SCDOT Commission

Office of the Chief Internal Auditor

"C" Fund Program Administration Audit

South Carolina Department of
Transportation's "C" Fund Program
A10-002

February 23, 2010

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"C" Fund Program Administration Audit

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OFFICE OF THE CHIEF INTERNAL AUDITOR

February 23, 2010

Commission of the South Carolina Department of Transportation

The Honorable Lawrence K. Grooms, Chairman
South Carolina Senate Transportation Committee

The Honorable Hugh K. Leatherman, Sr., Chairman
South Carolina Senate Finance Committee

The Honorable Phillip D. Owens, Chairman
South Carolina House Education and Public Works Committee

The Honorable Daniel T. Cooper, Chairman
South Carolina House Ways and Means Committee

Dear Gentlemen:

The Office of the Chief Internal Auditor has conducted a compliance audit of the "C" Fund Program Administration of the SC Department of Transportation. In accordance with Section 57-1-360, we are transmitting to you the report on this audit.

We conducted this compliance audit in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Please do not hesitate to contact us if you have any questions or comments.

Respectfully submitted,

Robert W. Wilkes, Jr., CPA
Chief Internal Auditor

Executive Summary

Executive Summary

The "C" Fund Program represents the long-established partnership between the South Carolina Department of Transportation (SCDOT) and the 46 counties of South Carolina to fund the improvement of state roads, county roads, city streets, and other local transportation projects. South Carolina Code 12-28-2740 states two and sixty-six one-hundredth cents a gallon of the user fee on gasoline must be deposited with the State Treasurer and used in furtherance of a countywide transportation plan adopted by the county transportation committees. The monies received for the "C" Fund program during fiscal year ending June 30, 2009 totaled $74,558,209.98 that includes revenue, interest, and donor bonus. The law currently apportions the funds to the individual counties using the following criteria:

- One third is based on the ratio of land area of the county to the total land area of the state.
- One third is based on the ratio of county population to the total population of the state as determined by the latest ten-year census.
- One third is based on the ratio of rural road mileage in the county to rural road mileage in the state.

Further stipulations for the "C" funds are:

- Counties must establish a County Transportation Committee (CTC). CTCs may elect for SCDOT to administer their funds or they may elect to administer their apportionment themselves. Currently, 27 CTC's have elected to have SCDOT administer their "C" funds. The SCDOT charges a 3% administration fee to administer the funds on behalf of a CTC. In the fiscal year ending June 30, 2009, $1,085,015 in administrative funds were collected.
- The CTCs must spend at least 25% of their apportionment of "C" funds, based on a biennial averaging of expenditures, on the state highway system. The remaining 75% can be expended on the local system.
- The balance of uncommitted funds carried forward from one year into the next cannot exceed 300% of the county's total apportionment for the most recent year. The law does not mention a time frame in which these committed funds need to be expended.

The "C" Program Administration ("C" Office) is responsible for managing the use of the "C" funds apportioned to the CTCs. For SCDOT administered CTCs, the "C" Office is responsible for ensuring that new projects and expenditures on projects including both Local Paving Projects (LPP) and State Highway projects comply with the "C" Fund Law. For self-administered CTCs, the "C" Office performs reviews to ensure the projects comply with the "C" Fund Law. These reviews take place at least once annually, normally following the CTC's submittal of their annual report listing the projects they undertook during the year. The "C" Office is supported by "C" Program Managers in the four Regional Production Groups (RPG) and two employees in the Accounting Department. The "C" Program Managers responsibilities differ, but their general responsibilities include monitoring "C" Fund projects to ensure they are on schedule, verifying new projects comply with the "C" Fund Law, assisting the "C" Program Coordinator with monitoring a project's financial status, and visiting the CTCs within their region to review projects and answer questions. The Accounting Department is responsible for apportioning the "C" funds to the 46 counties and processing expenditures submitted by the SCDOT administered CTCs.

The Office of the Chief Internal Auditor's (OCIA) objective was to review the operations of the "C" Office and its support departments (Accounting and the RPG "C" Program Managers), to determine whether they are operating and approving projects in compliance with applicable laws. We evaluated the processes, internal controls, and efficiency of each function of the "C" Office. Our procedures included:

1. Interviewing the CTC Chairmen to obtain their opinion on the "C" Fund Program, "C" Office, and determine if they have any recommendations for improving the process
2. Evaluating the function and control environment of the "C" Program
3. Evaluating the function and control environment of the "C" Office
4. Evaluating the function and control environment of the Accounting department relating to how it interacts with the "C" Office
5. Ensuring individual reconciliations are performed for each CTC detailing their "C" Fund income and expenditures
6. Ensuring the interdisciplinary team is reviewing the projects and expenditures undertaken by the self administered CTCs
7. Verifying "C" Fund Statements are properly prepared, approved and up-to-date regarding the status of various projects.

We interviewed 39 of the CTC Chairmen to obtain the best feedback as to how the "C" Office is operating. The CTC Chairmen interviewed are satisfied with the "C" Fund Program and are pleased a source of funding exists to help complete transportation projects locally. Also, according to the CTC Chairmen interviewed, the "C" Office and "C" Program Managers do an outstanding job answering questions and being available to assist them. It was further mentioned that over the last few years the "C" Office has become more disciplined by issuing reports at the conclusion of the annual review and is responding quicker to questions concerning what types of projects are eligible for "C" Funds.

In addition to the interviews of the CTC Chairmen, we conducted reviews of the processes involved in each of the functional areas, interviewed employees, selected samples, and performed tests of controls. We have developed ten recommendations related to the "C" Fund Process that are summarized in the broad categories below:

- To assist the CTC's an assessment should be provided by the SC General Assembly or other appropriate party on what types of projects and project expenditures are acceptable for "C" Funds.
- Expenditures from the CTCs should be better supported.
- Better review of documentation submitted by the CTCs should be performed by the "C" Office.
- The annual reviews of the self-administered CTCs should be improved.
- Closing process for "C" Projects should be improved.

- There should be better documentation to support the “C” Fund Process and updated County Transportation Plans.

The findings and recommendations will be discussed in greater detail in the Audit Findings and Recommendation section of this report.

Audit Findings and Recommendations

Audit Findings and Recommendations

Below are our detailed findings and recommendations related to the audit of the "C" Office and the support groups of Accounting and the "C" Program Managers.

Legislative Related Finding

Finding 1

OCIA selected a sample of CTC projects and all of the annual reports of the self-administered CTCs to review. During this review, we found certain projects to be questionable for "C" fund use. Some of these projects had descriptions that included beautification, parking lots/areas, hiker/biker trails, grass cutting, relocation/rehabilitation of original train depot, sidewalks, and a sidewalk between two buildings at a wilderness camp owned by the Department of Juvenile Justice.

Within these projects, we found some expenditures to be questionable. For example, the beautification project included expenditures for pine straw, furnishing and planting flowers, lawn maintenance, picking up trash, and other similar tasks.

Section (C) of the "C" Fund Law states funds can be used for "construction, improvements, and maintenance," and states, "for activities including other local paving or improving county roads for street and traffic signs, and for other road and bridge projects." According to Section (D) of the "C" Fund Law, "The funds allocated to the county also may be used…to match federal funds available for appropriate projects." OCIA is not clear on what type projects should be approved according to the terminology used in the "C" Fund Law. Because the "C" Fund Law is vague in these areas, the projects and expenditures identified above as questionable, may or may not be allowable projects and expenditures.

During this review of the law, we also noticed some additional areas that could be improved:

- The law does not require CTC's that spend money on unauthorized projects to reimburse the "C" Fund for these expenditures. The law states in subsection (P) of the "C" Fund Law "A county failing to comply with these subsections must have all subsequent "C" fund allocations withheld until the requirements of those subsections are met. If a county fails to comply with those subsections within twenty-four months, the county forfeits fifty percent of its allocations for the following year and the forfeited amount must be divided among the other counties as provided in subsection (A)."
- The law does not state a time frame in which committed funds need to be expended. The CTC allocates funds to various projects to comply with subsection (D) of the law that states uncommitted funds carried forward from one year into the next may not exceed 300% of the county's total apportionment of the most recent year.

Recommendation

In order to assist the CTC's in selecting acceptable projects for "C" Funds, we recommend the SC General Assembly or other appropriate party provide an assessment on what type projects and expenditures should be allowed under Sections (C) and (D) of the "C" Fund Law. Sections (C) and (D) are included in Appendix A with the sections highlighted that require explanation.

Furthermore, guidelines need to be established instructing the CTCs on how long a project that has committed funds can remain in the "committed" status before expenditures for construction should begin.

This recommendation requires no response from SCDOT Management.

"C" Office Related Findings

Finding 2

During our review of the "C" Fund programming files, we reviewed an invoice where "C" Funds were used as matching funds to other funding sources. The entity submitting the invoice did not indicate which portion of the invoice applied to the amount being paid or reimbursed for "C" Fund purposes.

Recommendation

When invoices submitted for payment are not being reimbursed in full because they represent matching funds or are in combination with other funding sources, the invoice should be notated as to what percentage or amount is being requested from "C" Funds and any other funding sources.

Finding 3

OCIA reviewed the CTC Annual Reports for the fiscal year ending June 30, 2009. Four counties reported administrative expenses greater than the allowable $2,000 per section (B) of the "C" Fund Law. One county reported $77,090; a second reported $7,138; a third reported $5,272; and a fourth reported Trust Department fees of $3,084 and administrative fees of $2,000. OCIA reviewed the Annual Statements submitted by the CTCs from previous years and noted three of the previously mentioned CTCs reported administrative expenses greater than the allowable $2,000.

Recommendation

The “C” Office should review the annual reports of the self-administered CTCs and inquire about administrative expenses greater than the $2,000 allowed under section (B) of the “C” Fund Law.

Finding 4

OCIA attended three CTC reviews with the “C” Office. During our visit, we noted the following:

- At least once a year a team of two or three “C” Office personnel visits each of the 19 self-administered CTCs to perform an annual review. This team, which is referred to as the Interdisciplinary Team, previously included members from the Accounting Department and the Office of Contract Assurance but was downsized to only the “C” Office personnel because the “C” Program Administrator did not believe there was a need for these additional members.

  This annual review consists of selecting three or four projects from a CTC’s Annual Report and ensuring procurement was completed properly, ensuring expenditures are allowable, verifying the CTC has spent at least 25% on the state highway system during the allotted time frame, verifying the uncommitted balance of the CTC does not exceed 300%, and working with the CTC or their representatives on any questions they have regarding the “C” process. Occasionally, some of the “C” Program Managers attend the reviews. During our visits, the projects selected for review took approximately 30 minutes each for a review team member to examine the file. Also, the review team may spend some time answering any questions that the CTC or their representative may have.
- The projects selected for review this year were new projects. This means new expenditures for projects reviewed during a prior review were not reviewed to determine if they were legitimate expenditures. The “C” Office stated the reason they did not review new expenditures on projects reviewed in an earlier year is issues found previously with items relating to procurement would remain the same from year to year. As a result, they do not want to write up the CTC for the same finding each year.
- In the past, the review team would select more than three or four projects per visit but decreased the number of projects once the review team gained an understanding and felt comfortable about the CTC’s managing the projects.

  OCIA reviewed the number of projects selected in the prior year and found the team to have reviewed three or four projects for all CTCs except two counties. The team reviewed five projects during these two reviews.

Recommendation

To ensure the review team is focusing on all aspects of the projects, OCIA recommends the Office of Contract Assurance within SCDOT conduct the reviews, and a member from the "C" Program Administration Office and the "C" Program Manager accompany the review team. Another option is to have the Office of Contract Assurance conduct the reviews without the assistance of the "C" Program Administration Office and have the "C" Program Administration Office deliver the results of the review in another visit.

The CTC should be instructed to have all projects with expenditures incurred, since the last review, available to allow for a more random sample. We recommend a representative sample of projects be selected to ensure a sufficient number of projects, both old and new, are reviewed for compliance with the law.

Finding 5

The procedures to close a project and remove the project from the "C" Statements needs to improve. Currently when projects are closed on the statement, they are highlighted on the "C" statement electronically during a preliminary review by the "C" Office and sent to Accounting to start closure and remove them from the statement. Accounting will remove the project from the statement the following month if no expenditures are submitted during that time. The actual closing of the project within the financial system is performed by the Accounting Department. If the CTC still has not approved funding on projects where overruns occur, the project remains open in the system but is removed from the statement.

Recommendation

No project should be removed from the statement if there is a balance owed on the project. Prior to requesting a project to be closed and removed from the statement, the "C" Office should communicate with the Budget Office to determine if this project has a positive, negative, or zero balance. To ensure this communication takes place, a memo should be sent to the Budget/Accounting Office stating that construction is complete on the following projects and if they have a zero balance, they should be closed. If the project has a positive balance but is certified as complete by the CTC, the accounting office should close the project. If the project has a negative balance, the "C" Office and/or "C" Program Manager should work with the CTC to get the additional funds allocated to the project to close it.

Finding 6

The files maintained by the "C" Office for state projects were filed in project approval date order and did not contain any information regarding project expenditures. Filing by project approval dates can make it difficult for the "C" Office to provide all necessary information relating to a project, including the initial programming request showing where both the CTC and "C" Office approved the request. Also, once the files were retrieved, there was no information in the file concerning project expenditures. The individual in charge of these files followed the outline of filing provided by the previous individual in the position.

Recommendation

Based on our review, we recommend state road project files be filed by PIN number, which is a unique identifier assigned to each project by PPMS (Preconstruction Project Management System). Filing projects by project number provides an easy way to retrieve any information related to a project. Project files should include a description of the project, project approval, any billings, correspondence, and other information related to the project.

Finding 7

A review of the County Transportation Plans disclosed the following:

- Details were not available on exactly what the County Transportation Plans are to contain. According to the law, it states, "the funds expended must be approved by and used in furtherance of a countywide transportation plan adopted by a county transportation committee." Nowhere does it state what is required in the plan.
- One plan indicated that it was an interim plan and had not appeared to be updated to a permanent plan.
- Many of the plans were not signed by the County Transportation Committee Chairman or a member of the Committee.
- Sixteen of the County Transportation plans were not dated. Again, this is not a requirement of a plan but would help provide a frame of reference to understand if the Committee is following the plan.
- Five of the County Transportation Plans did not clearly detail who is to administer the "C" Funds on behalf of the County Transportation Committee.
- One County Transportation Plan did not appear to be scanned correctly and did not contain all of the pages. It appeared that the Plan was two sided because the scanned copy only contained every other page.

Recommendation

The "C" Office should develop an outline for the County Transportation Plan, and state what is required. At a minimum, OCIA recommends these plans should be dated, contain the signature of the County Transportation Committee Chairman and updated when there is a change in committee membership. Also, these plans should be updated at least every three years to ensure the plan is current. All CTCs should review their current County Transportation Plan, make the necessary changes, and submit an updated plan.

Accounting Related Findings

Finding 8

Once a month, the "C" Statements are prepared and either mailed or emailed to the 46 CTCs. Currently, the process of preparing the statements takes around 10 to 15 business days per month, which does not include weekends or holidays. The statements are not available on the internet for viewing or printing. Therefore, the statements being mailed could take another one to three days for the CTCs to receive them. Because of this process, there is a concern that some of the financial information could be outdated when the CTCs review their statements. The "C" Office is responsible for adding the projects to the statement, determining their status and then distributing the completed statements.

The statements are updated once a month with a process beginning close to the end of the month. The statements are then mailed out by the third week of the following month. This increases the likelihood of the information being outdated when the CTCs review their statement.

Recommendation

Based on our review, we recommend Accounting explore the opportunity to automate the "C" Statement process. The "C" Statements should be available on-line for CTC members or other parties (County Finance Members) involved in the "C"/CTC process to access and have available the most current information for the CTC meetings. Furthermore, we recommend the statements be updated daily to reflect changes occurring throughout the month. If it is determined that automation of the "C" Statement is not possible, consideration should be given to moving the preparation of the "C" Statement process to the "C" Office where it appears to be a better fit.

Finding 9

OCIA reviewed a sample of SCDOT administered "C" Projects that included all their related expenditures. One project listed on voucher number 705679, dated 8/2/2006, had expenditures totaling $1,908, but the amount applied to this project was $7,848. As a result, the project amount was overstated by $5,940. This amount should have been applied to the CTC's uncommitted balance to be used for future projects. Furthermore, two of the three other projects on voucher number 705679 had expenditures that were applied to incorrect projects causing the total expenditures for those projects to be incorrect as well.

Recommendation

Based on our review, OCIA recommends there be a careful review of each CTC's expenditures by accounting personnel and the "C" Program Managers to ensure project expenditures are applied to the proper CTC's account.

Finding 10

We reviewed four months of the interest distribution calculations for the “C” Fund. The earned interest distributions for August and October 2008 were incorrect because the Accounting Department used the Beginning Cash Balance instead of the Ending Cash Balance from the prior month’s “C” Statement to calculate the earned interest. In another instance, the Ending Cash Balance was used but it included the county’s bond fund balance thus causing the interest earned to be overstated. Because of these errors, the interest distribution was incorrect starting in August 2008 and has caused the county balances to continue to be incorrect.

Recommendation

Accounting personnel should be conscientious when calculating the interest to be distributed among the CTCs to ensure the correct cash balance is used. To ensure the interest calculation is correct, the interest calculation and all other calculations should be reviewed by someone other than the individual performing the initial calculations.

Department's Response

SCDOT

South Carolina
Department of Transportation

MEMORANDUM

TO: Robert W. Wilkes, Jr., Chief Internal Auditor

FROM: John V. Walsh, P.E., Deputy Secretary for Engineering
Debra Rountree, Deputy Secretary for Finance and Administration

DATE: May 6, 2010

RE: C Fund Program Administration Audit

The C Program Administration Office and the Division of Finance and Administration are in receipt of the recently completed C Fund Program Compliance audit from the Office of the Chief Internal Auditor (OCIA). The objective of the audit was to review the operations of the C Program Administration Office and its support departments to ascertain if their operations are compliant with those applicable sections of the S.C. Code of Laws.

The OCIA audit revealed ten findings along with their recommendations for corrective action. The following is the response to these recommendations.

OCIA Recommendation 1:
In order to assist the CTC's in selecting acceptable projects for "C" Funds, we recommend the SC General Assembly or other appropriate party provide an assessment on what type projects and expenditures should be allowed under Sections (C) and (D) of the "C" Fund Law. Sections (C) and (D) are included in Appendix A with the sections highlighted that require explanation.

Furthermore, guidelines need to be established instructing the CTCs on how long a project that has committed funds can remain in the "committed" status before expenditures for construction should begin.

Response to OCIA Recommendation 1:
This recommendation requires no response from SCDOT Management.

OCIA Recommendation 2:
When invoices submitted for payment are not being reimbursed in full because they represent matching funds or are in combination with other funding sources, the invoice should be notated as to what percentage or amount is being requested from "C" Funds and any other funding sources.

Response to OCIA Recommendation 2:
In the overwhelming cases of programming requests initiated by a committee, the CTC elects to fund the entire project costs. In those few instances where a reimbursement request from a governmental entity represents part of a larger invoice, the C Program Administration Office will

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require documentation from the entity to provide clarification as to what portion the request represents. This improvement will be initiated by identifying this requirement in the C Program Administration Office's programming letters to the participants.

OCIA Recommendation 3:
The "C" Office should review the annual reports of the self-administered CTCs and inquire about administrative expenses greater than the $2,000 allowed under section (B) of the "C" Fund Law.

Response to OCIA Recommendation 3:
The C Program Administration Office has reviewed the expenditures reported and verified no violation of the law has occurred. It appears that the cited expenditures should have been expended to individual projects in the annual report. C Program staff reviews each annual report to ensure compliance with state law. However, staffing changes at CTCs or the county level often contribute to inconsistent reporting of administrative expenses. The C Program Administration Office has requested on future annual reports that these expenses not be included in the same line item as the general administrative expenses in order to avoid any confusion.

OCIA Recommendation 4:
To ensure the review team is focusing on all aspects of the projects, OCIA recommends the Office of Contract Assurance within SCDOT conduct the reviews, and a member from the "C" Program Administration Office and the "C" Program Manager accompany the review team. Another option is to have the Office of Contract Assurance conduct the reviews without the assistance of the "C" Program Administration Office and have the "C" Program Administration Office deliver the results of the review in another visit. The CTC should be instructed to have all projects with expenditures incurred, since the last review, available to allow for a more random sample. We recommend a representative sample of projects be selected to ensure a sufficient number of projects, both old and new, are reviewed for compliance with the law.

Response to OCIA Recommendation 4:
Prior to the current C Program Administrator assuming his current position in 2007, the SCDOT Interdisciplinary Team often consisted of six to seven staff members from various offices within the Department reviewing the self-administered CTCs. The Administrator determined it would be a wiser use of resources to reduce the number of members on the team and provide thorough procurement training to those staff members performing the reviews. Paragraph P in Section 12-28-2740 of the S.C. Code of Laws (The C fund law) states "The Department of Transportation shall perform reviews to ensure compliance with subsection (C), (D), (F), and (I)". In our correspondence to the CTCs the C Program Administration Office states the reviews should not be considered an audit; however, if discrepancies in the project documentation or questions regarding management of C funds exist, a formal audit may be requested. Prior to the field review, our office randomly selects new and old projects for review from the CTC's annual report. The CTC is notified several weeks in advance of the review to ensure all components of the files are available for inspection at the time of the review. Since various components of the project files may be located in different buildings of the county, i.e., procurement information may be in the administration office and construction documents may be located in the public works building, etc., advance notice is necessary. The number of projects selected for review is

dependent on the confidence level of the C Program Administrator to ensure the CTC is compliant with Paragraph P of the C fund law. Typically, three to four projects are selected for review; however, it is not uncommon for additional projects to be selected based on the CTC's past performance. Review data from the 2008/2009 fiscal year indicates so far that an average percentage of projects reviewed is 46%. The present process is fully documented in the C Program Administration Manual and is considered appropriate to ensure compliance with state law.

OCIA Recommendation 5:
No project should be removed from the statement if there is a balance owed on the project. Prior to requesting a project to be closed and removed from the statement, the "C" Office should communicate with the Budget Office to determine if this project has a positive, negative, or zero balance. To ensure this communication takes place, a memo should be sent to the Budget Office stating that construction is complete on the following projects and if they have a zero balance, they should be closed. If the project has a positive balance but is certified as complete by the CTC, the accounting office should close the project. If the project has a negative balance, the "C" Office and/or "C" Program Manager should work with the CTC to get the additional funds allocated to the project to close it.

Response to OCIA Recommendation 5:
Currently, no state projects are closed until the C Program Administration Office is in receipt of a letter from the Director of Construction and a letter from the ROW office indicating all work has been accepted and all payments have been finalized. At that time, the project is requested to be removed by the C Program Administration Office only if no overruns are indicated on the statement. Furthermore, no local projects are closed until the C Program Administration Office is in receipt of a final invoice from the local governmental entity indicating the project can be closed. No overruns can occur on local projects as the C Program Administration Office only will issue payments on authorized programmed amounts. The recommendation to coordinate with the Budget Department during the closure process is now being initiated by a monthly memorandum requesting project closures.

OCIA Recommendation 6:
Based on our review, we recommend state road project files be filed by PIN number, which is a unique identifier assigned to each project by PPMS (Preconstruction Project Management System). Filing projects by project number provides an easy way to retrieve any information related to a project. Project files should include a description of the project, project approval, any billings, correspondence, and other information related to the project

Response to OCIA Recommendation 6:
The recommendation to revise the filing system was reviewed with the C Program Administration Office in an effort to improve efficiency in December of 2009 and was implemented at that time.

OCIA Recommendation 7:
The "C" Office should develop an outline for the County Transportation Plan, and state what is to be required. At a minimum, OCIA recommends these plans should be dated, contain the

signature of the County Transportation Committee Chairman and updated when there is a change in committee membership. Also, these plans should be updated at least every three years to ensure the plan is current. All CTCs should review their current County Transportation Plan, make the necessary changes, and submit an updated plan.

Response to OCIA Recommendation 7:
Paragraph B in Section 12-28-2740 of the S.C. Code of Laws (The C fund law) states "The funds expended must be approved by and used in furtherance of a county wide transportation plan adopted by a county transportation committee". The C Program Administration Office has transportation plans for all 46 CTCs. As recommended, the C Program Administration Office will urge all CTCs that their transportation plans should be reviewed on an annual basis, modified as necessary, signed, dated, and submitted to SCDOT.

OCIA Recommendation 8:
Based on our review, we recommend Accounting explore the opportunity to automate the "C" Statement process. The "C" Statements should be available on-line for CTC members or other parties (County Finance Members) involved in the "C"/CTC process to access and have available the most current information for the CTC meetings. Furthermore, we recommend the statements be updated daily to reflect changes occurring throughout the month.

Response to OCIA Recommendation 8:
Accounting agrees with the recommendation to post the statements through electronic media. We have the ability to post C Statements as an Adobe PDF file to the SCDOT Intranet and Internet. Accounting strives to close the month and produce the statements in as timely a manner as possible. Production of financial information at the close of a "business month" is standard practice throughout the public and private sector. This type of closing ensures the accuracy of data, provides an audit trail, and support for the transactions posted. To post periodically throughout the month to a financial statement increases the opportunity for error, does not allow for adequate reconciliation of transactions, and could require an increase in the time to produce accurate statements at month end. Automating the production of the monthly C Statement will be investigated by IT and Accounting and implemented as soon as practical.

OCIA Recommendation 9:
Based on our review, OCIA recommends there be a careful review of each CTC's expenditures by accounting personnel and the "C" Program Managers to ensure project expenditures are applied to the proper CTC's account.

Response to OCIA Recommendation 9:
Accounting concurs with the recommendation to carefully review all information contained within the statement. Further, if an automated statement is generated, errors such as the one cited above would not occur.

OCIA Recommendation 10:
Accounting personnel should be conscientious when calculating the interest to be distributed among the CTCs to ensure the correct cash balance is used. To ensure the interest calculation is

correct, the interest calculation and all other calculations should be reviewed by someone other than the individual performing the initial calculations.

Response to OCIA Recommendation 10:
Accounting personnel recalculated the interest distribution from August 2008 to February 2010. Corrections for the entire 18-month period ranged from ($0.99) for one county to $449, with the majority of the corrections averaging $(15) to $(20) per county. Accounting concurs with and has implemented the recommendation to have an additional individual review the calculation.

HJC:thw
cc: H. B. Limehouse, Jr., Secretary of Transportation
Brian W. Keys, Assistant Chief Engineer for Planning, Location, and Design

Appendix

Appendix A

"C" FUND LAW

SECTION 12-28-2740. Distribution of gasoline user fee among counties; requirements for expenditure of funds; county transportation committees.

Sections:

(C) At least twenty-five percent of a county's apportionment of "C" funds, based on a biennial averaging of expenditures, must be expended on the state highway system for construction, improvements, and maintenance. The Department of Transportation shall administer all funds expended on the state highway system unless the department has given explicit authority to a county or municipal government or other agent acting on behalf of the county transportation committee to design, engineer, construct, and inspect projects using their own personnel. The county transportation committee, at its discretion, may expend up to seventy-five percent of "C" construction funds for activities including other local paving or improving county roads, for street and traffic signs, and for other road and bridge projects.

(D) The funds allocated to the county also may be used to issue county bonds or state highway bonds as provided in subsection (J), pay directly for appropriate highway projects, including engineering, contracting, and project supervision, and match federal funds available for appropriate projects. Beginning July 1, 2002, for any new "C" fund allocations received on or after this date, the balance of uncommitted funds carried forward from one year into the next may not exceed three hundred percent of the county's total apportionment for the most recent year. Expenditures must be documented on a per-project basis upon the completion of each project in reports to the respective county transportation committees. This documentation must be provided by the agency or local government actually expending the funds and it shall include a description of the completed project and a general accounting of all expenditures made in connection with the project summaries of these reports then must be forwarded by each county transportation committee to the department using guidelines established by the department and the department shall compile these reports into an annual statewide report to be submitted to the General Assembly by the second Tuesday of January of each year. The documentation and reporting requirements of this subsection apply only to counties administering their own "C" funds. For purposes of this section, "uncommitted funds" means funds held in the county's "C" fund account that have not been designated for specific projects.