

Internal Audit Report



Office of Contract Assurance Risk and Control Assessment

Kiamesha Caughman, CPA, CIA
Justina Heath, CFE

2026



SOUTH CAROLINA OFFICE OF THE STATE AUDITOR

1. Executive Summary

Objective

Management's objective for the Office of Contract Assurance (OCA) is to provide assurance that funds awarded by SCDOT are expended in accordance with applicable agreement provisions and state and federal requirements.

Our objective is to provide assurance that internal controls are adequately designed and operating effectively to manage risks that may hinder the achievement of Management's objectives.

Background

The Office of Contract Assurance (OCA) conducts reviews and audits of third-party contractors to provide assurance to the South Carolina Department of Transportation (SCDOT) and applicable federal agencies that funds awarded by SCDOT are expended in accordance with agreement provisions, as well as state and federal requirements. OCA also interprets regulations, policies, and guidance related to the administration of Federal Highway Administration (FHWA), Federal Transit Administration (FTA), and state-funded transportation programs.

OCA operates within SCDOT's Finance and Administration Division under the direction of the Chief Financial Officer. Its operations primarily consist of four key processes:

1. Consultant Risk Assessments
2. Transit Compliance and Oversight Reviews
3. FTA Subrecipient Annual Review
4. FHWA Subrecipient Annual Review

In 2022, OCA underwent an advisory engagement conducted by Internal Audit Services (IAS), which provided an independent assessment of the Consultant Risk Assessment and FHWA Subrecipient Annual Review processes. As a result, IAS issued several recommendations aimed at streamlining these processes and incorporating leading practices.

In Fall 2023, SCDOT's Office of Public Transportation (OPT) underwent a significant organizational restructuring. As part of this effort, several monitoring responsibilities were transferred to OCA, along with one staff member to support the transition and execution of these duties. The most significant responsibility transferred was the Financial Analyst role within the Transit Compliance and Oversight Review process. As part of SCDOT's oversight of transit subrecipients, Compliance and Oversight Reviews are conducted for all subrecipients receiving FTA funding, primarily through the Section 5311 Rural Program. Additionally, responsibility for monitoring regional transit authorities subject to federally required or State Mass Transit Fund (SMTF)-mandated financial statement audits or Single Audits was also transferred to OCA.

The South Carolina Act 206, signed into law on June 15, 2010, restructured SCDOT's Division of Mass Transit into the Division of Intermodal and Freight Programs and established the Office of Public Transit (OPT) within the division. The division has since been administratively renamed the Division of Intermodal Planning. OPT administers both the State Mass Transit Funds (SMTF) Program and Federal Transit Administration (FTA) programs.

Conclusion

In our opinion, controls are not adequate in design and are not operating effectively to reduce some risks within the Agency's risk appetite. Risk exposure is determined to be Medium.

Contents

1.	Executive Summary.....	1
	Objective.....	1
	Background	1
	Conclusion	2
2.	Forward	4
	Authorization.....	4
	Statement of Independence	4
	Report Distribution	4
	Acknowledgement	4
	Performed By.....	4
	Reviewer.....	4
3.	Internal Auditor’s Report.....	5
4.	Engagement Overview	6
	Background	6
	Objective.....	6
	Scope	7
	Methodology	7
5.	Conclusion	8
	Office of Contract Assurance Controls	8
	Development of Management Action Plans.....	8
	Observations	9
	Appendix A - Process Descriptions	13
	Appendix B - Risk Scoring Matrix	15
	Appendix C - Risk Appetite.....	16

2. Forward

Authorization

The South Carolina Office of the State Auditor established the Internal Audit Services division pursuant to SC Code Section 57-1-360 as revised by Act 275 of the 2016 legislative session. IAS is an independent, objective assurance and consulting function designed to add value and improve the operations of the South Carolina Department of Transportation (SCDOT). IAS helps SCDOT to achieve its objectives by bringing a systematic, disciplined approach to evaluating the effectiveness of risk management, internal control, and governance processes and by advising on best practices.

Statement of Independence

To ensure independence, IAS reports administratively and functionally to the State Auditor while working collaboratively with SCDOT leadership in developing an audit plan that appropriately aligns with SCDOT's mission and business objectives and reflects business risks and other priorities.

Report Distribution

This report is intended for the information and use of the SCDOT Commission, SCDOT leadership, the Chairman of the Senate Transportation Committee, the Chairman of the Senate Finance Committee, the Chairman of the House of Representatives Education and Public Works Committee, and the Chairman of the House of Representatives Ways and Means Committee. However, this report is a matter of public record and its distribution is not limited.

Acknowledgement

We wish to thank members of management and staff in the Office of Contract Assurance for their cooperation in assessing risks and developing actions to improve internal controls and enhance operating performance.

Performed By

Kiamesha Caughman, CPA, CIA
Senior Manager
And
Justina Heath, CFE
Manager
And
Daniel Perez
Auditor

Reviewer

Mark LaBruyere, CPA, CIA
Director of Internal Audit Services



3. Internal Auditor's Report

May 15, 2026

Mr. Justin Powell, Secretary of Transportation
and
Members of the Commission
South Carolina Department of Transportation
Columbia, South Carolina

We have completed risk and control assessment of the South Carolina Department of Transportation's (SCDOT's) Office of Contract Assurance. The objective of this assessment was to contribute to the improvement of risk management by evaluating SCDOT's exposure to risks and the controls designed by Management to manage those risks. Our engagement included two aspects:

- Facilitation of Management's assessment of risks associated with the Office of Contract Assurance.
- Independent assessment of the design and effectiveness of internal controls to determine whether those controls effectively manage the identified risks to an acceptable level.

We planned and performed the engagement with due professional care in order to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations. Our observations, recommendations, and management's action plans were discussed with management.

Mark LaBruyere, CPA, CIA
Director of Internal Audit Services

4. Engagement Overview

Background

The Office of Contract Assurance (OCA) conducts reviews and audits of third-party contractors to provide assurance to the South Carolina Department of Transportation (SCDOT) and applicable federal agencies that funds awarded by SCDOT are expended in accordance with agreement provisions, as well as state and federal requirements. OCA also interprets regulations, policies, and guidance related to the administration of Federal Highway Administration (FHWA), Federal Transit Administration (FTA), and state-funded transportation programs.

OCA operates within SCDOT's Finance and Administration Division under the direction of the Chief Financial Officer. Its operations primarily consist of four key processes:

1. Consultant Risk Assessments
2. Transit Compliance and Oversight Reviews
3. FTA Subrecipient Annual Review
4. FHWA Subrecipient Annual Review

In 2022, OCA underwent an advisory engagement conducted by IAS, which provided an independent assessment of the Consultant Risk Assessment and FHWA Subrecipient Annual Review processes. As a result, IAS issued several recommendations aimed at streamlining these processes and incorporating leading practices.

In Fall 2023, SCDOT's Office of Public Transportation (OPT) underwent a significant organizational restructuring. As part of this effort, several monitoring responsibilities were transferred to OCA, along with one staff member to support the transition and execution of these duties. The most significant responsibility transferred was the Financial Analyst role within the Transit Compliance and Oversight (C&O) Review process. As part of SCDOT's oversight of transit subrecipients, Compliance and Oversight Reviews are conducted for all subrecipients receiving FTA funding, primarily through the Section 5311 Rural Program. Additionally, responsibility for monitoring regional transit authorities subject to federally required or State Mass Transit Fund (SMTF)-mandated financial statement audits or Single Audits was also transferred to OCA.

The South Carolina Act 206, signed into law on June 15, 2010, restructured SCDOT's Division of Mass Transit into the Division of Intermodal and Freight Programs and established the Office of Public Transit (OPT) within the division. The division has since been administratively renamed the Division of Intermodal Planning. OPT administers both the State Mass Transit Funds (SMTF) Program and Federal Transit Administration (FTA) programs.

Objective

Management's objective for the Office of Contract Assurance (OCA) is to provide assurance that funds awarded by SCDOT are expended in accordance with applicable agreement provisions and state and federal requirements.

Our objective is to 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 Office of Contract Assurance.

Scope

The Office of Contract Assurance is comprised of four processes involving multiple stakeholders as follows:

1. Consultant Risk Assessments
2. Transit Compliance and Oversight Reviews – Financial Analyst Section
3. FTA Subrecipient Annual Review
4. FHWA Subrecipient Annual Review

Our scope included the above activities and processes of the Office of Contract Assurance from July 1, 2024, through July 1, 2025.

Methodology

For the processes included in the engagement scope, we performed the following procedures:

1. We facilitated Management's completion of a process outline that documents the steps in the process and the individuals responsible for those steps.
2. We facilitated Management's completion of a risk and control matrix used to:
 - a. identify risks which threaten process objectives,
 - b. score the risks as to their consequence and likelihood of occurrence using the risk scoring matrix in Appendix B,
 - c. determine if controls are adequately designed to manage the risks within the Agency's risk appetite, and
 - d. propose design improvements to controls when risks are not managed to within the Agency's risk appetite.
3. We evaluated Management's assessment to determine if it was reasonable and comprehensive.
4. We tested controls intended to manage risks with inherent risk scores of 9 and above [scale of 1 (low) to 25 (high)] to determine if controls are designed adequately and operating effectively. Our testing included inquiry, observation, and inspection of documentation to determine if controls are operating effectively.
5. We developed observations for controls determined to be inadequate in design and/or ineffective in operation.
6. We collaborated with management to develop action plans to improve control design and/or operating effectiveness for the identified control deficiencies.
7. While our engagement primarily focused on risk management, we identified a matter that represents an opportunity for process improvement.
8. We collaborated with Management to develop an action plan for the identified opportunity for process improvement.

5. Conclusion

Office of Contract Assurance Controls

In our opinion, controls are not adequate in design and are not operating effectively for reducing some risks within the Agency's risk appetite. Risk exposure is determined to be Medium. Our recommendations to improve control design and/or operating effectiveness are described in the Observations section.

Development of Management Action Plans

We facilitated Management's development of action plans for each observation to improve control design and operating effectiveness with practical, cost-effective solutions. These improvements, if effectively implemented, are expected to reduce the overall risk exposure to an acceptable level (i.e. within the Agency's risk appetite).

We will follow up with Management on the implementation of the proposed actions on an ongoing basis and provide SCDOT leadership with periodic reports on the status of management action plans and whether those actions are effectively and timely implemented to reduce risk exposure to an acceptable level.

Observations

Observation 5.1 Compliance and Oversight Reviews	Risk Exposure Medium-High
Division: Office of Contract Assurance and the Office of Public Transit	
Controls Assessed: Control 1 – Transit Compliance and Oversight Review Guide Control 2 – US Code of Federal Regulation	
Controls Descriptions: Control 1 – The Transit Compliance and Oversight Review Guide examines various aspects of the subrecipient's operations to verify proper use of federal funds, promote safe and reliable transit services, and provide technical assistance for compliance improvements Control 2 – The CFR contains official rules and regulations issued by federal agencies concerning highways.	
Process Affected: (See process descriptions in Appendix A) Process 2 – Compliance and Oversight Reviews	
Observation: SCDOT's Compliance and Oversight (C&O) Review process is performed by both the Office of Contract Assurance (OCA) and the Office of Public Transportation (OPT). However, during testing, IAS did not observe evidence of consistent collaboration between the two offices throughout the review process. Specifically: • No evidence that OCA and OPT jointly plan for C&O Reviews by meeting to discuss known risks, emerging issues, or subrecipient-specific considerations prior to the review. • No evidence that OCA is provided with a comprehensive, coordinated schedule of C&O Reviews for the fiscal year, or that scheduling is performed collaboratively. • OCA and OPT should establish and maintain consistent documentation standards, with clear guidance to ensure they are effectively communicated and uniformly followed across both divisions. • No evidence of a formal process to ensure that identified deficiencies are jointly discussed and validated by both OCA and OPT prior to issuance of final reports. • While the C&O Review is presented as a joint effort, OPT appears to lead key aspects of the process – including planning, scheduling, coordination of identified deficiencies, and reporting – while OCA's involvement is independent of OPT's, its procedures are integral to SCDOT's overall assessment. The lack of structured collaboration may result in inconsistent risk identification, incomplete consideration of relevant factors, and potential misalignment in reporting. Recommendation: IAS recommends that the Deputy Secretary of Finance and Administration and the Deputy Secretary for Intermodal and Freight Programs establish formal expectations for collaboration, communication, and adherence to documentation standards between OPT and OCA throughout	

all phases of the C&O Review process, including planning, scheduling, fieldwork, and reporting. This should include implementing processes to ensure joint risk assessment, coordinated scheduling, shared documentation workflow and collaborative review of identified deficiencies to support accurate, comprehensive, and consistent reporting of results.

Management Action Plan (MAP) 5.1

The Deputy Secretary for Finance & Administration and the Deputy Secretary for Intermodal & Freight Programs are dedicated to formalizing policies and procedures for C&O Reviews that will outline coordination expectations, job responsibilities, and documentation standards for OPT and OCA. We are engaged with a consultant to document the C&O process and will ensure that all policies and procedures are compliant with the Code of Federal Regulations (CFR), FTA circulars, and AASHTO standards while ensuring seamless communication and reporting to our transit subrecipients.

MAP Owners:	Deputy Secretary for Finance & Administration and the Deputy Secretary for Intermodal & Freight Programs
Division:	Office of Contract Assurance and Office of Public Transit
Scheduled Date:	March 31, 2027

Observation 5.2 FTA and FHWA Subrecipient Annual Reviews	Risk Exposure Medium-Low
Division: Office of Contract Assurance	
Controls Assessed: Control 1 – FTA Subrecipient Annual Review Guide Control 2 – US Code of Federal Regulations Subrecipient Monitoring and Management	
Controls Descriptions: Control 1 – FTA Subrecipient Annual Review Guide documents SCDOT’s assessment of compliance with audit reporting requirements of 2 CFR 200, Subpart F, and SCDOT award agreements. US Code of Federal Regulations, 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements, Subpart F. Agencies not meeting the Single Audit threshold must submit a financial statement audit accordance with SCDOT award agreements. All audits must be complete in compliance with Government Auditing Standards. Control 2 – FHWA Subrecipient Annual Review Guide documents SCDOT’s assessment of the subrecipient’s continued capability to administer SCDOT awards projects through the review of audited financial statements, Single Audits results and indirect costs and other data as needed to appropriately assess and monitor the subrecipient. Control 3 – The CFR contains official rules and regulations issued by federal agencies concerning highways.	
Process Affected: (See process descriptions in Appendix A) Process 3 – FTA Subrecipient Annual Reviews Process 4 – FHWA Subrecipient Annual Reviews	
Observation: During testing of the FTA and FHWA Subrecipient Annual Review Guides, IAS identified documentation gaps and reference inaccuracies. These issues were noted in a significant portion of the sample reviewed, indicating weaknesses in quality control and adherence to documented guidance. Specifically, IAS observed instances where referenced supporting workpapers were not accurate, limiting the ability to validate review conclusions. Inconsistencies in document referencing and labeling were identified, including mismatches between guide references and database file names, as well as incorrect internal references within review documentation. These conditions increase the risk that reviews may not be fully supported, consistently performed, or readily verifiable, which could impact SCDOT’s ability to demonstrate compliance with applicable federal requirements and internal standards. Recommendation: IAS recommends that OCA implement enhanced quality control procedures to ensure the completeness, accuracy, and consistency of Subrecipient Annual Review Guides. This should include performing a final review of all documentation prior to signoff to verify that: • All referenced workpapers are present and accurately labeled within the database; • Internal references within review guides are correct and consistent; and	

- All required sections are completed with sufficient detail in accordance with established guidance and examples.

Additionally, OCA should ensure that all required audit reports and supporting documentation are included in the file, and that any exceptions or missing items are clearly documented and explained prior to marking a review as complete.

Management Action Plan (MAP) 5.2

The SCDOT Chief Financial Officer is dedicated to implementing enhanced quality control procedures to ensure the completeness, accuracy, and consistency of Subrecipient Annual Review Guides. The existing procedure will be reviewed and updated to address any areas requiring clarification and training will be provided to the team. We will also implement a peer review for three months that will ensure all necessary changes are implemented.

MAP Owner:	SCDOT Chief Financial Officer
Division:	Finance and Administration
Scheduled Date:	March 31, 2027

Appendix A - Process Descriptions

Process 1 Consultant Risk Assessments

OCA ensures that consultant overhead (OH) rates are properly calculated and that no disallowed costs are included in the OH rate. OCA reviews and approves indirect cost rate proposals from Architectural/Engineering (A/E) firms. The rate proposals OCA receives can be audited or unaudited or have a cognizant approval. OCA uses the Consultant Risk Assessment and Workpaper Review Guide for this process which was taken from the American Association of State Highway and Transportation Officials (AASHTO) Audit Guide and applies other laws regulations as necessary.

Success for this process is assessed by ensuring all required overhead (OH) rate approvals are completed without causing delay to the contract negotiations and to allow firms to true up prior period invoices and/or update their invoicing to the new rate while maintaining a consistent process with appropriate work performed to meet the assurance objectives.

Process 2 Compliance and Oversight Reviews

As part of its monitoring program for transit subrecipients SCDOT conducts Compliance and Oversight Reviews for all SCDOT subrecipients that receive FTA funding (primarily 5311 Rural program funding) through SCDOT. The Compliance and Oversight Review is a process that evaluates the transit agencies, SCDOT's subrecipient, operations and management to ensure the entity is meeting federal and state requirements as well as internal policies and procedures. This process allows SCDOT and the subrecipient to identify internal control weaknesses and areas of non-compliance, or risk of non-compliance, and allows SCDOT to provide recommendations to improve and strengthen the subrecipient's ability to provide safe and efficient public transportation to the community. OCA completes the financial procedures of the Compliance and Oversight Review, while OPT Program Manager and Asset Manager complete the operations procedures of the Compliance and Oversight Reviews. Each portion of the Compliance and Oversight is conducted at the same time and reported together. These reviews are completed every three years for each 5311 subrecipient.

Process 3 Federal Transit Administration Subrecipient Annual Reviews

As required by federal regulations regarding subrecipient monitoring, OCA conducts annual reviews of subrecipients that have received FTA federal funding passed through SCDOT. Due to divisional restructuring during the Fall of 2023, OCA began conducting the FTA subrecipient reviews instead of OPT. During this review, OCA reviews subrecipient audit reports for audit reporting compliance and findings or other indications that SCDOT awarded funds were not expended in accordance with the applicable agreement provisions as well as state and federal requirements. An OCA Transit Subrecipient Annual Review Guide is used to complete the reviews. OCA uses a listing provided by OPT to determine monitoring requirements for each subrecipient. The goal of this process is to ensure they review each subrecipient annually.

Process 4 Federal Highway Administration Subrecipient Annual Reviews

As required by federal regulations regarding subrecipient monitoring, OCA completes an annual review of subrecipients that have received federal funding passed through from SCDOT. During this review, OCA reviews subrecipient audit reports for audit reporting compliance and findings or other indications that SCDOT awarded funds were not expended in accordance with applicable agreement provisions as well as state and federal requirements. A Subrecipient Annual Review

Guide is used to complete the reviews. OCA receives a listing of FHWA subrecipients from the Contracts Manager within SCDOT's Legal Office. OCA filters the goal of this process is to ensure each subrecipient is reviewed annually, with any required management decision issued within six months of audit acceptance by the Federal Audit Clearinghouse and other reviews completed within a year of audit acceptance by the Federal Audit Clearinghouse or receipt by SCDOT.

Appendix B - Risk Scoring Matrix

Risk significance is rated on a scale of 1 (lowest) to 25 (highest) and is the product of the risk consequence score (1 to 5) multiplied by the risk likelihood score (1 to 5). The following matrix provides a color scale corresponding to risk significance scores.

Likelihood	Frequent or Almost Certain	3-4 Low	9-13 Medium	14-17 Med-High	18-21 High	22-25 Extreme
	Likely	3-4 Low	5-8 Med-Low	9-13 Medium	14-17 Med-High	18-21 High
	Possible	3-4 Low	5-8 Med-Low	5-8 Med-Low	9-13 Medium	14-17 Med-High
	Unlikely	1-2 Minimal	3-4 Low	5-8 Med-Low	5-8 Med-Low	9-13 Medium
	Rare	1-2 Minimal	1-2 Minimal	3-4 Low	3-4 Low	3-4 Low
		Incidental	Minor	Moderate	Major	Extreme

Consequence

Appendix C - Risk Appetite

Risk appetite is defined as the amount of risk the Agency is willing to accept in the pursuit of its objectives. Management's goal is to manage risks to within the appetite where mitigation is cost- beneficial and practical. Management has set the Agency's risk appetite by risk type using scoring methodology consistent with the Risk Scoring Matrix shown in Appendix B. Risk appetites by risk type are as follows:

RISK TYPE	EXAMPLES	RISK APPETITE SCORE 1 = Minimal Risk 25 = Extreme Risk (See Scoring Matrix in Appendix B)
Safety	Employee and Public Well-Being	2
Ethical	Fraud, Abuse, Mismanagement, Conflict of Interest	2
Financial	Funding, Liquidity, Credit, Reporting	4
Strategic	Resources not Aligned, Unclear Objectives	4
Reputational	Unintentional Unwanted Headlines	4
Operational	Delays, Cost Overruns, Waste, Inefficiency	6
Regulatory	Non-Compliance	6
Legal	Lawsuits	10