



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

March 6, 2006

Financial Audit Management Report

Larry L. Brown, Executive Director
Mississippi Department of Transportation
P. O. Box 1850
Jackson, Mississippi 39215-1850

Dear Mr. Brown

Enclosed for your review are the financial audit findings for the Mississippi Department of Transportation for the fiscal year 2005. In these findings, we recommend the Mississippi Department of Transportation:

1. Properly prepare and review GAAP reporting packages; and
2. Strengthen controls over SAAS approval levels.

Please review the recommendations and submit a plan to implement them by March 27, 2006. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Mississippi Department of Transportation to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Transportation throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,


Phil Bryant
State Auditor

Enclosures

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Mississippi Department of Transportation for the year ended June 30, 2005. These financial statements are consolidated into the State of Mississippi's Comprehensive Annual Financial Report. The Office of the State Auditor's staff members participating in this engagement included Vicki Alvey, Marilyn Purvis, CGFM, Yulanda Wesley and Trisi Baskin.

The fieldwork for audit procedures and tests was completed on December 9, 2005. These procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Financial Reporting

In planning and performing our audit of selected accounts included on the financial statements, we considered the Mississippi Department of Transportation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on these accounts and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain immaterial weaknesses involving the internal control over financial reporting that require the attention of management. These matters are noted under the heading **IMMATERIAL WEAKNESSES IN INTERNAL CONTROLS**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Department of Transportation are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. We are pleased to report the results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

IMMATERIAL WEAKNESSES IN INTERNAL CONTROL

GAAP Reporting Packages Should Be Properly Prepared and Reviewed

Finding:

During our review of the fiscal year end GAAP reporting package prepared by the Mississippi Department of Transportation for Fund 3941, the following weaknesses were noted:

- Contracts payable-retainage and contracts payable-damages were understated by \$161,308 and \$319,012 respectively. As a result, capital outlay expenditures were understated by \$480,320.
- Unrecorded payables were noted which resulted in contracts payable being understated by \$2,192,738.
- Five accrual entries input to the Statewide Automated Accounting System (SAAS) by agency personnel were coded to reverse; however, per the accrual worksheet the entries should not reverse. It should be noted that agency personnel corrected these entries after the error was brought to their attention.
- Nine instances in which the grant award amounts on the “schedule of federal grant activity” were incorrect per the grant award notices.
- Two instances in which a grant was coded to the incorrect CFDA number on the “schedule of federal grant activity”.
- One instance in which a payment from another state agency in the amount of \$145,230 was incorrectly included in current year federal expenditures and due from granting agency amounts on the “schedule of federal grant activity”.
- One instance in which a payment in the amount of \$113,077 was included in current year federal expenditures and due from granting agency amounts; however, we noted the payment had been cancelled.
- Cumulative receipts and transfer totals were not recorded on the “schedule of federal grant activity”.
- The receipt reconciliation worksheet used to prepare the “schedule of federal grant activity” did not foot correctly. Also an invoice in the amount of \$9,049 was excluded from the receipt reconciliation worksheet.
- An unexplained difference of \$2,673,328 was noted during the reconciliation between GAAP and the agency’s “Disbursed Cost Report” for Infrastructure in Progress.
- An unexplained difference of \$1,380,315 was noted between the total costs on the “Schedule of Incomplete Projects Report” and the “Project Summary-Disbursed Cost Report”.
- An unexplained difference of \$581,613 was noted during the reconciliation of the June 30, 2005 ending balance and the July 2005 beginning balance on the “Project Summary-Disbursed Cost Reports”.

Generally accepted accounting principles require that agencies provide accounting and reporting information which will make it possible to present fairly the financial position and results of operation of the agency. Also, good internal controls require that all financial data prepared receive adequate supervisory review to ensure any errors or omissions are detected promptly. Failure to ensure the accuracy of reporting information could allow misstatements in the financial statements.

Recommendation:

We recommend the Mississippi Department of Transportation strengthen controls by exercising greater care to ensure accounting reports and supporting schedules used in preparation of the GAAP reporting package are properly prepared.

Controls over SAAS Approval Levels Should Be Strengthened

Finding:

During our review of the approval levels established in the Statewide Automated Accounting System (SAAS) for disbursements at the Mississippi Department of Transportation, we noted two former employees still had input capabilities in SAAS. Good internal controls should ensure an individual's access to on-line systems is deleted immediately upon termination. Failure to maintain adequate internal controls for an on-line system increases the potential for errors or fraud to occur without being promptly detected.

Recommendation:

We recommend the Mississippi Department of Transportation strengthen controls to ensure that an individual's access to the Statewide Automated Accounting System is deleted immediately upon termination.



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

April 25, 2006

Single Audit Management Report

Larry L. Brown, Executive Director
Mississippi Department of Transportation
P. O. Box 1850
Jackson, Mississippi 39125-1850

Dear Mr. Brown:

Enclosed for your review are the single audit management report and other audit finding for the Mississippi Department of Transportation for the fiscal year 2005. In this finding, we recommend the Mississippi Department of Transportation strengthen controls over Davis-Bacon Act requirements.

Please review the recommendation and submit a plan to implement it by May 16, 2006. The enclosed finding contains more information about our recommendation.

During future engagements, we may review the finding in this management report to ensure procedures have been initiated to address this finding.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendation enables the Mississippi Department of Transportation to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Transportation throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Phil Bryant", is written over the word "Sincerely,".

Phil Bryant
State Auditor

Enclosures

SINGLE AUDIT FINDINGS

In conjunction with our audit of federal assistance received by the State of Mississippi, the Office of the State Auditor has completed its audit of selected federal programs of the Mississippi Department of Transportation for the year ended June 30, 2005. This audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Office of the State Auditor's staff members participating in this engagement included Vicki Alvey, Marilyn Purvis, CGFM, Yulunda Wesley, Trisi Baskin, Kim McCrory, and Kamelia Moore.

The fieldwork for audit procedures and tests was completed on April 17, 2005. These procedures and tests cannot and do not provide absolute assurance that all federal legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Compliance

The management of the Mississippi Department of Transportation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with requirements that could have a direct and material effect on the major federal programs.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance that we consider to be material weaknesses. However, we noted a matter involving the internal control over compliance that requires the attention of management that we reported on the attached document "Other Audit Finding."

Compliance

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management. We have audited each of the major federal programs for compliance with the types of compliance requirements described in OMB Circular A-133. Our audit fieldwork included examining, on a test basis, evidence about the department's compliance with those requirements and such other procedures as we considered necessary. Based on audit procedures and tests performed, we are pleased to report that no instances of noncompliance that are required to be reported by OMB Circular A-133 were noted.

OTHER AUDIT FINDING

In planning and performing our audit of the federal awards received by the Mississippi Department of Transportation for the year ended June 30, 2005, we considered internal control over compliance with requirements that could have a direct and material effect on the major federal programs. A matter which requires the attention of management was noted. This matter which does not have a material effect on the agency's ability to administer major federal programs in accordance with applicable laws, regulations, or provisions of contracts or grant agreements involves an internal control weakness.

**CFDA/Finding
Number**

Finding and Recommendation

DAVIS-BACON ACT

Immaterial Weakness

20.205

Highway Planning and Construction

Federal Award Number and Year: Various

Oth-17

Controls over Davis-Bacon Act Requirements Should Be Strengthened

Finding:

The Davis-Bacon Act requires all laborers and mechanics employed by contractors or subcontractors who work on construction contracts in excess of \$2,000 financed by federal assistance funds be paid wages not less than those established for the locality of the project (prevailing wage rates) by the U.S. Department of Labor (40 USC 276a to 276a-7). Non-federal entities are required to include in their construction contracts which are subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the U.S. Department of Labor regulations (29 CFR 5), "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction". This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Standard operating procedures (S. O. P. No. CAD-07-01-00-000) established by the Mississippi Department of Transportation, requires each contractor and subcontractor working on a federal aid project to submit to the project engineer two copies of the "Weekly Summary of Wage Rates" (CAD-880) on a weekly basis. The project engineer is required to verify the information on the CAD-880 by comparing to the daily diaries which detail the work on the project. The CAD-880 is then submitted to the contract compliance officer who reviews and maintains all Davis-Bacon payroll files.

Testwork performed on 60 payrolls from federal aid projects during fiscal year 2005 revealed the following:

- Nine instances in which copies of the payrolls were not on file at the time of testwork. However, the payrolls were obtained after the auditor brought it to the attention of the contract compliance officer.
- One instance in which the project diary indicated work was performed, but a CAD-881 (Weekly Statement of Compliance) was received indicating no work was performed. The number of hours worked per the project diary was eight hours.

Good internal control procedures require copies of the payrolls be reviewed for accuracy and maintained on file to document compliance with the Davis-Bacon Act. The failure to practice good internal controls could result in improper wages being paid and non-compliance with the Davis-Bacon Act.

Recommendation:

We recommend the Mississippi Department of Transportation strengthen controls over the Davis-Bacon Act requirements. The agency should ensure copies of all payrolls are received, properly reviewed for accuracy and maintained on file.