



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

March 17, 2011

Single Audit Management Report

J. Brooks Miller, Sr., State Aid Engineer
Mississippi Department of Transportation
Office of State Aid Road Construction
P. O. Box 1850
Jackson, Mississippi 39215-1850

Dear Mr. Miller:

Enclosed for your review is the single audit finding and other audit finding for the Mississippi Department of Transportation – Office of State Aid Road Construction for the Fiscal Year 2010. In these findings, the Auditor's Office recommends the Mississippi Department of Transportation – Office of State Aid Road Construction:

Single Audit Finding

1. Strengthen controls over Davis-Bacon Act requirements; and

Other Audit Finding

2. Strengthen controls over transaction approvals.

Please review the recommendations and submit a plan to implement them by March 25, 2011. 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.

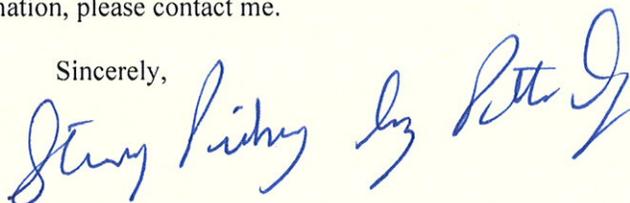
This report is intended solely for the information and use of management, individuals charged with governance, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public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

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I hope you find our recommendations enable the Mississippi Department of Transportation – Office of State Aid Road Construction 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 – Office of State Aid Road Construction throughout the audit.

If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Stacey E. Pickering". The signature is stylized and cursive.

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 -- Office of State Aid Road Construction for the year ended June 30, 2010. 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 Kimberly Majure, CPA, Amy Buller, CPA, Lee Alford, Stacey Allman, CPA, and Elizabeth Smith.

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 -- Office of State Aid Road Construction 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 -- Office of State Aid Road Construction internal control over compliance with requirements that could have a direct and material effect on a major federal program.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 identified a deficiency in internal control over compliance that we consider to be a significant deficiency. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance identified in this letter as item 10-10 to be a significant deficiency. In addition, we noted another deficiency in internal control over compliance 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 performing such other procedures as we considered necessary in the circumstances.

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is identified in this letter as item 10-10.

CFDA/Finding Number

Finding and Recommendation

DAVIS-BACON ACT

Significant Deficiency Immaterial Noncompliance

20.205
20.205

Highway Planning and Construction
ARRA - Highway Planning and Construction

Federal Award Number and Year: Various

Questioned Cost: Not Determined

10-10

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 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 Standard Operating Procedures (S.O.P. rule number SA II-2-10) established by the Mississippi Department of Transportation - Office of State Aid Road Construction (OSARC) require contractors and subcontractors working on a federal aid project to submit to OSARC a copy of each weekly payroll, the "Weekly Summary of Wage Rates" (CAD-880) and the "Weekly Statement of Compliance" (CAD 881). The Standard Operating Procedures further require OSARC to check each payroll submitted for compliance with payment of pre-determined wage rates.

In the event a payroll sheet contains an error regarding wage rates, the payroll should be returned to the contractor or subcontractor for correction and re-submission. Along with the re-submitted payroll, OSARC requires a written affidavit from the laborer, or laborers, stating the proper payment has been tendered.

For fiscal year 2010, we selected 138 payrolls in order to verify submission and review of payroll documentation. Of the 138 payrolls tested, 32 were from projects financed by provisions of the American Recovery & Reinvestment Act of 2009 (ARRA). All selected payrolls were submitted and were initialed by the OSARC designated reviewer indicating no problems. However, one employee was paid less than the minimum hourly wage rate per the individual project's Supplement to Form FHWA-1273 for seven of the 138 payrolls tested. Two of the seven payrolls with identified errors were for projects financed by ARRA.

Failure to ensure proper wage rates were paid by contractors and subcontractors resulted in non-compliance with the Davis-Bacon Act and OSARC S.O.P. SA II-2-10.

Recommendation:

We recommend the Mississippi Department of Transportation - Office of State Aid Road Construction strengthen controls over Davis-Bacon Act Requirements. The agency should ensure each weekly payroll is properly reviewed for compliance with minimum hourly wage rates. We further recommend the agency investigate the errors noted by the auditors ensuring the prevailing wage rates are properly remitted.

OTHER AUDIT FINDINGS

In planning and performing our audit of the federal awards received by the Mississippi Department of Transportation -- Office of State Aid Road Construction for the year ended June 30, 2010, we considered internal control over compliance with the 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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

**CFDA/Finding
Number**

Finding and Recommendation

SAAS APPROVAL LEVELS

Other Control Deficiency

20.205

Highway Planning and Construction

20.205

ARRA - Highway Planning and Construction

Oth-03

Controls over Transaction Approval Levels Should Be Strengthened

Finding:

During our audit of the Mississippi Department of Transportation -- Office of State Aid Road Construction, we reviewed the approval levels established in the Statewide Automated Accounting System (SAAS) for journal voucher and disbursement transactions. We noted six employees had input capability and all four levels of agency approval to process SAAS journal vouchers. The review of authorized approval levels for disbursement transactions revealed five employees with input capability and all three levels of agency approval for processing in SAAS. Of the five employees with full SAAS processing capabilities for disbursement transactions, two employees were also authorized to sign payment vouchers.

The agency has an internal control policy which prohibits the same employee from inputting and approving the same accounting transaction; however, no audit trail exists to evidence the execution of this policy, and approval levels established in SAAS allow this policy to be circumvented.

Good internal controls require duties be segregated so one individual does not have the ability to initiate and approve an entire transaction. Failure to ensure segregation of duties could allow unauthorized or erroneous transactions to be recorded in SAAS and not be detected promptly.

Recommendation:

We recommend the Mississippi Department of Transportation - Office of State Aid Road Construction review Statewide Automated Accounting System (SAAS) approval levels over journal vouchers and disbursements in order to strengthen controls by ensuring no individual is assigned both input capability and all agency levels of approval.

We further recommend the Mississippi Department of Transportation – Office of State Aid Road Construction implement an audit trail process to evidence the existence and effectiveness of the internal control policy which prohibits same employee from inputting and approving the same transaction.

End of Report