



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

March 13, 2007

Financial Audit Management Report

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

Dear Mr. Brown:

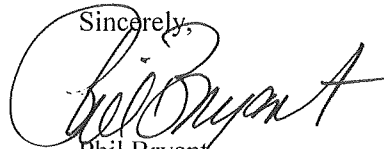
Enclosed for your review is the financial audit finding for the Mississippi Department of Transportation for the fiscal year 2006. In this finding, we recommend the Mississippi Department of Transportation properly prepare and review GAAP reporting packages.

Please review the recommendation and submit a plan to implement it by April 6, 2007. 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,

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, 2006. 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, Yulunda Wesley, and Kamelia Moore.

The fieldwork for audit procedures and tests was completed on December 19, 2006. 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 an opinion on the internal control over financial reporting.

However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the department's ability to initiate record, process, summarize and report financial data consistent with assertions of management in the financial statements. This matter is noted under the heading **REPORTABLE CONDITION**.

A material weakness is a 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe the reportable condition described in this letter is not a material weakness.

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*.

REPORTABLE CONDITION

GAAP Reporting Packages Should Be Properly Prepared and Reviewed

Finding:

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

- The agency did not prepare a reconciliation between the disbursed costs report used to calculate expenditures reported as additions to the Capital Assets Construction In Progress (CIP) account and capital outlay expenditures recorded on the financial statements. As a result, the agency did not detect a transposition error made when calculating the CIP additions. CIP additions were understated by \$8,099,999. An audit adjustment was required to present fairly the financial statements.
- A comparison of CIP deletions to capital asset additions revealed that the buildings and land additions had not been recorded on the GAAP reporting package. Audit adjustments totaling \$4,143,479 were required to correct the financial statements.
- One instance in which \$918,523 of CIP deletions were recorded twice on the GAAP reporting package. An audit adjustment was made to correct this error.
- The agency did not prepare a GAAP reporting package to record its long term obligations relating to the notes payable for the Highway Enhancement through Local Partnership (HELP) projects. Additionally, the agency did not record the entries to book the proceeds for the notes payables and the related expenses incurred.

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 and reviewed for accuracy. We further recommend that reconciliations should be prepared between the financial statements per GAAP and the agency's accounting records.

End of Report