



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

February 8, 2010

Financial Audit Management Report

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

Dear Mr. Brown:

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, 2009. These financial statements are consolidated into the State of Mississippi's Comprehensive Annual Financial Report. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Geeta Foreman, Tangela Beddingfield, Lee Alford, Steven McDevitt and Meagan Tolliver.

Our 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on these accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

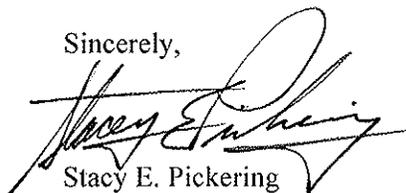
Compliance and Other Matters

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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, individuals charged with governance, 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 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,



Stacy E. Pickering
State Auditor

End of Report



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

March 23, 2010

Single 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 is the other audit finding for the Mississippi Department of Transportation for the Fiscal Year 2009. In this finding, the Auditor's Office recommends the Mississippi Department of Transportation strengthen controls over Davis-Bacon Act requirements.

Please review the recommendation and submit a plan to implement it by April 9, 2010. 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, individuals charged with governance, 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 "Stacey E. Pickering", is written over a horizontal line.

Stacey E. Pickering
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 the major federal programs of the Mississippi Department of Transportation for the year ended June 30, 2009. 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 Karlanne Coates, CPA, Geeta Foreman, Tangela Beddingfield, Lee Alford, Steven McDevitt, and Meagan Tolliver.

Our 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 the Mississippi Department of Transportation's internal control over compliance with requirements that could have a direct and material effect on a major federal program.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we noted a control deficiency that requires the attention of management that we have 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. The results of our auditing procedures disclosed no instances of noncompliance that are required to be reported by OMB Circular A-133.

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, 2009, 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 a control deficiency. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis.

**CFDA/Finding
 Number**

Finding and Recommendation

DAVIS-BACON ACT

Control Deficiency

20.205
 20.205

Highway Planning and Construction
 ARRA - Highway Planning and Construction

Federal Award Number and Year: various

09-08

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 must 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 3141-3144, 3146 and 3147). Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act, a requirement that the contractors or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 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).

The Administrative Procedures Act Rules (rule number 941-7401-04000) established by the Mississippi Department of Transportation requires contractors and subcontractors working on a federal aid project to submit to the project engineer two copies of the weekly payroll, the "Weekly Summary of Wage Rates" (CAD-880) and the "Weekly Statement of Compliance" (CAD 881). The project engineer has one week to check the payrolls and forward them to the contract compliance officer located at the Department of Transportation's headquarters in Jackson. The warrant should not be issued to the contractor for payment of the monthly estimate if the required payroll reports have not been received.

For the fiscal year 2009 audit, we initially selected 65 payrolls for testwork. Of the 65 payrolls tested, 25 were selected from projects funded by the American Recovery and Reinvestment Act of 2009 (ARRA) and 40 were selected from non-ARRA projects. Testwork revealed the following discrepancies.

- For payrolls which were not related to an ARRA project, we noted nine instances out of 40 tested in which copies of the payrolls were not on file in the Jackson headquarters at the time of testwork. Eight payrolls were subsequently obtained from the project office after the auditor brought this to the attention of the contract compliance officer; however, the remaining missing payroll could not be located by agency personnel or obtained from the contractor. It should be noted that for the 39 payrolls tested, whether on file at the agency, or obtained from the project office, we did not note any instances in which laborers or mechanics were paid less than the prevailing wage established by the U.S. Department of Labor at the time the contract was signed. While the eight payrolls were not on file in the Jackson headquarters, it appeared the payrolls had been properly reviewed by project office personnel.
- For the 25 payrolls tested which related to an ARRA project, testwork revealed, for three payrolls submitted by three separate contractors, a total of 10 instances in which laborers or mechanics were paid less than the prevailing wage rate required by the terms of the contract. In addition, one of the three payrolls had not been on file at the agency or the project office; the payroll was subsequently obtained from the contractor. Because errors were noted in the missing payroll, we selected eight additional payrolls from the same contractor and found an additional 14 instances in which laborers or mechanics were not paid the correct wage rate per the terms of the contract.

Good internal control procedures require copies of the payrolls be obtained, reviewed for compliance with the applicable wage rates and maintained on file to document the agency's compliance with the Davis-Bacon Act. While the errors noted appeared to be isolated to one particular contractor, failure to consistently practice good internal controls could result in improper wages being paid and noncompliance 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 compliance with applicable wage rates and maintained on file. We further recommend the agency investigate the errors noted by the auditors in the contractors' and/or subcontractors' payrolls and ensure corrections are made as applicable to ensure the prevailing wage rates are properly remitted.

End of Report