

**Audit Committee Meeting Agenda
Thursday, December 5, 2024
Following Adjournment of Commission Meeting
SCDOT Headquarters, Room 306
955 Park Street
Columbia, South Carolina 29201**

1. Call to Order — Vice Chairman Metcalf

2. Roll Call — Vice Chairman Metcalf

3. Approval of Agenda (Action Required)— Vice Chairman Metcalf

4. New Business

- 4.1. Financial Audit – Tim Lyons, Mauldin & Jenkins
- 4.2. IAS Balanced Scorecard – Director LaBruyere
- 4.3. Global Audit Standards – Director LaBruyere
- 4.4. Engagement Updates – Director LaBruyere
- 4.5. Direct Pay Activity – Manager Heath
- 4.6. Follow Up on Management Action Plans – Director LaBruyere
- 4.7. Executive Session Pursuant to S.C. Code 30-4-70(a)(3) to Receive Management Information on Security Plans – Vice Chairman Metcalf

5. Old Business — Vice Chairman Metcalf

6. Adjourn (Action Required)— Vice Chairman Metcalf



Presentation of Annual
Audit Results
December 5, 2024


MAULDIN & JENKINS

Meeting Agenda

- Engagement Team
- Results of the 2024 Audit
- Financial Trends
- Comments, Recommendations, and Other Items
- Questions

Engagement Team



CONSISTENTLY RANKED AS A TOP ACCOUNTING FIRM IN THE U.S.

100+ year
HISTORY
OF QUALITY SERVICE

Serve 725+
GOVERNMENT CLIENTS

GOVERNMENTAL
PARTNERS &
DIRECTORS **25**



150+ TEAM MEMBERS DEDICATED TO SERVING THE GOVERNMENTAL INDUSTRY



To be a trusted advisor, earning trust and building respect through our consistent commitment to sustainable excellence, leadership, and integrity.



220+ SINGLE AUDITS PERFORMED LAST YEAR COVERING OVER \$6 BILLION OF FEDERAL GRANTS



156,000+ HOURS ANNUALLY PROVIDED TO GOVERNMENTAL CLIENTS

175+

CURRENT CLIENTS AWARDED THE GFOA CERTIFICATE OF EXCELLENCE

6

STATES

14

OFFICES



- Tim Lyons, Engagement Partner
- Grant Davis, Quality Control Reviewer
- Chad Jackson, Engagement Manager
- Tesla Plitt, Engagement In-Charge



Presentation of Annual
Audit Results
December 5, 2024

Results of the 2024 Audit

- Our Responsibility Under Auditing Standards Generally Accepted in the United States of America (GAAS) and *Government Auditing Standards* issued by the Comptroller General of the United States
 - Our audit was performed in accordance with GAAS and *Government Auditing Standards*.
 - We considered the internal control structure for the purpose of expressing our opinion on the SCDOT’s basic financial statements, but not for the purpose of providing assurance on the internal control structure.
 - Our objective is to provide reasonable—not absolute—assurance that the basic financial statements are free from material misstatement, whether due to fraud or error.
 - The basic financial statements are the responsibility of the SCDOT’s management.
- Report on 2024 Basic Financial Statements
 - Unmodified (“clean”) opinion on basic financial statements.
 - Presented fairly in accordance with accounting principles generally accepted in the United States of America (GAAP).
 - Our responsibility does not extend beyond financial information contained in the report.
 - Our report makes reference to the other auditor’s report on the Connector 2000 Association, Inc.
- Report on Internal Controls Over Financial Reporting and on Compliance in Accordance with *Government Auditing Standards*
 - No material weaknesses or significant deficiencies in internal control reported.
 - No instances of noncompliance reported.

Results of the 2024 Audit

- Single Audit Report for the Year Ended June 30, 2024
 - Conducted Single Audits in accordance with the Uniform Guidance over three (3) major programs:
 - U.S. Department of Treasury (Passed through the SC Department of Administration) – Coronavirus State and Local Fiscal Recovery Funds
 - » Commonly referred to as “ARPA Funds”
 - » Approximately \$144.7 million
 - U.S. Department of Transportation – Highway Planning and Construction (\$937.4 million)
 - U.S. Department of Transportation – Formula Grants for Other than Urbanized Areas (\$14.1 million)
 - » Includes \$1.9 million of COVID-19 funding.
 - The major program threshold for the Department was \$3,306,841; in total we tested approximately 99.5% of the Department’s SEFA.
 - Unmodified (“clean”) opinion on compliance for each major program.
 - No material weaknesses or significant deficiencies in internal control over compliance reported.

Required Communications

■ Significant Accounting Policies

- The significant accounting policies used by the SCDOT are described in Note 1 to the basic financial statements.
- There were no new GASB pronouncements required to be implemented in the SCDOT's financial statements for the fiscal year ended June 30, 2024.
- In considering the policies used by the SCDOT, we noted they are in accordance with generally accepted accounting principles and similar government organizations with no significant new policies or qualitative aspects of its policies. The SCDOT is not involved in any controversial or emerging issues for which guidance is not available.

■ Management Judgment/Accounting Estimates

- The SCDOT uses various estimates as part of its financial reporting process – including the useful lives of the SCDOT's capital assets and actuarial assumptions related to its pension and other postemployment benefit (OPEB) obligations.
- Management's estimates used in preparation of the financial statements were deemed reasonable in relation to the financial statements taken as a whole. We considered this information and the qualitative aspects of management's calculations in evaluating the SCDOT's significant accounting estimates.

■ Financial Statement Disclosures

- The footnote disclosures to the financial statements are also an integral part of the financial statements and the process used by management to accumulate the information included in the disclosures was the same process used in accumulating the statements. The overall neutrality, consistency, and clarity of the disclosures was considered as part our audit.

Required Communications

■ Relationship with Management

- We received full cooperation from the SCDOT's management and staff.
- There were no disagreements with management on accounting issues or financial reporting matters.

■ Audit Adjustments

- There were no posted audit adjustments. We had two passed adjustments, as follows:
 - We proposed and passed on recording the SCDOT's leasing activities where the Department acts as the lessor; the passed adjustment is approximately \$5.7 million.
 - We proposed and passed on recording final A/P accruals (and the related Federal A/R and revenues) for invoices that were processed and paid after year-end but pertained to the fiscal year ended June 30, 2024. The amount of such items amounted to approximately \$9.2 million.

■ Representation from Management

- We requested written representations from management relating to the accuracy of information included in the financial statements and the completeness and accuracy of various information requested by us, during the audit. Management provided those written representations without a problem.

■ Consultation with Other Accountants

- To the best of our knowledge, management has not consulted with, or obtained opinions from, other independent accountants during the year, nor did we face any issues requiring outside consultation.

Required Communications

- Significant Issues Discussed with Management

- There were no significant issues discussed with management related to business conditions, plans, or strategies that may have affected the risk of material misstatement of the financial statements.

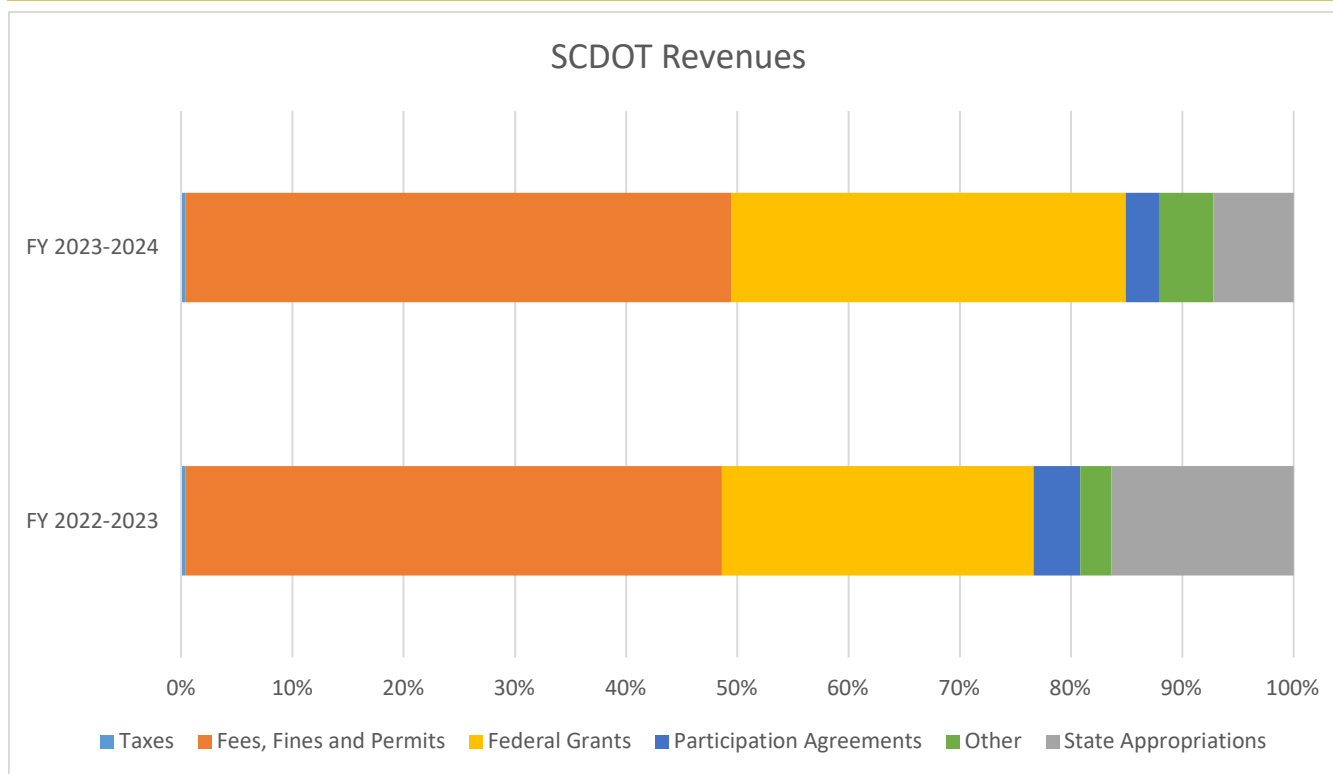
- Information in Documents Containing Audited Financial Statements

- Our responsibility for other information in documents containing the SCDOT's basic financial statements and our report thereon does not extend beyond the information identified in our report. If the SCDOT intends to publish or otherwise reproduce the financial statements and make reference to our firm, we must be provided with printers' proof for our review and approval before printing. The SCDOT must also provide us with a copy of the final reproduced material for our approval before it is distributed.

- Auditor Independence

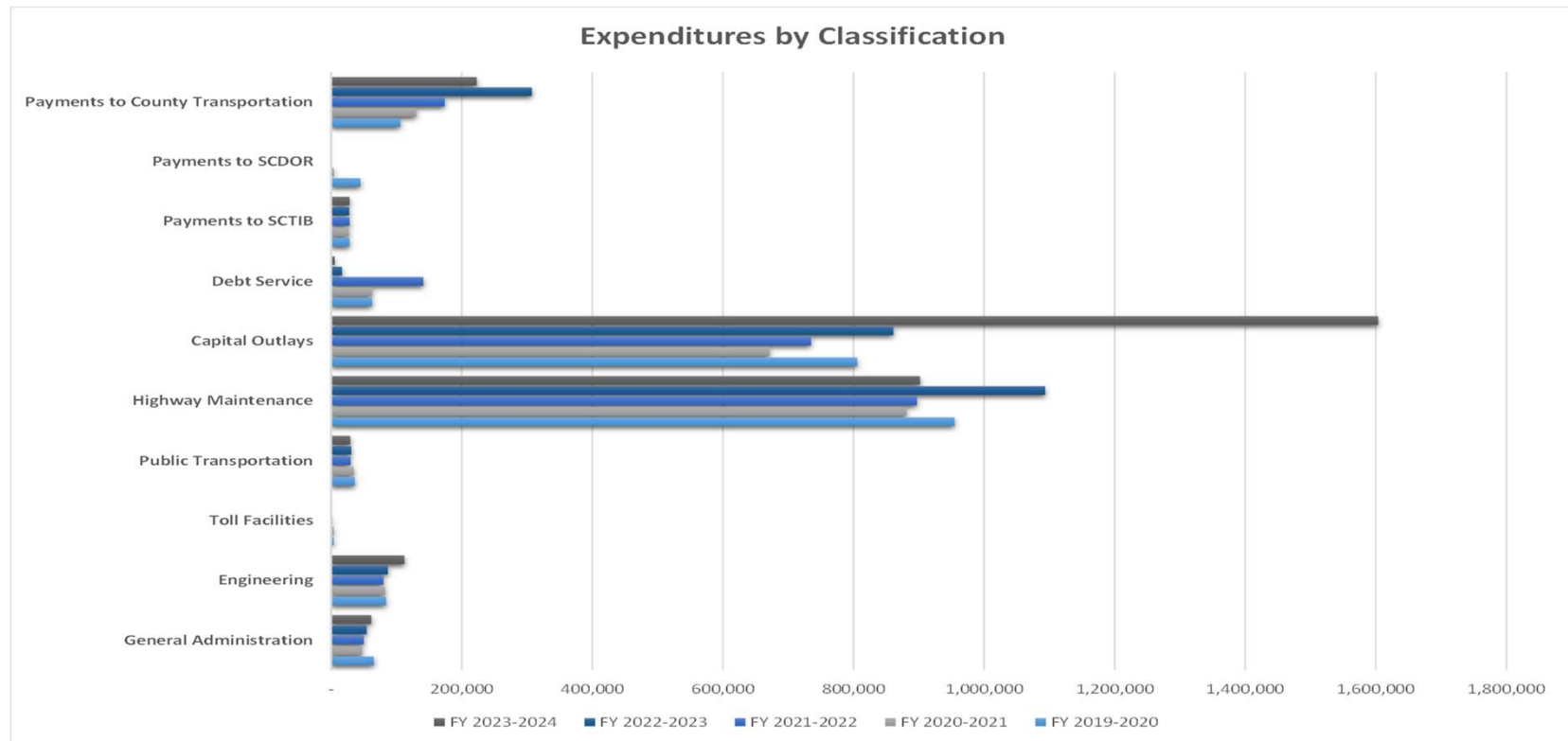
- In accordance with AICPA professional standards, M&J is independent with regard to the SCDOT and its financial reporting process.
- There were no fees paid to M&J for management advisory services during fiscal year 2024 that might affect our independence as auditors.

Financial Trends

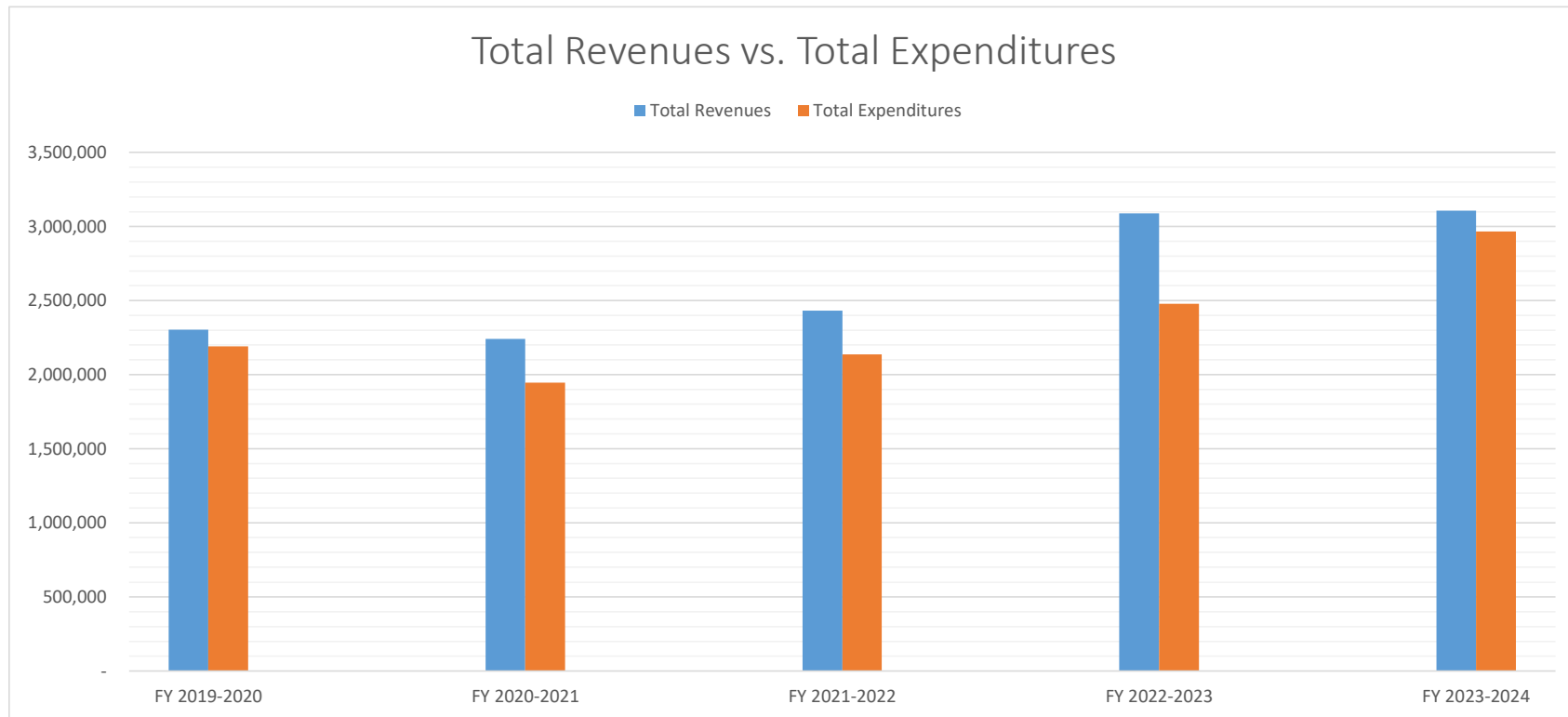


- Federal grants (\$865.8 million in 2023 to \$1.1 billion in 2024)
- Increase in other revenues largely driven by increases in investment income (\$27.8 million in 2023 to \$138.6 million in 2024)
- Decrease in State Appropriations related to C-Funds (\$250 million in 2023 down to \$20 million in 2024)

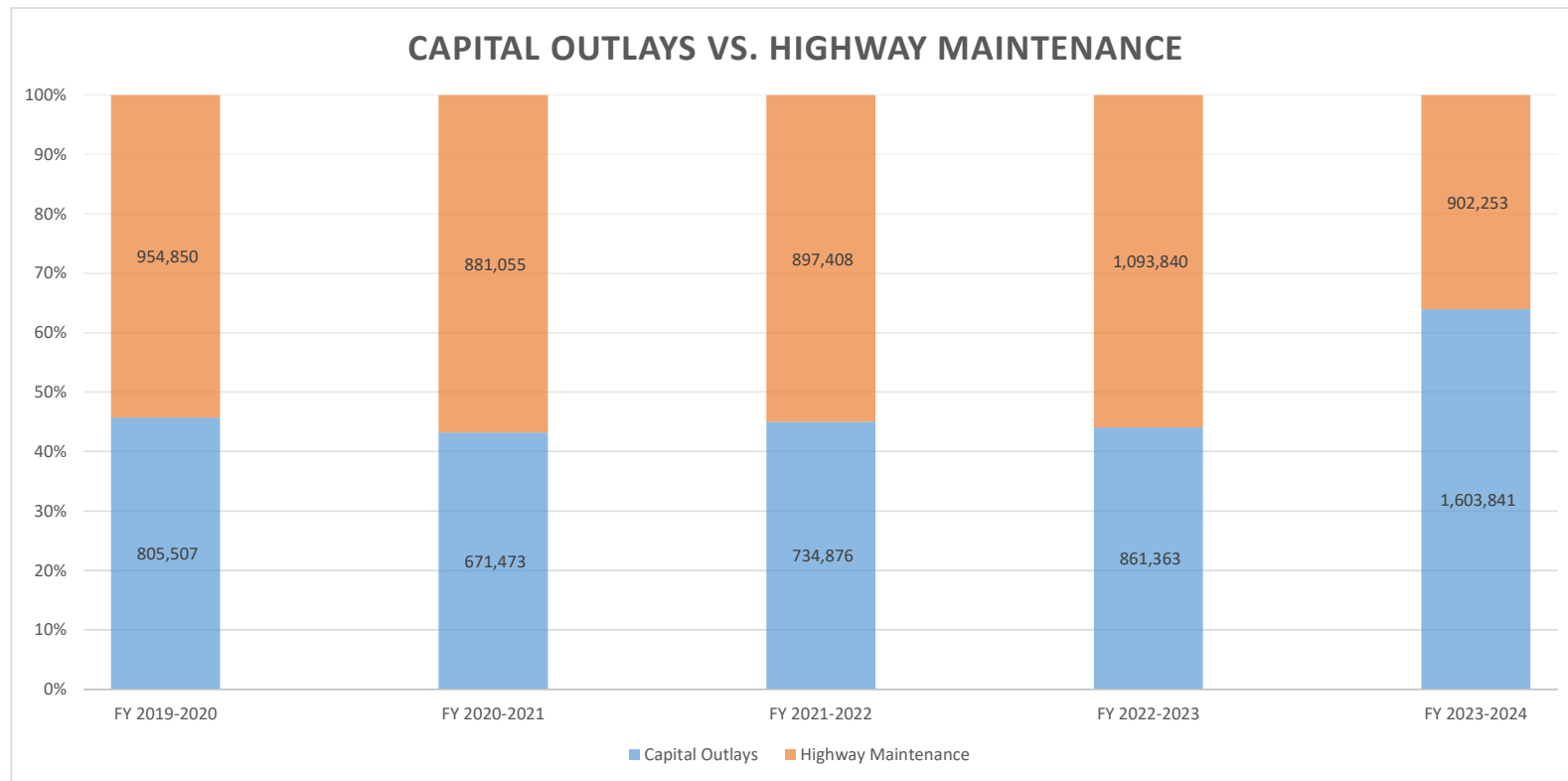
Financial Trends



Financial Trends



Financial Trends



Comments, Recommendations and Other Items

■ New GASB Pronouncements for Future Years

- GASB Statement No. 101, *Compensated Absences*, defines the types of leave offered by governmental employers for which a liability is required to be recognized and disclosed in financial statements. Specific to the Department, this will likely lead to an increase in the compensated absences liability currently recognized in the financial statements for types of leave that does not currently vest. This new pronouncement is effective for the Department's fiscal year ending June 30, 2025.
- GASB Statement No. 102, *Certain Risk Disclosures*, will require governments to disclose when certain concentrations and/or constraints are present that could have a material impact on the financial position or results of operations as a result of a triggering event. It is not expected that this new standard will have an impact on the Department's financial statements. Applicable for June 30, 2026.
- GASB Statement No. 103, *Financial Reporting Model Improvements*, reflects a years-long project undertaken by the GASB to review the effects of GASB Statement No. 34. This standard addresses five (5) main areas of financial reporting for governments: (1) Management's Discussion and Analysis; (2) Unusual and infrequent items; (3) Component unit presentation; (4) Budgetary comparison information; and (5) Proprietary fund reporting. Small changes to the Department's MD&A will be required as a result of this new standard; the remaining items are not expected to have a significant impact. Applicable for June 30, 2026.
- GASB Statement No. 104, *Disclosure of Certain Capital Assets*, is another disclosure only standard issued by the GASB. This new guidance came out of the implementation of recent standards (specifically GASBS 87, 94, and 96) and requires governments to classify its capital assets in certain ways in the notes to the financial statements. Additionally, the new standard requires governments to disclose the historical cost and accumulated depreciation of capital assets that are considered "held for sale" as of the financial statement date. Applicable for June 30, 2026.

■ Other GASB Projects

- In September 2024, the GASB issued a Preliminary Views (PV) document related to a project called "Infrastructure Assets." In the PV, GASB discusses potential changes to the disclosures required for governments that report infrastructure assets in their financial statements. The deadline for providing comments to GASB related to the project is January 17, 2025.

Comments, Recommendations and Other Items

FREE QUARTERLY CONTINUING EDUCATION AND NEWSLETTERS FOR GOVERNMENTAL CLIENTS

Free Continuing Education. We provide free quarterly continuing education for all of our governmental clients. Each quarter we pick a couple of significant topics tailored to be of interest to governmental entities. In an effort to accommodate our entire governmental client base, we offer the sessions several times per quarter at a variety of client provided locations resulting in greater networking among our governmental clients. Examples of subjects addressed in the past few quarters include:

- CAFR Preparation - GASB Updates - Grant Accounting Processes and Controls - GASB 68 (Pensions)
- Internal controls over revenue and cash receipting and accounts payable, payroll, and cash disbursements
- American Recovery & Reinvestment Act (ARRA) information, issues and updates - Single audits for auditees
- Collateralization of Deposits and Investments - Internal Controls over Accounts Payable, Payroll and Controls
- Policies and Procedures Manuals - Segregation of Duties – GASB 75 (OPEB) – GASB 87 (Leases)
- Data Security and General Information Technology Controls and Best Practices

Communication. In an effort to better communicate our free continuing education plans and newsletters, please email Paige Vercoe at pvercoe@mjcpa.com (send corresponding copy to tlyons@mjcpa.com), and provide to her individual names, mailing addresses, email addresses and phone numbers of anyone you wish to participate and be included in our database.

Conclusion



Comments and Questions?

**We appreciate the opportunity to serve the South Carolina Department of Transportation
and look forward to continuing to work with the SCDOT in upcoming years!**



Presented by: Mark LaBruyere
CPA, CIA

IAS Balanced Scorecard



IAS Balanced Scorecard as of 6-30-24

Audit Committee

- A1 Number of Reports Issued
- A2 Number of Presentations
- A3 Follow-up on MAP
Implementation
- A4 Presentation of IAS KPIs

Agency Stakeholders

- S1 MAPs are Practical and
Timely Implemented
- S2 Number of Management
Requests for Services

Green = Target Met
Red = Target Not Met

Our People

- O1 Staff Experience
- O2 Number of Certifications
- O3 Training Hours per Staff

Internal Audit Operations

- I1 Self-Assessment Rating
- I2 External Peer Review Rating

BALANCED SCORECARD

Audit Committee

<u>Measure</u>	<u>Target</u>	<u>Actual</u>	<u>Hit or Miss</u>	<u>Reason for Miss</u>
A1 Number of Reports Issued	6 for FY24	6	<input checked="" type="checkbox"/>	
A2 Number of Meetings	4 for FY24	4	<input checked="" type="checkbox"/>	
A3 Follow-up on MAP Implementation	Followed-up on 100% of MAPs for 4 Quarters	100% for 4 Qtrs	<input checked="" type="checkbox"/>	
A4 Presentation of IAS KPIs	1 per Fiscal Year	1	<input checked="" type="checkbox"/>	

BALANCED SCORECARD

Agency Stakeholders

<u>Measure</u>	<u>Target</u>	<u>Actual</u>	<u>Hit or Miss</u>	<u>Reason for Miss</u>
S1 MAPs are Practical and Timely Implemented	At least 65% on time	83%	<input checked="" type="checkbox"/>	
S2 Number of Management Requests for Services	3 per Fiscal Year	3	<input checked="" type="checkbox"/>	

BALANCED SCORECARD

Internal Audit Operations

<u>Measure</u>	<u>Target</u>	<u>Actual</u>	<u>Hit or Miss</u>	<u>Reason for Miss</u>
I1 Self-Assessment Rating of “Generally Conforms” (GC)	Rating of GC	GC	<input checked="" type="checkbox"/>	
I2 External Peer Review Rating of GC	Rating of GC	GC	<input checked="" type="checkbox"/>	

BALANCED SCORECARD

Our People

<u>Measure</u>	<u>Target</u>	<u>Actual</u>	<u>Hit or Miss</u>	<u>Reason for Miss</u>
O1 Team Experience	>=35 years of audit experience for team	59	<input checked="" type="checkbox"/>	
O2 Percentage of IAS Certified	>=75% in area of specialization	43%	<input checked="" type="checkbox"/>	
O3 Training Hours per Team Member	>=40 hours annually	40.9	<input checked="" type="checkbox"/>	

End of Presentation



Presented by: Mark LaBruyere

Engagement Updates



Engagement Updates

Fieldwork Phase

Engagement		Hours	Estimated Completion
1	OPT Programs – State Management Plan	329	Feb 2024
2	Minority and Small Business Affairs	540	April 2024
3	Fuel Card	205	April 2024
4	IT Asset Management	624	TBD

Engagement Updates

Reporting Phase

Engagement		Hours	Estimated Completion
1	Direct Pay	660	Dec 24
2	Vehicle Titles	894	Dec 24

End of Presentation



INTERNAL AUDIT REPORT

Presented by: Justina Heath

SCDOT Direct Pay Activity



Background

According to the SC Statewide Purchase Order Policy, the Direct Pay is a financial payment transaction that's used to pay a vendor for the purchases of goods/services in limited circumstances. Typically, it should only be used in limited circumstances because it leads to a reduction in controls and approvals.

Direct Payments may include items where individual payments are less than \$2,500.

While most state agencies must adhere to the categories laid out in the SC Statewide PO Policy, SCDOT has an exempt status which allows the Agency to engagement in direct pay transactions that relate to the construction, maintenance, and repair of bridges, highways, and roads; vehicle and road equipment maintenance and repair and other emergency-type part or equipment utilized by SCDOT.



■ Management's Objective

Management's objectives for the Direct Pay Activity are to ensure that payments are made for valid business purposes in a timely manner and that payments are allowed in accordance with State laws.



Audit Objective



Provide assurance that internal controls are adequately designed and operating effectively to manage risks that may hinder the achievement of Management's objectives for the Direct Pay Activity.

■ Conclusion

In our opinion, controls are partially adequate in design and operating effectiveness for reducing some risks within the Agency's risk appetite.

Risk exposure is determined to be **Medium**. Our observations and recommendations in combination with Management's actions plans are expected to improve internal controls and reduce risk exposures to within the Agency's risk appetite.

Observation 5.1

Inadequate Supporting Documentation

Risk Exposure

Medium

Based on the testing performed, IAS determined that, while each direct pay transaction tested represented a valid business expense, adequate supporting documentation was not submitted to Accounts Payable (A/P) for several transactions. The likelihood of an erroneous, inaccurate, or fraudulent transaction is greater without adequate supporting documentation. Additionally, without adequate supporting documentation, A/P staff and management do not have the opportunity to exercise professional skepticism when processing payments.

Details can be found on page 9 of the report

Recommendation for Observation 5.1

Inadequate Supporting Documentation

Risk Exposure

Medium

Internal Audit Services recommends that SCDOT implement a requirement for business entities to submit adequate documentation (without personally identifiable information) to Accounts Payable to support that each transaction is accurate and represents a valid business purpose.

Details can be found on page 9 of the report

Management Action Plan 5.1

Inadequate Supporting Documentation

MAP Owner(s):	Chief Financial Officer
Division:	Finance
Scheduled Date:	January 31, 2025

It is the responsibility of each SCDOT department to attest that payments are made in accordance with the mission of the Agency and to provide necessary documentation in support of payments. During payment processing, SCDOT A/P scans all payment requests along with supporting documentation into SCEIS. These documents are subsequently reviewed by the Comptroller General's Office who ensures there is satisfactory evidence of the propriety of the payment prior to approving which directs the State Treasurer to disburse funds. The specific type of SCDOT payments that IAS brought to our attention during this review were approved by the Comptroller General's Office and funds were disbursed.

- Accounts Payable staff will be encouraged to continue to communicate questions and/or concerns to AP/Finance Leadership as they are reviewing and processing payment requests.
- The Finance Department will develop and communicate guidelines to SCDOT Offices regarding payment requests which will include those made by Direct Pay.

End of Presentation



Presented by: Mark LaBruyere

Follow Up on Management Action Plans



SOUTH CAROLINA OFFICE OF THE STATE AUDITOR

Follow Up on Management Action Plans – Operational (Through 10/31/24)

- Covers 8 audit reports issued between March 2019 and September 2023

Risk	Completed	In Progress; Not Overdue	Overdue 1 to 90 Days	Overdue 91 to 365 Days	Overdue > 365 Days	Due Date for Incomplete Actions	Revised Due Dates	Totals
All Engagements								
Extreme								
High								
Medium-High	10	1				12/31/24		11
Medium	10	1				12/31/24		11
Medium-Low	13				1	12/31/21	12/31/24	14
Performance Opportunities	22	1		3	1		12/31/2024 - 3/31/2026	27
Totals	55	3		3	2			63