



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

March 18, 2015

**Financial Audit Management Report**

H. Carey Webb, State Aid Engineer  
Mississippi Department of Transportation  
Office of State Aid Road Construction  
P. O. Box 1850  
Jackson, MS 39215

Dear Mr. Webb:

Enclosed for your review is the financial audit finding for the Mississippi Department of Transportation – Office of State Aid Road Construction for the Fiscal Year 2014. In this finding, the Auditor's Office recommends the Mississippi Department of Transportation – Office of State Aid Road Construction strengthen controls over reporting of GAAP package note disclosures.

Please review the recommendation and submit a plan to implement this by April 3, 2015. 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.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Mississippi Department of Transportation – Office of State of Road Construction's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mississippi Department of Transportation – Office of State Aid Road Construction's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Mississippi Department of Transportation  
Office of State Aid Road Construction  
March 18, 2015  
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I hope you find our recommendation enables 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,



Patrick Dendy, CPA  
Director, Department of Audit  
Enclosures

## **FINANCIAL AUDIT MANAGEMENT REPORT**

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Mississippi Department of Transportation – Office of State Aid Road Construction for the year ended June 30, 2014. 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, and Jeanne Julious.

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 – Office of State Aid Road Construction's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Mississippi Department of Transportation – Office of State Aid Road Construction's internal control.

*A deficiency in internal control* 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control identified in this letter as item 14-01 that we consider to be a significant deficiency.

### **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 – Office of State Aid Road Construction are free of material misstatement, we performed tests of its 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*.

## **SIGNIFICANT DEFICIENCY**

### **Finding Number**

### **Finding and Recommendation**

14-01

#### **Controls over Reporting of GAAP Package Note Disclosures Should Be Strengthened**

##### *Finding*

During our review of the Mississippi Department of Transportation – Office of State Aid Road Construction’s GAAP reporting package, we noted the amount recorded as total expenditures for federal projects in the commitments note disclosure pertaining to contracts was incorrect. Agency personnel incorrectly recorded the federal aid portion of total active projects instead of the total expenditures for federal projects. Agency personnel determined that a formula in a spreadsheet cell was incorrect and caused this error. This error resulted in the commitments amount being overstated by \$7,631,357. Generally accepted accounting principles require that amounts in the financial statements and accompanying note disclosures be accurate. Agency personnel corrected this misstatement when the auditor brought it to their attention.

##### *Recommendation*

We recommend the Mississippi Department of Transportation – Office of State Aid Road Construction strengthen controls over the reporting of GAAP Package note disclosures. A detailed review should be performed to ensure the amounts recorded are fairly stated. We further recommend the review be documented for audit purposes.



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

March 18, 2015

**Single Audit Management Report**

H. Carey Webb, State Aid Engineer  
Mississippi Department of Transportation  
Office of State Aid Road Construction  
P. O. Box 1850  
Jackson, MS 39215

Dear Mr. Webb:

Enclosed for your review is the other audit finding for the Mississippi Department of Transportation – Office of State Aid Road Construction for Fiscal Year 2014. In this finding, the Auditor's Office recommends the agency strengthen controls over payments to contractors.

Please review the recommendation and submit a plan to implement this by April 3, 2015. 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. 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 – 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 "Patrick Dendy", is written over the typed name.

Patrick Dendy, CPA  
Director, Department of Audit

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 State's major federal programs administered by the Mississippi Department of Transportation – Office of State Aid Road Construction for the year ended June 30, 2014. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Jeanne Julious, Virginia Anderson, and Kari Horn.

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.

### **Report on Compliance for Each Major Federal Program**

We have audited the Mississippi Department of Transportation – Office of State Aid Road Construction's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the federal programs selected for audit that are administered by the Mississippi Department of Transportation – Office of State Aid Road Construction for the year ended June 30, 2014.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the State of Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mississippi Department of Transportation – Office of State Aid Road Construction's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. However, our audit does not provide a legal determination of the Mississippi Department of Transportation – Office of State Aid Road Construction's compliance.

### **Results of Compliance Audit Procedures**

The results of our auditing procedures disclosed no instances of noncompliance that are required to be reported by OMB Circular A-133.

### **Internal Control over Compliance**

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 the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Mississippi Department of Transportation – Office of State Aid Road Construction's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the



circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mississippi Department of Transportation – Office of State Aid Road Construction's internal control over compliance.

*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. *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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, we noted a deficiency in internal control over compliance that requires the attention of management that we have reported as item Oth-01 on the attached document "Other Audit Finding."

## OTHER AUDIT FINDING

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, 2014, 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.

**CFDA/Finding  
Number**

**Finding and Recommendation**

**ACTIVITIES ALLOWED/UNALLOWED  
ALLOWABLE COSTS/COST PRINCIPLES**

***Control Deficiency***

20.205

Highway Planning and Construction

Federal Award Number and Year: Each federal project is an award

Oth-01

Controls Should Be Strengthened over Payments to Contractors

***Finding:***

The Mississippi Department of Transportation - Office of State Aid Road Construction's procedures require a review of the monthly contractor's estimate for accuracy by both a contractor analyst and a district engineer. The review is to ensure pay items, quantities, and unit costs listed on the contractor's estimate conform to the contract and that total costs-to-date have not exceeded the contract terms. To indicate the review, agency personnel are required to initial the contractor's estimate. During our testwork on the agency's payments to contractors, we noted three instances out 68 items tested in which the monthly contractor's estimate did not include evidence of the review performed by the contractor analyst. The failure to perform required reviews could result in errors occurring and not being detected in a timely manner.

***Recommendation:***

We recommend the Mississippi Department of Transportation - Office of State Aid Road Construction strengthen controls over payments made to contractors to ensure that contractor's estimates receive all required reviews by agency personnel. Evidence of this review should be documented with the reviewer's initials and date.

**End of Report**