



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

Management Letter #10 Regarding:

A Financial Analysis of the Madison County Road Construction Contracts

March 14, 2011

Mr. Tim Johnson, President  
Madison County Board of Supervisors  
P.O. Box 608  
Canton, Mississippi 39046

RE: Financial Analysis of the of the Madison County Road Construction Contracts

Supervisor Johnson,

Since completing the Performance Audit of Madison County's management and oversight of certain road and engineering contracts between 2004 and 2010, the Office of the State Auditor (OSA) has undertaken a second phase of reviewing the financial and other records of the engineering firm, Warnock and Associates ("WA"). Ongoing review of documents and data culminated in a January 25, 2011, site visit to the engineering firm's main offices where additional bank records, bid data, proposals, engineering documents, designs, plans, certificates, etc. were reviewed.

In this review, OSA limited its work to the following objectives:

- Determine if State laws and regulations had been followed by Warnock and Associates, as well as to determine if billing practices and documentation were sufficient to validate the invoices to the county and the payments received from the county;
- Determine if the subcontractor payments were commensurate with the allowable contractual charges as compared to billings for the Madison County Board of Supervisors and construction cost standards;
- Determine if there were any inflated bids; and

- Determine if all documents in the custody of WA were aligned with the documentation provided by Madison County Board of Supervisors, and if all documents could be linked to show the expenditure of funds by the Board on the selected road construction projects.

The goal of this second part of the review was to determine if State laws and regulations had been followed by Warnock and Associates, as well as to determine if billing practices and documentation were sufficient to validate the invoices to the Madison County and the payments received from the County. OSA's previous report addressed the deficiencies of the Madison County Board of Supervisors management and contract structure. This portion of the review focused on the County Engineer's business and labor practices within the confines of the contracts with Madison County.

No further discussion is made in this report related to contractual weaknesses previously identified in the first report. However, OSA did attempt to determine if Warnock and Associates did, in fact, abide by the provisions in the contracts related to work completion and billing practices. For example, if reports were required, were they provided? If detailed billing and supporting documentation were required, was it provided to the County for review in a timely manner?

Because there were approximately one-hundred sixteen (116) road construction projects in the six-year interval reviewed in Part II of this project, OSA focused on the Reunion engineering planning, design, and construction projects for the engineer's financial review. Items reviewed in the assessment included the following:

1. Invoices from subcontractors to the engineer, from the engineer to the County, and from any subcontractor to the County;
2. Contracts and their respective amendments (used to monitor compliance);
3. Subcontracts between WA and entities it utilized to work on the contracts. These were reviewed to ascertain that what WA paid out was commensurate with allowable contractual charges, what they billed the Madison County Board of Supervisors, and construction cost standards;
4. Change orders and their supporting documentation (a change order occurs any time changes to original design plans or construction elements are determined to be needed by the project owner);
5. All other supporting documentation tied to invoices or payments, including:
  - a. Bank account records;
  - b. Cancelled checks;
  - c. General ledger (Madison County);
  - d. Project listing database;
  - e. Construction design plans;
  - f. Bid specifications and bid logs (comparisons of all bidding entities) to ensure that no inflated bids were accepted by WA;
  - f. Daily work diaries of the subcontractors and contractor;
  - g. Monthly progress reports noted in Board minutes; and

- h. Pay applications related to the project. These pay applications were reviewed to ascertain that the percentage of completion, the labor, and man hours utilized were reflective of the payments noted on the invoices.

The prevailing objective of the financial assessment was to ascertain that all documents in the custody of WA from the contract to the certificate of completion were aligned with the documents provided by Madison County Board of Supervisors, and that all documents could be linked to show the expenditure of funds by Madison County Board of Supervisors on the selected road construction projects.

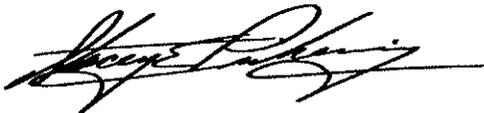
Some noteworthy findings from the financial assessment were:

1. OSA determined that Reunion Phase I was not completed by WA but by another engineering firm. However, Madison County issued similar contracts to Warnock and Associates in subsequent engineering projects. Therefore, Reunion Phase I was not subject to the on-site financial review.
2. OSA found that Warnock and Associates did design and construct Reunion Phase II. Hence, auditors focused on this particular project because it was undertaken and completed by WA. In assessing this project, OSA noted that
  - a. In many instances WA chose to use standard itemized purchase orders as opposed to individual, written contracts with its subcontractors. Other than these purchase orders that were reviewed, no written subcontracts were utilized or available to review for Reunion Phase II.
  - b. OSA found that WA did not necessarily submit written monthly reports, but rather made oral presentations on the status of the project at the monthly board meetings of the Madison County Board of Supervisors. OSA verified these presentations in the Board minutes and this format was acceptable under the terms of the contract.
  - c. OSA found that WA maintained bid summary documents and bid tab sheets of all submitted bids, whether successful or unsuccessful, and that it returned proposals to unsuccessful firms as appears to be a standard industry practice in engineering.
  - d. OSA found that pay applications were present, properly signed, dated and completed, and were used to ensure the various WA claims were placed on the claims docket of Madison County Board of Supervisors. They were provided to the Board as part of the supporting documentation.
  - e. OSA found that at least one reason for increased costs to Reunion Phase II was the result of various aesthetic improvements that were made to the right-of-ways adjacent to this project as determined by the Madison County Board of Supervisors and other officials. Other issues, such as delays which may have caused increases in prices of supplies could also have contributed to various project cost increases.
3. OSA found that Reunion Phase III has not been completed at this time, but design work had commenced. Documents available for this project were reviewed and found to be sufficient given our current scope limitations.

4. OSA found that Reunion Interchange had been designed but construction has not commenced and OSA further finds that:
  - a. WA was awarded the contract for this project only after the previous engineer was terminated;
  - b. the contract price quoted is reflective of the previous engineer's estimate;
  - c. of the entire project, only 32% of the cost was subcontracted, which is within the allowable range, and that was primarily for structural engineering work;
  - d. work on this contract was cancelled due to funding loss from the Mississippi Department of Transportation; and
  - e. such project cancellation and loss is now being litigated by the County in the court system.
5. OSA found that in several instances related to the Reunion projects, WA inadvertently under-billed the County and no evidence was found where the additional funds were ever paid to WA. It is unclear if the County was aware of billing mistakes or not.

On January 31, 2011, OSA/PAD personnel did physically observe a number of the completed road projects as well as the proposed location of others such projects in Madison County. This letter serves as the conclusion of the Auditor's performance review of Madison County's road construction projects with Rudy Warnock and his engineering firm. Should you have any questions feel free to contact me.

Serving Mississippi Together,



Stacey E. Pickering  
State Auditor

cc: Mr. John Bell Crosby, District 1 Supervisor  
Mr. D.I. Smith, District 3 Supervisor  
Mr. Karl Banks, District 4 Supervisor  
Mr. Paul Griffin, District 5 Supervisor  
Mr. Rudy Warnock, County Engineer  
Mr. Dorsey Carson  
Mr. Eric Hamer, Board of Supervisors Attorney  
Mr. Arthur Johnson, Board Clerk  
Mr. Brad Sellers, County Administrator  
Ms. Cynthia Parker, Board Secretary  
Ms. Quandice Green, Comptroller

SP/rsw