



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

February 10, 2014

Financial Audit Management Report

Melinda McGrath, Executive Director
Mississippi Department of Transportation
P.O. Box 1850
Jackson, Mississippi 39215

Dear Ms. McGrath:

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 fiscal year ended June 30, 2013. 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, Jane Dussouy, CPA, Johnnie Davenport, Kevin Cribbs, Alan Jarrett, David Stewart and Heather Ward, CPA.

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 (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'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 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. However, material weaknesses may exist that have not been identified.

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 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*.

Purpose of this Report

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 Mississippi Department of Transportation'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'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. The Office of the State Auditor has also issued an Information Systems Management Report on the Mississippi Department of Transportation dated February 4, 2014. That report should be read in conjunction with this report.

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,



Patrick Dendy, CPA
Director, Department of Audit



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

March 11, 2014

Single Audit Management Report

Melinda McGrath, Executive Director
Mississippi Department of Transportation
401 North West Street
Jackson, Mississippi 39201

Dear Ms. McGrath:

Enclosed for your review is the other audit finding for the Mississippi Department of Transportation for Fiscal Year 2013. In this finding the Auditor's Office recommends the Mississippi Department of Transportation strengthen controls over Federal Funding Accountability and Transparency Act Reporting.

Please review the recommendation and submit a plan to implement by March 27, 2014. 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 the 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. The Office of the State Auditor has also issued an Information Systems Management Report on the Mississippi Department of Transportation dated February 14, 2014. That report should be read in conjunction with this report.

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 blue ink, appearing to read "PD", is written over the word "Sincerely,".

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 for the year ended June 30, 2013. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Johnnie Davenport, Kevin Cribbs, Alan Jarrett, Heather Ward, CPA, David Stewart and Kristi Webb.

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'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 for the year ended June 30, 2013.

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

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'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'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 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'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'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did note a deficiency in internal control over compliance that requires the attention of management that we have reported 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 for the year ended June 30, 2013, 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

REPORTING

Control Deficiency

20.205

Highway Planning and Construction

Federal Award Number and Year: 280250040LU1E1(2013) ;
280037100LY1030 (2013)

Oth-11

Controls Should Be Strengthened over Federal Funding Accountability and Transparency Act Reporting

Finding:

The *Code of Federal Regulations* (2 CFR part 170) sets forth the reporting requirements of subawards under the Federal Funding Accountability and Transparency Act (FFATA). Direct recipients of grants with an effective date on or after October 1, 2010, who make first-tier subawards equal to or exceeding \$25,000 on or after the effective date, are required to report each subaward obligating action equal to \$25,000 or more in federal funds. Direct recipients are required to use the Federal Funding Accountability and Transparency Subaward Reporting System (FSRS) to report qualifying subaward transactions by the end of the month following the month in which the subaward or obligation of \$25,000 or greater was made.

During testwork on FFATA reporting at the Mississippi Department of Transportation, we selected 21 projects to test. We noted two instances in which the amount of subaward was incorrectly reported per FSRS. In one instance, the amount reported for the subaward was overstated by \$450,000 and in the other instance, the amount reported for the subaward was understated by \$1,000,000. Good internal controls require that key data elements reported be reviewed to ensure accuracy. The failure to adequately review subaward information reported could result in errors occurring and not being promptly detected.

Recommendation:

We recommend the Mississippi Department of Transportation strengthen controls over Federal Funding Accountability and Transparency Act reporting by ensuring adequate review procedures be performed to accurately submit subaward information in compliance with federal regulations.

End of Report