



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
STATE AUDITOR

April 4, 2019

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 are the financial audit findings for the Mississippi Department of Transportation for the Fiscal Year 2018. In these findings, the Auditor's Office recommends the Mississippi Department of Transportation:

1. Strengthen controls over the segregation of duties and the data entry and approval process of employee time records and contract worker information in the Statewide Payroll and Human Resource System (SPAHRs); and
2. Strengthen controls over Mississippi's Accountability System for Government Information and Collaboration (MAGIC) segregation of duties, business role assignments, and quarterly security certification process.

Please review the recommendation and submit a plan to implement it by April 18, 2019. 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.

Mississippi Department of Transportation

April 4, 2019

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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,



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, 2018. 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, John Newell, CPA, John Brandon, Kevin Cribbs, Lee Pittman, CPA, and Vincent Steiner.

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 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 certain deficiencies in internal control, identified in this letter as items 2018-013 and 2018-017 that we consider to be significant deficiencies.

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*.

SIGNIFICANT DEFICIENCIES

<u>Finding Number</u>	<u>Finding and Recommendation</u>
2018-013	<u>Mississippi Department of Transportation Should Strengthen Controls Over the Segregation of Duties and the Data Entry and Approval Process of Employee Time Records and Contract Worker Information in the Statewide Payroll and Human Resource System (SPAHRs).</u>
Repeat Finding	No
Criteria	<p><i>The Internal Control – Integrated Framework</i> published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the <i>U.S. Government Accountability Office Standards for Internal Control in the Federal Government</i> (Greenbook) specify that a satisfactory control environment is only effective when control activities, such as proper segregation of duties and information processing controls, exist and are effective.</p> <p>Segregation of duties is the sharing of responsibilities within a key process and dispersing the critical functions of that process to more than one person or department. When proper segregation of duties is not practical, compensating controls, such as increased review and reconciliation, should be implemented to ensure proper internal control activities have been met. Good internal controls require effective segregation of duties within SPAHRs to ensure critical business functions are performed by separate individuals to prevent incompatible duties which may allow users to perpetuate and conceal errors or fraud in the normal course of duty.</p> <p>Good internal controls also require effective information processing controls for data entered and processed in SPAHRs to check the accuracy, completeness and authorization of transactions.</p> <p><i>The State of Mississippi's Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual</i> Section 30 – Internal Control states that each state agency implement a system of internal control in accordance with the principles of COSO, including having a proper control environment.</p>

Condition	<p>During testwork performed for fiscal year 2018, including an assessment of the internal controls of the Statewide Payroll and Human Resource System (SPAHRs), we noted the following:</p> <ul style="list-style-type: none">• Four users that had access to both the human resource/recording function (PHUSR02C) and the payroll/authorization function (PHUSR03);• Six out of twenty-five contracts and completed new hire forms for contract workers did not have accurate pay rate information recorded within SPAHRs; and• Insufficient records to substantiate that employees time cards are being approved by management.
Cause	<p>There are inadequate controls surrounding SPAHRs' segregation of duties, as well as the data entry and approval process of employee time card and contract worker information.</p>
Effect	<p>Failure to properly segregate duties and limit user access among agency personnel greatly increases the risk of fraud, misappropriation of assets, inappropriate changes to data or files and unauthorized activity which can result in misstatement of financial position. Inaccurate pay rate information for contract worker and unapproved employee time entered into the SPAHRs greatly increases the risk of misappropriation of assets and can result in misstatement of financial position.</p>
Recommendation	<p>We recommend the Mississippi Department of Transportation implement the following:</p> <ul style="list-style-type: none">• Processes to review individuals who have been granted access to SPAHRs to ensure that access to the payroll function and the human resource function have been appropriately authorized and to implement compensating controls when proper segregation of duties is not practical;• Processes to review the contract worker input data within SPAHRs after initial approval and when set-up is complete; and• Processes to ensure employee time cards are maintained and that all time data input into SPAHRs is approved before and after being entered in the system.

<u>Finding Number</u>	<u>Finding and Recommendation</u>
2018-017	<u>Controls Should Be Strengthened over Mississippi's Accountability System for Government Information and Collaboration (MAGIC) Segregation of Duties, Business Role Assignments, and Quarterly Security Certification Process.</u>
Repeating Finding	No.
Criteria	<p><i>The Internal Control – Integrated Framework</i>, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and the <i>U.S. Government Accountability Office Standards for Internal Control in the Federal Government</i> (Greenbook) specify that a satisfactory control environment is only effective when control activities, such as proper segregation of duties, exist and</p>

are effective. Proper segregation of duties is essential to minimizing the risk of fictitious transactions and misstated financial position.

Segregation of duties is the sharing of responsibilities of responsibilities within a key process and dispersing the critical functions of that process to more than one person or department. When proper segregation of duties is not practical, compensating controls, such as increased review and reconciliation, should be implemented to ensure proper internal control activities have been met. Good internal controls require effective segregation of duties within MAGIC to ensure critical business functions are performed by separate individuals to prevent incompatible duties which may allow users to perpetuate and conceal errors or fraud in the normal course of duty.

Additionally, *The Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual* section 30.60.00 dictates that MAGIC security roles should be assigned to an employee based on his/her job duties, and that security roles should be reviewed on a quarterly basis to ensure that duties are segregated.

Condition

The Mississippi Department of Transportation submitted certification to DFA quarterly during state fiscal year 2018 stating that it was in compliance with policies regarding MAGIC security. Upon review of the security roles assigned and the exceptions noted below, the agency did not have proper segregation of duties, did not have business roles assigned in accordance with DFA's MAGIC roles and descriptions, and improperly certified their agency had proper segregation of duties.

During our review of MAGIC security roles, we noted the following exceptions:

- Three instances in which Mississippi Department of Transportation employees had access to roles specific to outside agencies; and
- Fifteen instances in which there were role violations related to improper segregation of duties.

Cause

The Agency did not properly review and monitor their MAGIC security roles assigned to employees.

Effect

Failure to properly segregate duties and limit user access among agency personnel greatly increases the risk of fraud, misappropriation of assets, inappropriate changes to data or files, and unauthorized activity which can result in misstatement of financial position.

Recommendation

We recommend the Mississippi Department of Transportation strengthen controls over MAGIC security and ensure that roles are properly assigned, duties are segregated, and roles are reviewed in accordance with the MAAPP manual. When proper segregation of duties is not practical, we recommend the Mississippi Department of Transportation implement compensating controls.

End of Report

Melinda L. McGrath
Executive Director

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James A. Williams, III
Deputy Executive Director/Chief Engineer
Lisa M. Hancock
Deputy Executive Director/Administration
Willie Huff
Director, Office of Enforcement
Charles R. Carr
Director, Office of Intermodal Planning

FINANCIAL AUDIT FINDING

April 18, 2019

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P.O. Box 956
Jackson, MS 39205-0956

Dear Mr. White:

We received the Financial Audit Management Report and the following details our response to the Audit Finding for FY 2018:

<u>Finding Number</u>	<u>Finding and Recommendation</u>
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SIGNIFICANT DEFICIENCIES

2018-013	<u>Mississippi Department of Transportation Should Strengthen Controls Over the Segregation of Duties and the Data Entry and Approval Process of Employee Time Records and Contract Worker Information in the Statewide Payroll and Human Resource System (SPAHRs).</u>
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Response:

MDOT concurs with this finding except for the approval process of employee time records. Each Division/District of MDOT certifies and maintains time reports for their employees. Time data input into SPAHRs is approved before and after being entered in the system. The Payroll Section also monitors time reports for accuracy and resolves any discrepancy found prior to certifying payroll in SPAHRs. During the audit, when the request for 20 employees time records was given to MDOT's staff, those time records had to be gathered from the Divisions/Districts. As the time records were obtained, MDOT submitted them to the CPA firm via email on three occasions. During the last

submission of time records MDOT was notified the audit had been closed so it appears these time records were not tested.

Corrective Action Plan:

- A. The Mississippi Department of Transportation will strengthen control to ensure the salary information of the contract workers entered into the SPAHRS agrees to the workers' contract. MDOT will stop the practice of rounding the contract total to the nearest dollar in SPAHRS. MDOT has added a step to its process for a second reviewer to verify the contract worker information entered into the SPAHRS agrees to the contract. When proper segregation of duties is not practical, MDOT will establish compensating controls.
- B. The Financial Management Director, Alison Brown and her staff are responsible for this corrective action plan.
- C. This corrective action plan was implemented on April 8, 2019.

2018-017

Controls Should Be Strengthened over Mississippi's Accountability System for Government Information and Collaboration (MAGIC) Segregation of Duties, Business Role Assignments, and Quarterly Security Certification Process.

Response:

We concur.

Corrective Action Plan:

- A. The Mississippi Department of Transportation will strengthen controls over MAGIC security and ensure that roles are properly assigned, duties are segregated, and the MAGIC roles that are specific to outside agencies are not requested. While MDOT had many controls in place, a process has been established where the quarterly MAGIC security report will not be submitted to DFA without approval from the Financial Management Director to ensure there is no improper segregation of duties. When proper segregation of duties is not practical, MDOT has controls in place to ensure fraudulent activity is recognized. MDOT has daily and monthly reconciliations that are performed by someone other than the person processing warrants.

B. The Financial Management Director, Alison Brown and Information Systems Deputy Director, Wesley Simon are responsible for this corrective action plan.

C. This corrective action plan was implemented on October 17, 2018.

Sincerely,



Melinda L. McGrath, PE
Executive Director

MLM:trb

cc: Lisa Hancock, Deputy Executive Director/Administration
Alison Brown, Financial Management Director



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
STATE AUDITOR

May 29, 2019

Single 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 single audit findings for the Mississippi Department of Transportation for Fiscal Year 2018. In these findings, the Auditor's Office recommends the Mississippi Department of Transportation:

1. Strengthen controls to ensure compliance with subrecipient monitoring requirements; and
2. Strengthen controls over the Quality Assurance program.

Please review the recommendations and submit a plan to implement them by June 4, 2019. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

The purpose of this report is solely to describe the scope of our testing of compliance on each major federal program and of internal control over compliance and the results of that testing based on the requirements of 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.

I hope you find our recommendations enable 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. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink, reading "Stephanie C. Palmertree", is located below the "Sincerely," text.

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

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, 2018. The Office of the State Auditor's staff members participating in this engagement included Michael Torres, CPA, John Newell, CPA, Lee Pittman, CPA, Vincent Steiner and John Brandon.

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, *Mississippi Code Annotated (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 Uniform Guidance 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, 2018.

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 Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles and Audit Requirements* (Uniform Guidance). Those standards 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 instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Uniform Guidance and which are identified in this letter as item 2018-010.

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 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.

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 material weaknesses.

A deficiency in internal control over compliance 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 noncompliance 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 noncompliance with a type of compliance requirement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies identified in this letter as items 2018-010 and 2018-057 to be material weaknesses.

Findings and Recommendations

SUBRECIPIENT MONITORING

Material Weakness

Material Noncompliance

2018-010 Controls Should Be Strengthened to Ensure Compliance with Subrecipient Monitoring Requirements.

CFDA Number 20.205 – Highway Planning and Construction

Federal Award No. All Current Active Grants

Federal Agency U.S. Department of Transportation

Pass-through Entity N/A

Questioned Costs N/A

Criteria *Code of Federal Regulations* (2 CFR §200.331(f)) states all pass-through entities (PTE's) must verify that every subrecipient is audited as required by Subpart F - Audit Requirements of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit requirements.

Code of Federal Regulations (2 CFR § 200.512(a)(1)) states the audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on

a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.

Code of Federal Regulations (2 CFR § 200.512(a)(2)(b)) states the Federal Audit Clearinghouse (FAC) is the repository of record for Subpart F – Audit Requirements of this part reporting packages and the data collection form. All Federal agencies, pass-through entities and others interested in a reporting package and data collection form must obtain it by accessing the FAC.

As required by the Mississippi Department of Transportation's (MDOT) Project Development Manual (PDM) for Local Public Agencies (LPA) Section 1.2, "... the MDOT must ensure that the LPA meets the audit requirements of Subpart F of the uniform guidance... The uniform guidance requires that if the LPA expends \$750,000 or more in federal funds during its fiscal year, the LPA must have a single audit performed in accordance with the uniform guidance.. If the LPA meets this requirement, a request for the submission of the audit report will be made by the MDOT. The due date of submission for the audit report to the MDOT is within the earlier of 30 days after receipt of the CPA's audit report or nine months after the end of the audit period (the LPA's fiscal year)."

Condition

MDOT is not verifying that every subrecipient that expends \$750,000 or more during the respective fiscal year in Federal awards is having a single or program specific audit in accordance with 2 CFR §200.331(f).

MDOT only monitors subrecipients that they have paid \$750,000 or more of CFDA 20.205 Federal awards during the respective fiscal year for compliance with 2 CFR § 200.501 Audit Requirements. By selecting a sample of subrecipients that did not receive over \$750,000 or more of CFDA 20.205 Federal awards from MDOT, we identified nine subrecipients as having expended over \$750,000 of Federal awards during our testing period that were not monitored for compliance with 2 CFR § 200.501, Audit Requirements, by MDOT. It is likely that there are more subrecipients having expended over \$750,000 of Federal awards that were not monitored for compliance with 2 CFR § 200.501, Audit Requirements.

We believe that the nine instances identified was sufficient to conclude that material noncompliance existed; therefore, we did not continue to perform procedures on the remaining subrecipients.

In addition, MDOT is not adequately monitoring their subrecipients for compliance with 2 CFR § 200.512(a) or their own internal Project Development Manual.

Of the 22 subrecipients monitored, we identified the following:

- Seven instances in which the subrecipient did not timely submit their reporting package to the FAC and/or MDOT within 30 calendar days after receipt of the auditor's report without consideration and/or communication of taking enforcement action; and
- Ten instances in which MDOT accepted a subrecipient report as received prior to the acceptance by the FAC; and

- Three instances in which MDOT not only accepted a subrecipient report as received prior to the acceptance by the FAC, but also completed their review and removed the subrecipient from audit suspension prior to the subrecipient report being accepted by the FAC.

The MDOT is not adequately using the FAC to monitor and obtain report submission information on their subrecipients. 2 CFR § 200.512(a)(2)(b) states that the FAC is the repository of record for Subpart F – Audit Requirements of this part reporting packages and the data collection form. All Federal agencies, pass-through entities and others interested in a reporting package and data collection form must obtain it by accessing the FAC.

Cause	MDOT has a difference in interpretation of the federal guidelines and a lack of adequate internal controls over subrecipient report submission.
Effect	Subrecipients could be in noncompliance with 2 CFR § 200.501, Audit requirements, and go undetected by MDOT. In addition, MDOT could lose federal funding for not properly monitoring their Subrecipients. Without proper monitoring of their federal reports, subrecipients may participate in unallowable activities that goes undetected by MDOT, the grantor.
Recommendation	We recommend that the Mississippi Department of Transportation strengthen controls to ensure compliance with the Subrecipient Monitoring requirements.
Repeat Finding	No.
Statistically Valid	No.

SECIAL TEST & PROVISIONS – QUALITY ASSURANCE PROGRAM

Material Weakness

2018-057 Controls Should be Strengthened over the Quality Assurance Program.

CFDA Number 20.205 – Highway Planning and Construction

Federal Award No. All Current Active Grants

Federal Agency United States Department of Transportation

Pass-through Entity N/A

Questioned Costs N/A

Criteria The *Code of Federal Regulations* (23 CFR § 637.205(a) Quality assurance program) requires each State Transportation Department (STD) shall develop a quality assurance program which will assure that the materials and workmanship incorporated into each Federal-aid highway construction project on the National

Highway System (NHS) are in conformity with the requirements of the approved plans and specifications, including approved changes. The program must meet the criteria in § 637.207 and be approved by the Federal Highway Administration (FHWA).

Condition

The Mississippi Department of Transportation (MDOT) is required to have an approved Quality Assurance (QA) program. MDOT has five Standard Operating Procedures (SOP) of which combined makes up their QA program.

During our testing, we identified that one of the five SOP's, TMD-06-01-00-000, had an effective date of October 10, 2011, which is after the most recent Federal Highway Administration (FHWA) approval letter dated September 9, 2009. MDOT made changes to SOP TMD-06-01-00-000 to widen certain tolerances for test data comparisons and failed to obtain approval from the FHWA before implementing the changes to their QA program.

Cause

MDOT personnel failed to have SOP TMD-06-01-00-000 changes approved by FHWA prior to implementation due to management oversight.

Effect

The QA program and any changes must be approved by FHWA prior to implementation to ensure that materials and workmanship incorporated into each Federal-aid highway construction project on the NHS are in conformity with the requirements of the FHWA. By revising the SOP, and implementing the changes without proper authorization, the revised sampling and testing methodology may not conform to the FHWA requirements.

Recommendation

We recommend the Mississippi Department of Transportation strengthen controls over their Quality Assurance program approval process.

Repeat Finding

No.

Statistically Valid

The sample is considered statistically valid.

End of Report

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Executive Director

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SINGLE AUDIT FINDINGS

June 5, 2019

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P.O. Box 956
Jackson, MS 39205-0956

Dear Mr. White:

We have received the Single Audit Management Report and the following details our response to the Audit Findings for fiscal year 2018:

AUDIT FINDINGS:

CFDA

Number **20.205 – Highway Planning and Construction**

Compliance

Requirement **Subrecipient Monitoring**

2018-010 **Controls Should Be Strengthened to Ensure Compliance with Subrecipient Monitoring Requirements**

Response: We concur that we were not collecting an audit report for every subrecipient meeting the threshold requirement when expending federal dollars; we were collecting audit reports for all subrecipients meeting the threshold requirement when expending US DOT dollars designated as pass-through funds of the Mississippi Department of Transportation (MDOT). MDOT acknowledges the monitoring requirements as set forth in the new OMB circular “*Uniform Administrative Requirements, Cost Principles and Audit Requirements*” codified under 2 C.F.R. Part 200. As required, MDOT, as the pass-through entity of the state’s FHWA funds, has implemented numerous monitoring internal controls during the years to reduce the risk of waste, fraud and abuse through better performance and accountability from every subrecipient. The established monitoring internal controls are outlined as to the context of the federal award lifecycle; pre-award, post-award including audit and close-out.

MDOT acknowledges it is the subrecipients' responsibility to submit the single audit report directly to the FAC within the submission provisions of Subpart F of the uniform grant guidance. MDOT will modify its communication process related to the subrecipients' single audit reports to ensure compliance. In lieu of the annual distribution of notification letters to the subrecipients, MDOT will require its subrecipients to complete and submit a certification letter to MDOT.

Corrective Action Plan:

- A. MDOT will develop a standardized Single Audit Certification Letter template for use by its subrecipients along with revising the subaward agreement and the processes and procedures in the Project Development Manual which are applicable to Subpart F of the uniform grant guidance. The certification letter will also provide information whether or not a single audit is expected to be performed based on the subrecipient's incurred federal expenditures. If a single audit report is expected, the certification letter will state that the report will be forwarded to the FAC within 30 days of receipt of the report. The modification to our communication process will fall more in line with the reporting requirements under Subpart F of the uniform grant guidance.

To address the second part of the condition element; the submission of the audit report to the FAC within the earlier of 30 calendar days after receipt of the auditor's report, MDOT will incorporate this submission provision within the Single Audit Certification Letter.

The Single Audit Certification Letter will be MDOT's means to obtain assurance its subrecipients comply with the reporting provisions of Subpart F of the uniform grant guidance.

- B. Diane Gavin, CPA – Director of Internal Audit and Lee Frederick, PE – State LPA Engineer
- C. Anticipated date to complete: Before the year ending June 30, 2020. However, effective immediately, MDOT will verify that a Single Audit reporting package submitted with a subrecipient's application packet has been accepted by the FAC as part of the pre-award risk assessment.

CFDA

Number 20.205 – Highway Planning and Construction

Compliance

Requirement Special Test & Provisions – Quality Assurance Program

2018-057 Controls Should Be Strengthened over the Quality Assurance Program

Response: MDOT concurs with this finding.

Corrective Action Plan:

- A. The Mississippi Division of FHWA was notified of the oversight on February 21, 2019. MDOT is in the process of preparing an official request to have the SOP revision approved by FHWA. MDOT will educate and/or train employees on the SOP Approval process.
- B. James Williams, PE - Deputy Executive Director/Chief Engineer and Lisa Hancock, CPA - Deputy Executive Director/Administration
- C. Immediately

Sincerely,



Melinda L. McGrath, PE
Executive Director

MLM: trb

cc: Lisa Hancock, CPA - Deputy Executive Director/Administration
James Williams, PE - Deputy Executive Director/Chief Engineer