



Memorandum

U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Subject: INFORMATION: Quality Control Review of
Single Audit of the South Carolina
Department of Transportation
Report No. QC-2010-032

Date: December 10, 2009

From: Earl C. Hedges *Earl C. Hedges*
Program Director for Single Audit

Reply To JA-20

Attn Of:

To: Division Administrator, FWHA, South Carolina Division Office
Regional Administrator, FTA, Region IV

The U. S. Department of Transportation is the cognizant Federal single audit agency for the South Carolina Department of Transportation (SC DOT). This report presents the results of our Quality Control Review of a single audit performed by Scott McElveen LLP on SC DOT for the fiscal year ending June 30, 2008. During this period, SC DOT expended about \$392 million from six Department of Transportation grant programs.

DOT Operating Administration	CFDA * #	Program Name	FY 2008 Expenditures	Major Program	Direct Award
Federal Highway Administration	20.205	Highway Planning and Construction	\$371,197,237	Yes	Yes
Federal Transit Administration	20.500	Capital Investment Grants Program	\$9,176,671	Yes	Yes
Federal Transit Administration	20.505	Metropolitan Planning Grants	\$482,941	No	No
Federal Transit Administration	20.509	Formula Grants- Other than Urbanized Areas	\$8,961,949	Yes	Yes
Federal Transit Administration	20.513	Elderly Persons and Persons with Disabilities	\$1,908,478	No	Yes
Federal Transit Administration	20.515	State Planning and Research	\$1,388	No	Yes

* Catalogue of Federal Domestic Assistance

The Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations;" requires the auditor to render an opinion on the entity's financial statements, identify inappropriate use of

Federal funds, and report internal control and compliance deficiencies that affect Federal grant programs.

Scott McElveen rendered an unqualified (clean) opinion on SC DOT's financial statements and did not question any costs concerning Department of Transportation programs. However, Scott McElveen rendered a qualified opinion on SC DOT's compliance with FHWA Highway Planning and Construction (CFDA 20.205) and FTA Capital Investment Grants (CFDA 20.500) requirements for use of federal funds. In addition, Scott McElveen made recommendations to correct the following internal control and compliance findings that directly affect FHWA and FTA programs.¹

- Ineffective monitoring of subrecipients' use of Federal funds and communication of CFDA numbers to subrecipients at the time of award.
- Not filing Disadvantaged Business Enterprise (DBE) reports semiannually as required by FTA.

SC DOT's timely correction of these deficiencies is critical to ensuring its proper use of the upcoming American Recovery and Reinvestment Act (ARRA) funds.

The purpose of our review was to determine: (1) the adequacy of the auditor's work; (2) whether the work complied with Generally Accepted Government Auditing Standards as prescribed by the Comptroller of the United States, the Single Audit Act of 1984, as amended (Act), and OMB Circular A-133; and (3) the extent to which we could rely on the auditor's work.

RESULTS

Based on our Quality Control Review, we determined that Scott McElveen's work generally met the requirements of Generally Accepted Government Auditing Standards, the Act, and OMB Circular A-133. We found nothing to indicate that Scott McElveen's opinion on the financial statements or reports on internal control and compliance were inappropriate or unreliable.

However, we identified audit documentation deficiencies in Scott McElveen's audit work. Scott McElveen provided explanations and additional documents in response to our concerns about its testing of internal controls, reporting of significant findings, and reviewing correction of prior audit findings. Based on the information provided by Scott McElveen, we determined that these documentation deficiencies did not alter the overall audit results. However, to adequately support audit conclusions, these deficiencies should be corrected in future audits. The deficiencies are related to the following areas:

¹ We advised FHWA and FTA about these deficiencies in a separate memorandum. The single audit report issued by Scott McElveen is available upon request. Requests should be sent to singleauditrequest@oig.dot.gov.

1. Testing of Major Program Internal Controls.

Scott McElveen did not adequately document its testing of internal controls related to direct and material major program compliance requirements. Scott McElveen prepared internal control narratives, performed system walkthroughs, and relied on compliance testing to test major program internal controls. However, the documentation did not show how compliance testing included tests of major program internal controls. During our review, Scott McElveen provided an explanation of its approach to test major program internal controls and agreed to fully document this approach in future audits.

2. Significant Deficiency (2008-5) Not Considered a Material Weakness.

Scott McElveen reported a significant deficiency in SC DOT's filing of DBE reports. However, its audit documentation did not include an explanation of why the significant deficiency, which resulted in a qualified opinion in SC DOT's compliance with FHWA and FTA requirements for use of Federal funds, was not considered a material weakness. During our review, Scott McElveen provided the rationale and agreed to document such explanations in future audits, if applicable.

3. Major Program Compliance Findings (2008-4 & 2008-5) that Caused a Qualified Opinion.

Scott McElveen's audit documentation did not include an explanation of why major program compliance findings were significant enough to cause the programs (CFDA 20.205 & CFDA 20.500) to receive a qualified opinion. During our review, Scott McElveen provided the rationale and agreed to document such explanations in future audits, if applicable.

4. Summary Schedule of Prior Audit Findings.

SC DOT did not prepare a summary schedule of prior audit findings as required by OMB Circular A-133 Section 315(b). In addition, Scott McElveen did not document the basis for its conclusion that all prior year audit findings (except for 2007-1 and 2007-3; repeated as 2008-1 and 2008-4, respectively) had been corrected. During our review, Scott McElveen demonstrated that current year testing supported its conclusion that prior year findings were corrected by SC DOT and agreed to improve its documentation in future audits.

If you have any questions concerning this report, please call me at (410) 962-1729 or John R. Sysak, DOT National Single Audit Coordinator, at (410) 962-2630.

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cc: Audit Liaison, FTA, TBP-11
Audit Liaison, FHWA, HAIM-11
Audit Liaison, OST, M-1
Controller, South Carolina Department of Transportation