcile the revenues and expenditures posted to the general ledger to the Comptroller General's records on a monthly basis in a timely manner.

00-2 CASH RECONCILIATION DEFICIENCIES

Condition:

The cash reconciliations were not being timely and accurately prepared for the various accounts of the Department.

Similar findings were included in prior management letters.

00-2 CASH RECONCILIATION DEFICIENCIES (CONTINUED)

Cause:

Department personnel assigned this responsibility do not appear to have adequate training and knowledge to perform the reconciliations accurately. Also, there is a lack of follow-up and supervision by senior management.

Effect:

Failure to prepare timely cash reconciliations and record adjustments for unrecorded and other reconciling items may result in inaccurate balances in the Department's internal account system and/or in the Comptroller General's records of the Departments accounts and will result in incomplete documentation for support of individual cash account balances.

Criteria:

The Statewide Accounting and Reporting System Manual Section 2.1.7.20 C and good accounting practices and policies require cash reconciliations to be prepared timely and accurately.

Recommendation:

We recommend that the Department:

Reconcile all cash accounts in the Department's Accounting System to the Comptroller General's account balances within 30 days after each month end. Adopt a reconciliation format that clearly reflects the transit items, timing difference items and items not yet recorded by the Department. No items more than 30 days old should appear on the reconciliations.

Have a designated senior management staff person review and approve all of the cash reconciliations. Also, follow-up by that designated senior management staff person as to timely preparation if the reconciliations are not available for review within 30 days after each month end and as to disposition of all reconciling items if any items on the current month's reconciliation are over 30 days old.

Prepare and record required adjusting journal entries in the Department's accounting system for all unrecorded transactions and error corrections in a timely manner.

00-3 ACCOUNTS PAYABLE AND ACCRUED EXPENDITURES DEFICIENCIES

Condition:

We noted several deficiencies regarding accounts payable and accrued expenditures. They include the following:

- The schedule supporting additional accounts payable to be recorded contained a mathematical error causing accounts payable to be understated by approximately \$238,000.

Our testing of cash disbursements disclosed seven invoices out of twenty five invoices tested that were not paid within 30 working days of receipt of the necessary documentation to allow payment.

- The Department did not timely document and records the year-end payroll accrual entries. Documentation had to be obtained by the audit firm for summarization and preparation of the year-end adjusting journal entry to record accrued payroll and related fringe.

Similar findings were included in the prior management letters.

Cause:

The Department's staff did not identify and accurately record all accounts payable and payroll liabilities, did not prepare the schedule supporting accrued payroll and related fringe, did not record the related adjusting journal entries, and did not pay all invoices within 30 working days.

00-3 ACCOUNTS PAYABLE AND ACCRUED EXPENDITURES DEFICIENCIES (CONTINUED)

Effect:

The failure to record all accounts payable and accrued expenditures will result in misstatements of liabilities and expenditures in the Department's financial statements and the failure to timely pay invoices will result in the loss of discounts or payment of finance charges.

Criteria:

State Regulations require the payment of invoices within 30 working days (S.C. Code of Laws Section 11-35-45 and Statewide Accounting and Reporting System Manual Section 4.2.22.3). Also, good accounting practices dictate the recording of all accounts payable and other liabilities and of accrued expenditures as of each year-end.

Recommendation:

We recommend that the Department implement fiscal year-end expenditure and liability cutoff procedures to ensure that all accounts payable and payroll liabilities of the Department are recorded as of each year-end through a more diligent search, that documentation supporting vendor accounts payable and the schedule supporting accrued payroll and related fringe be prepared and all invoices be paid within 30 days.

00-4 RETAINAGES PAYABLE DEFICIENCIES

Condition:

Our testing disclosed numerous transaction coding and posting errors in the Department's accounting system for retainages payable. Also, the escrow bank balance is not being reconciled to the listing of retainages that are deducted from construction payment draw requests and deposited into the escrow account.

A similar finding was included in the prior year's management letter.

Cause:

The deficiencies appear to result from Department personnel not being adequately trained and supervised to enter the transaction data into the accounting system (STARS) and reconcile the escrow bank balance to the listing of retainages payable.

Effect:

Miscalculation of retainage amounts, incorrect transaction codings and postings, and failure to reconcile the escrow bank balance to supporting detail result in inaccurate and incomplete financial records.

Criteria:

State rules and regulations and good business practices require the Department to set up and maintain accurate and complete financial records.

Recommendation:

We recommend that the Department properly train and supervise its personnel; that the reports supporting the transaction activity be reviewed and approved by designated management staff; and, that the escrow bank balance for retainages withheld be reconciled each month to the supporting listing of retainages payable and to draw request billing by contractors.

00-5 ACCOUNTS RECEIVABLE DEFICIENCIES

Condition:

The Department's accounts receivable balances include amounts from numerous sources, including other State agencies, local governments and other entities. The Department's accounts receivable records are maintained within a system that makes it possible to determine the balances of the accounts receivable on the accrual basis of accounting method but not on the modified accrual basis of accounting required by GAAP for governmental funds to be used for reporting the Department's transactions. Also, we noted that several receivables were not set up in the accounts receivable records; that some installment receivable payments due prior to June 30 were not billed until after June 30; and, that some of the bills mailed by the Department to obligors showed incorrect amounts due.

Similar findings were included in prior management letters. In the fiscal year 1999 report, the findings were described in the material weakness "Accounts Receivable Not Recorded on Modified Accrual Basis" and in the other weakness "Failure to Timely Invoice per Agreement."

Cause:

The Department's procedures and controls regarding the billing, posting and maintaining of subsidiary records that support accounts receivable (short-term and long-term) is fragmented, inconsistent and incomplete.

Effect:

The failure to invoice timely and collect amount due results in the Department not earning interest on the collected funds. Also, the fragmentation and inconsistent maintenance of account receivable records results in incomplete and inaccurate financial data in accounting records and financial statements and reports.

Criteria:

State rules and regulations and good business practices require the Department to submit timely and accurate invoices for amounts due prior to their due date and to establish and maintain accurate and complete subsidiary and control records over all accounts receivable balances. Also, the modified accrual basis provides that only revenues and the related receivable that will be collected within 60 days should be reported in governmental fund financial statements.

Recommendation:

We recommend that for all accounts receivable due the Department transactions be recorded accurately and coded in a manner to provide for both accrual basis record keeping and modified accrual reporting, accounts receivable balances be reported on the modified accrual basis as required for governmental funds; and, that accounts receivable be billed timely for the proper amounts due.

00-6 IMPROVEMENTS NEEDED OVER THE ACCOUNTING FOR PARTICIPATION AGREEMENTS

Condition:

Improvements are needed in the accounting and record keeping for participation agreements. A review of the client prepared schedule for outstanding participation agreements and supporting documentation disclosed the following deficiencies:

The prepared schedule included incorrect amounts.

Our testing of the various contracts disclosed they were not being handled on a consistent basis.

The schedule did not reflect those contracts closed out during the fiscal year and several new contracts. Our review of the contract files reflected several agreements that had been completed and should have been closed out and several active agreements that were not included on the schedule.

00-6 IMPROVEMENT NEEDED OVER THE ACCOUNTING FOR PARTICIPATION AGREEMENTS (CONTINUED)

The prepared schedule did not include the gross allotment (budget) amounts for all the projects which are necessary to determine the participating entity's share of the project; and, it did not include the correct project expenditures to date.

We noted several contracts for which expenditures were made and recorded prior to the budget amounts being entered into the project records.

The Department's accounting staff does not maintain any type subsidiary records for amounts due from the various participating entities.

We also noted there is inadequate linkages and communications between the "contract" office and the "accounting" department and that changes to accounts receivable and deferred revenues are only being updated as of year-end as part of the year-end audit process.

Similar findings were included in prior management letters.

Cause:

The Department does not update the schedules and maintain supporting documentation for outstanding participation agreements on a monthly basis. Financial activity for the participation agreements is only being updated once a year after the June 30 year-end. Also, the personnel responsible for maintain the accounting activity and controls over participation agreements do not appear to have an adequate understanding of the requirements to prepare an accurate and complete schedule. The Department does not have written procedures that would provide guidelines to the responsible personnel.

Effect:

Failure to update the financial activity for participation agreements on a monthly basis increases the likelihood that the financial information may be inaccurate and incomplete because of errors and omissions. Without timely updating and accurate and complete project information, the accounting records and schedule don't provide management with current information for monitoring projects. Also this resulted in audit adjustments being required as of year-end to accounts receivable and deferred revenues.

Criteria:

Good business practices and generally accepted accounting principles require accurate and complete financial data to be maintained to support the asset, liability and revenue account balances for participation agreements.

Recommendation:

We recommend that the Department prepare written procedures and its accounting staff set up detail and control records that will provide an accurate accounting of all participation agreements. The schedule should be prepared and updated for changes as of each month end to help ensure it is mathematically correct; properly reflects all contract data; properly includes all contracts completed and closed during the current fiscal year; and properly reflects all amounts due and/or deferred revenues. This schedule and all supporting documentation should be reviewed and approved by a designated senior management staff person as of each month end.

00-7 YEAR END JOURNAL ENTRIES NOT POSTED BY DEPARTMENT

Condition:

Adjusting journal entries prepared by the audit firm as of the prior year-end were not posted to the records by the Department.

The same finding was included in prior management letters.

00-7 YEAR END JOURNAL ENTRIES NOT POSTED BY DEPARTMENT (CONTINUED)

Cause:

The deficiency results from the lack of follow-up and the failure of the Department to maintain its financial records in accordance with generally accepted accounting records.

Effect:

Failure to record the year-end audit adjusting journal entries results in the Department's beginning balances in its financial records not being in agreement with those in its current year audited financial statements.

Criteria:

Good business practices require adjusting journal entries that are prepared by the audit firm and approved by the Department to be recorded as of each year end in the financial records of the Department.

Recommendation:

We recommend that the Department record all adjusting journal entries prepared by the audit firm that are necessary to agree all of the beginning account balances to the audited financial statements.

00-8 FAILURE TO TIMELY DEPOSIT RENTAL CASH RECEIPTS

Condition:

Our testing of cash receipts disclosed that \$1,330 of rental collections received during the months of May, 1999 – July, 1999 were not timely deposited. Replacement checks had to be obtained from the payor and these were deposited in October, 1999.

The same finding was included in the prior year's management letter.

Cause:

There was not an apparent reason for not timely depositing its cash receipts.

Effect:

The failure to record and deposit cash receipts on a timely basis results in a loss of interest income to the Department. Also, there is a potential for loss of the asset value if recovery is not successful.

Criteria:

Proviso 72.1 of the 1999-2000 Appropriations Act requires that all receipts received by a State agency to be deposited at a minimum within one week of receipt.

Recommendation:

We recommend that the Department take the necessary steps to ensure all collections received by the Department are timely deposited as required.

00-9 OPERATING LEASE DEFICIENCIES

Condition:

The Department failed to schedule and report its commitment for operating leases that had maturities of more than one year for which it was obligated and reconcile all lease expenditures for its leases to the appropriate general ledger account.

00-9 OPERATING LEASE DEFICIENCIES (CONTINUED)

Cause:

The Department did not maintain any documentation to support the liability for noncancelable operating leases that have a maturity of more than one year as of its fiscal year-end.

Effect:

The failure to include in the Department's annual financial statements a disclosure for future operating lease minimum payments and current year operating lease expenditures are departures from generally accepted accounting principles. The Department had to compile a schedule of operating leases after year-end.

Criteria:

Generally accepted accounting principles (GAAP) require the reporting of total current year operating lease expenditures and of the liability by fiscal year for noncancelable operating leases having a remaining term of more than one year and for the maintenance of adequate records to support all applicable GAAP operating lease disclosures.

Recommendation:

We recommend that the Department prepare a schedule annually that includes the terms of all active leases in the fiscal year and reconcile total lease expenditures to the various leases in place. We also recommend the Department prepare a schedule at fiscal year-end detailing the future minimum lease payments for all leases with a remaining lease term in excess of one year.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No finding and questioned cost for federal awards were noted that are required to be reported under Section .510(a) of OMB Circular A-133.



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

In planning and performing our audit of the financial statements of the South Carolina Department of Transportation (the Department) for the year ended June 30, 2000, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters as detailed on the Schedule of Findings and Questioned Costs involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that all of the reportable conditions on the Schedule of Findings and Questioned Costs are material weaknesses.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

We also noted other matters involving internal control and its operation as detailed on the following pages.

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

Rogers & Laban, P.A.

November 16, 2000



OTHER MANAGEMENT LETTER COMMENTS

00-10 FIXED ASSET DEFICIENCIES

Condition:

The records supporting the listing of furniture, motor vehicles and equipment was not updated for fiscal year 2000 disposals as of the end of the audit fieldwork. A listing of disposals for the fiscal year was provided.

Cause:

The Department is in the process of updating certain of its accounting records including those used for fixed asset management.

Effect:

Failure to maintain and timely update fixed asset records will result in incomplete and inaccurate financial data that supports certain of the Department's year end financial statement balances.

Criteria:

Good account procedures require the Department to maintain accurate and up to date property records.

Recommendation:

We recommend that disposals be posted timely and the applicable fixed asset subsidiary and control records be updated.

00-11 INSURANCE COVERAGES

Condition:

The Department is not properly updating the amounts of insurance coverage for the buildings owned throughout the State.

Cause:

There was no apparent reason the insurance coverage for the Department was not reviewed and updated.

Effect:

The Department could realize losses from not having adequate coverage or by paying excess premiums if the properties are insured for more than their current value.

Criteria:

Good business practices require the Department to review and update insurance coverages in force at least annually.

Recommendation:

We recommend that the Department utilize the current annual replacement cost and depreciation report be issued by the South Carolina Insurance Reserve Fund in determining the correct amounts of insurance coverage.

00-12 IMPROPER USE OF INTERNAL AUDIT STAFF

Condition:

Our request for internal audit reports for fiscal year 2000 disclosed that the personnel in the internal audit department performed work on the accounting records and did not perform internal audit work during the fiscal year.

Cause:

The Department was in need of assistance with its accounting records resulting in the internal audit staff being directed to work in the accounting section.

Effect:

Allowing internal audit staff to work in the accounting section results in the loss of independence by the internal staff and results in the Department not having a functioning internal audit department.

Criteria:

Good controls dictate that the Department establish the internal audit section as a separate division to perform internal audits and make recommendations on the deficiencies noted. The internal audit department should report directly to the Department's Commission.

Recommendation:

We recommend that the internal audit staff perform the duties for which they are paid including performing audit tasks of the accounting systems used by the Department and the internal controls over those systems.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

**STATUS OF PRIOR MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

During our current audit, we reviewed the status of corrective action taken on the management letter comments reported in the prior auditor's report on the financial statements of the Department dated November 12, 1999, resulting from the audit of the financial statements for the year ended June 30, 1999. We found that adequate corrective action was taken for the following management letter comments:

Failure to record deletions in general ledger for abandoned construction in progress

Missing documentation in employee personnel files

The management letter comments entitled "Proprietary fund fixed assets acquisitions and disposals not recorded correctly" was not repeated for fiscal year 2000 because the Department determined that the use of its Internal Service Fund was no longer required. Effective July 1, 1999 the account balances of its Internal Service Fund were reclassified to the Special Revenue Fund and the General Fixed Assets Account Group.

The other prior year findings are repeated in the current year's management letter comments in the Schedule of Findings and Questioned Costs.

CORRECTIVE ACTION PLAN

APPENDIX A



South Carolina
Department of Transportation

CORRECTIVE ACTION PLAN

February 20, 2001

Mr. Tom Wagner
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

South Carolina Department of Transportation respectfully submits the following corrective action plan for the year ended June 30, 2000.

Rogers and Laban, CPA's
P. O. Box 124
Columbia, SC 29202

Audit period: Fiscal Year ended June 30, 2000

The findings from the February 2, 2001 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS-FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS

00-1 FINANCIAL RECORDS NOT MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Recommendation:

We recommend that the Department:

Establish and maintain an accounting system that includes all of the necessary self-balancing funds to properly account for the Department's financial position and all of its financial activities in accordance with GAAP. Also, reports and schedules that are prepared to support financial activities and account balances should include accurate information and be mathematically correct.

Review the manner in which all transactions are being posted to its general ledger to ensure that all transactions are properly and timely posted in accordance with GAAP

Prepare accurate schedules and reports that provide supporting documentation for certain financial activity throughout the year.



Adopt a policy to properly classify highway expenditures as maintenance or construction.

Record budgets and expenditures in a manner which would allow the preparation of a budget versus actual statement.

Reconcile the revenues and expenditures posted to the general ledger to the Comptroller General's records on a monthly basis in a timely manner.

Action Taken: We concur with the recommendation. Effective July 1, 2001, the Department will begin utilizing the General Ledger Accounting System as the processing system for accounting transactions and reporting. Appropriate funds will be established, transactions posted, and reports prepared in accordance with GAAP. A budget versus actual statement will be generated which will reflect the Comptroller General accounts. These accounts, along with the cash account will be reconciled monthly with the Comptroller General's records. The Department will adopt a policy to properly classify expenditures as maintenance or construction. For Fiscal Year 2001, the Department will reconcile revenue, expenditure, and other cash transactions with Comptroller General records and will use Comptroller General reports as the basis for June 30, 2001 financial reports. These will be adjusted as appropriate to record current payables, receivables and other necessary adjusting and closing entries.

00-2 CASH RECONCILIATION DEFICIENCIES

Recommendation:

We recommend that the Department:

Reconcile all cash accounts in the Department's Accounting System to the Comptroller General's account balances within 30 days after each month end. Adopt a reconciliation format that clearly reflects the transit items, timing difference items and items not yet recorded by the Department. No items more than 30 days old should appear on the reconciliations.

Have a designated senior management staff person review and approve all of the cash reconciliations. Also, follow-up by that designated senior management staff person as to timely preparation if the reconciliations are not available for review within 30 days after each month end and as to disposition of all reconciling items if any items on the current month's reconciliation are over 30 days old.

Prepare and record required adjusting journal entries in the Department's accounting system for all unrecorded transactions and error corrections in a timely manner.

Action Taken: The Department concurs with the recommendation and has assigned responsible personnel who possess knowledge sufficient to perform the reconciliation. Reconciliations for cash transactions during fiscal year 00-01 are underway for each subfund. Reconciliations will be updated as of February 28, 2001 by March 20 and thereafter will be prepared monthly with a copy of the reconciliation and report of disposition of previous reconciling items furnished to the Director of Accounting and Comptroller by the 20th of the following month.

00-3 ACCOUNTS PAYABLE AND ACCRUED EXPENDITURES DEFICIENCIES

Recommendation:

We recommend that the Department implement fiscal year-end expenditure and liability cutoff procedures to ensure that all accounts payable and payroll liabilities of the Department are recorded as of each year-end through a more diligent search, that documentation supporting vendor accounts payable and the schedule supporting accrued payroll and related fringe be prepared and all invoices be paid within 30 days.

Action Taken: The Department concurs with the recommendation. In the future, the schedules will be thoroughly checked for accuracy in formulas and extensions. This will be checked by a Senior Accounting Professional to ensure the schedules are correct. Payment of invoices within the 30 working day time frame can be delayed for various reasons. Every effort is made by the Accounts Payable staff to monitor invoices and receipt documents. The field personnel are contacted when supporting documentation is not received, invoices are faxed to the office if requested, and follow up contact is made with the appropriate offices. The average time from receipt of all payment documentation to a voucher for the Comptroller General office is five working days. Regarding the accrued payroll, STARS did not have a functional system to enable us to record the payroll fringes and the year end payroll accrual entries. It was agreed that the necessary data would be provided to the auditors and they would perform the required entries. All requested payroll data was provided to the auditors in a timely manner. We will reinstate our pre-STARS procedures of accruing payroll and fringes once the GL system conversion has been completed.

00-4 RETAINAGES PAYABLE DIFFERENCES

Recommendation:

We recommend that the Department properly train and supervise its personnel; that the reports supporting the transaction activity be reviewed and approved by designated management staff; and, that the escrow bank balance for retainages withheld be reconciled each month to the supporting listing of retainages payable and to draw request billing by contractors.

Action Taken: The Department concurs with the recommendation. Responsible persons have been assigned the task for reviewing retainage records in STARS, ensuring the accuracy of the retainage transactions and reconciling the balances with a separate record maintained in the Accounting Office and also reconciling with escrow bank balances. These reconciliations will be completed by June 20, 2001 for retainage balances as of May 31, 2001 and thereafter will be reconciled monthly with escrow bank balances with copies of the reconciliation furnished to the Director of Accounting and Comptroller by the 20th of the following month.

00-5 ACCOUNTS RECEIVABLE DEFICIENCIES

Recommendation:

We recommend that for all accounts receivable due the Department transactions be recorded accurately and coded in a manner to provide for both accrual basis record keeping and modified accrual reporting, accounts receivable balances be reported on the modified accrual basis as required for governmental funds; and, that accounts receivable be billed timely for the proper amounts due.

Action Taken: The Department concurs with this recommendation and has developed policies to ensure all amounts due to the Department are recorded as receivables and are billed in a timely manner. Systems and software are being reviewed to determine the most effective system to manage receivables and to report on the accrual and modified accrual basis.

00-6 IMPROVEMENTS NEEDED OVER THE ACCOUNTING FOR PARTICIPATION AGREEMENTS

Recommendation:

We recommend that the Department prepare written procedures and its accounting staff set up detail and control records that will provide an accurate accounting of all participation agreements. The schedule should be prepared and updated for changes as of each month end to help ensure it is mathematically correct; properly reflects all contract data; properly includes all contracts completed and closed during the current fiscal year; and properly reflects all amounts due and/or deferred revenues. This schedule and all supporting documentation should be reviewed and approved by a designated senior management staff person as of each month end.

Action Taken: The Department concurs and is in the process of preparing written procedures. A review of all agreements has been conducted with proper classifications determined in order to appropriately record amounts due to the Department. The recording of participation agreements is being centralized in the Contract Audit Services Office. Status of projects is updated daily on a data base file and is available to management daily with an annual summary provided to management at year-end. The participation agreement schedule prepared by Accounting is being updated with the appropriate agreement amounts as provided by the Contract Audit Services Office. Projects with have been completed will be moved to a separate schedule. The participation agreements schedule will be prepared monthly by the 20th of the following month with copies furnished to the Director of Accounting, Director of Contract Audit Services and the Comptroller.

00-7 YEAR END JOURNAL ENTRIES NOT POSTED BY DEPARTMENT

Recommendation:

We recommend that the Department record all adjusting journal entries prepared by the audit firm that are necessary to agree all of the beginning account balances to the audited financial statements.

Action Taken: The Department agrees that adjusting journal entries prepared by the Audit firm need to be recorded. The entries will be recorded when the General Ledger system is updated and functional during July 2001.

00-8 FAILURE TO TIMELY DEPOSIT RENTAL CASH RECEIPTS

Recommendation:

We recommend that the Department take the necessary steps to ensure all collections received by the Department are timely deposited as required.

Action Taken: The Department concurs with the recommendation and is in the process of implementing a Departmental Directive addressing collections received by the Department. All collections have been consolidated in one location, amounts due to the Department under agreements have been identified, and procedures are in place to ensure collections under these are received in a timely manner by tracking receipts through a PC system with reminders sent out if collections are not received. In addition, the Department has established a separate post office box to which all amounts paid to the Department will be sent.

00-9 OPERATING LEASE DEFICIENCIES

Recommendation:

We recommend that the Department prepare a schedule annually that includes the terms of all active leases in the fiscal year and reconcile total lease expenditures to the various leases in place. We also recommend the Department prepare a schedule at fiscal year-end detailing the future minimum lease payments for all leases with a remaining lease term in excess of one year.

Action Taken: The Department concurs that an annual schedule of leases should be prepared and has developed a tracking system to record these leases. A schedule will be prepared annually to reflect the terms and expenditures of the leases. The new copier contract bid by the State is a cost per copy contract that allows for cancellation by either party with a 30 days written notice. The State does not require a "Standard State Lease Agreement", therefore we do not consider the copier contract to be a "Lease Agreement" but possibly a long term obligation, since we are not actually leasing equipment. The contract is set up as a services contract, and the only portion of the equipment that we are actually leasing would be any options if they are chosen, such as a document handler or finisher. During the audit this past year, we were asked to furnish information regarding our cost per copy contracts. We identified all outstanding Purchase Orders and provided the information requested by the auditors. We developed a format for this information and a tracking system internally in Procurement so these Purchase Orders can be reported in the future. We will update this information as conditions or needs change. We will provide the requested information to the Finance Office prior to the year-end close out. The appropriate object code will be used to record lease expenditures and the schedule will be reconciled with accounting and Comptroller General records.

OTHER MANAGEMENT LETTER COMMENTS

00-10 FIXED ASSET DEFICIENCIES

Recommendation:

We recommend that disposals be posted timely and the applicable fixed asset subsidiary and control records be updated.

Action Taken: The Department concurs with this recommendation. The individuals in the Supply and Equipment and Accounting offices are working to ensure the fixed asset reports accurately account for all disposals. The reports are being balanced to the general ledgers and reflect current year additions and deletions to ensure accuracy. This will continue to be updated on a monthly basis to ensure the correct totals are reported.

00-11 INSURANCE COVERAGES

Recommendation:

We recommend that the Department utilize the current annual replacement cost and depreciation report be issued by the South Carolina Insurance Reserve Fund in determining the correct amounts of insurance coverage.

Action Taken: An inventory of all buildings owned by the Department is being compiled and updated with replacement value of the facility. This will be utilized to ensure adequate insurance coverage is maintained on the buildings.

00-12 IMPROPER USE OF INTERNAL AUDIT STAFF

Recommendation:

We recommend that the internal audit staff perform the duties for which they are paid including performing audit tasks of the accounting systems used by the Department and the internal controls over those systems.

Action Taken: The Department concurs with this recommendation. During fiscal year 1999-2000, the Internal Audit Staff performed accounting duties to fulfill a critical need in that area. We agree this was not the ideal situation but it was the best option at the time. Internal Audit staff have returned to their regular duties of performing independent reviews of agency functions. Reviews are currently underway in the following areas: SCDOT Claims Processing, Windows NT Security, Rights of Ways Appraisals (limited scope review of a proposed change to the current process), and Oversize - Overweight Revenues. The Internal Audit Staff has also been assisting with a review of the accounting system and ensuring proper controls will be in place as we re-implement the General Ledger System.

If you need additional information on any of the above, please do not hesitate to contact me.

Sincerely,



Robert J. Probst
Deputy Director
Strategic Planning, Finance, and Administration

Cc: Robin Wilkes
Ed Vaughn
Debra White