



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

February 2, 2018

Financial Audit Management Report

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

Dear Ms. McGrath:

Enclosed for your review is the financial audit finding for the Mississippi Department of Transportation for the Fiscal Year 2017. In this finding, the Auditor's Office recommends the Mississippi Department of Transportation:

1. Strengthen Controls to Ensure GAAP Packet and Capital Assets are Reported Timely and Accurately

Please review the recommendation and submit a plan to implement it by March 2, 2018. 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'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.

I hope you find our recommendation enables the Mississippi Department of Transportation to carry out its mission more efficiently.

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

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree".

Stephanie C. Palmertree, CPA CGMA
Director, Financial Audit and Compliance Division
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 for the year ended June 30, 2017. 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 Donna Parmegiani, CPA, Michael Torres, CPA, Kevin Cribbs, Justin Reulet, Vincent Steiner, Derek Easley, Wilson Jenkins, CPA, and Derrick Garner, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, we identified certain deficiencies in internal controls that we consider to be a material weakness.

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. We consider the deficiency identified in this letter as item 2017-018 to be 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 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*.

MATERIAL WEAKNESS

<u>Finding Number</u>	<u>Finding and Recommendation</u>
2017-018	<u>Controls Should be Strengthened Over the Financial Close Process to Ensure GAAP Packet and Capital Assets are Reported Timely and Accurately.</u>
Repeat Finding	No
Criteria	<p>Section 27-104-4, Miss. Code Ann. (1972) requires each state agency to prepare annual financial statements at such times as determined by the State Fiscal Officer. The State Fiscal Officer is required to combine the financial statements into a comprehensive annual financial report (CAFR) and provide it to the State Auditor for postauditing. The law further requires the CAFR be published within six months after the June 30 close of the fiscal year. In addition, the Government Finance Officers Association (GFOA) requires CAFRs to be submitted within six months of the government's fiscal year end.</p> <p>Additionally, Generally Accepted Accounting Principles (GAAP) requires the notes to the financial statements to be free from material misstatement, whether due to fraud or error.</p>
Condition	<p>During our review of financial reporting at the Mississippi Department of Transportation (MDOT), we noted agency personnel did not prepare their GAAP packet for Capital Assets in a timely manner. The deadline for turning in GAAP packets established by the Department of Finance and Administration – Office of Financial Reporting (DFA-OFR) was September 06, 2017. MDOT was granted an extension to submit the completed packet by DFA-OFR until September 22, 2017. However, the GAAP packet for Capital Assets was not submitted until September 26, 2017.</p> <p>Additionally, during our review of the Capital Asset GAAP Packet we identified the following error in the notes to the financial statements that required correction:</p> <ul style="list-style-type: none">• The Note 8 Infrastructure Construction in Progress Project Authorization amount was overstated by \$453,272,685. The overstatement is due to the Fiscal Year 2017 Closed Projects not being properly removed.
Cause	<p>MDOT did not submit their Capital Assets GAAP Packet in a timely manner. Additionally, MDOT did not adequately review their Capital Assets GAAP Packet.</p>
Effect	<p>The failure of agency personnel to prepare their GAAP packets in a timely manner contributed to the CAFR not being published in accordance with state law and hindered the efficiency of the audit of the State of Mississippi's financial statements. In addition, these delays could result in the state not being awarded a Certificate of Achievement for Excellence in Financial Reporting by GFOA. Receiving GFOA's certificate increases the likelihood the credit agencies or other stakeholders may consider the state's financial statements in a positive manner. The timeliness of the CAFR being published impacts its relevance to the various users of the CAFR.</p>

In addition, the Single Audit Act requires the State to issue the Single Audit Report within nine months of fiscal year end, and no extensions are granted. The independent auditor's report on internal control over financial reporting and the schedule of expenditures of federal awards (SEFA) are both required to be included in the Single Audit Report and both an integral part of the financial audit of the State. The failure to timely complete the CAFR could also hinder the timely submission of the Single Audit Report which could result in federal discretionary drawdowns being suspended.

Failure to accurately disclose current year CIP Project Authorization amounts could result in a material misstatement in Mississippi's Comprehensive Annual Financial Report (CAFR).

Recommendation We recommend the Mississippi Department of Transportation strengthen internal controls to ensure their capital assets are reported timely, accurately, and in accordance with federal and state law.

End of Report



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

April 3, 2018

Single Audit Management Report

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

Dear Ms. McGrath:

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 program administered by the Mississippi Department of Transportation for the year ended June 30, 2017. The Office of the State Auditor's staff members participating in this engagement included Michael Torres, CPA; Derrick Garner, CPA; Kevin Cribbs; Justin Reulet, Lee Alford, Wilson Jenkins, CPA and John Newell, CPA.

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* and the *OMB Uniform Guidance* that could have a direct and material effect on the federal program selected for audit that is administered by the Mississippi Department of Transportation for the year ended June 30, 2017.

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; *Uniform Guidance*; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* and *Uniform Guidance* 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 and Uniform Guidance.

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 a 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 and Uniform Guidance, 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.

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 and Uniform Guidance. 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.

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

Sincerely,

A handwritten signature in black ink that reads "Stephanie C. Palmertree". The signature is written in a cursive, flowing style.

Stephanie C. Palmertree, CPA, CGMA
Director, Financial and Compliance Audit Division