

OCIA Audit Finding & Recommendations for Updated Responses

C Fund

2/23/2010

Finding:

Finding 1- 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. 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. The law does not require CTC's that spend money on unauthorized projects to reimburse the "C" Fund for these expenditures. The law does not state a time frame in which committed funds need to be expended.

Recommendation:

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. This recommendation requires no response from SCDOT Management.

February 2010 Response:

No response required.

April 2015 Updated Response:

No response required.

Finding:

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:

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 noted as to what percentage or amount is being requested from "C" Funds and any other funding sources.

February 2010 Response:

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 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.

April 2015 Updated Response:

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 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.

Finding:

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:

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.

February 2010 Response:

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 CTC's 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.

April 2015 Updated Response:

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.

Finding:

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. During our visits, the projects selected for review took approximately 30 minutes each for a review team member to examine the file. • The projects selected for review this year were new projects. • 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.

Recommendation:

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.

February 2010 Response:

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. 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. The present process is fully documented in the C Program Administration Manual and is considered appropriate to ensure compliance with state law.

April 2015 Updated Response:

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 indicated 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.

Finding:

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:

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/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.

February 2010 Response:

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 program amounts. The recommendation to coordinate with the Budget Department during the closure process is now being initiated by a monthly memorandum requesting project closures.

April 2015 Updated Response:

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.

Finding:

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:

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).

February 2010 Response:

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.

April 2015 Updated Response:

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.

Finding:

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.
- 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.
- 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:

Recommendation 7- 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.

February 2010 Response:

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 SCOTD.

April 2015 Updated Response:

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 urges all CTCs that their transportation plans should be reviewed on an annual basis, modified as necessary, signed, dated, and submitted to SCDO.

Finding:

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. Because of this process, there is a concern that some of the financial information could be outdated when the CTCs review their 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.

Recommendation:

Recommendation 8- 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.

February 2010 Response:

Accounting agrees with the recommendation to post statements through electronic media. We have the ability to post C Statements as an Adobe PDF file to the SCDO 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 date, 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 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.

April 2015 Updated Response:

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 SCDO 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 if practical.

Finding:

Finding 9- 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:

Recommendation 9- 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.

February 2010 Response:

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.

April 2015 Updated Response:

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.

Finding:

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:

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.

February 2010 Response:

Accounting personnel recalculated the interest distribution from August 2008 to February 2010. Corrections for the entire 18-month period ranged from (\$.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.

April 2015 Updated Response:

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.