



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

December 10, 2019

Financial Audit Management Report

Melinda McGrath, Executive Director
Mississippi Department of Transportation
P.O. Box 1850
Jackson, MS 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 year ended June 30, 2019. 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 Michael Torres, CPA; John T. Newell, CPA; Vincent Steiner; John Brandon, CPA; Lee Pittman, CPA; Nicole Collins; and Na Venator, 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 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. 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*.

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 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



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

March 19, 2020

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 2019. In these findings, the Auditor's Office recommends the Mississippi Department of Transportation:

1. Strengthen controls to ensure compliance with Subrecipient Monitoring requirements;
2. Strengthen controls to ensure compliance with the Wage Rate requirements; and
3. Strengthen controls over Special Test requirements related to the Quality Assurance Program.

Please review the recommendations and submit a plan to implement them by March 26, 2020. 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 that reads "Stephanie C. Palmertree". The signature is fluid and cursive.

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

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, 2019. 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 Nicole Collins.

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, 2019.

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 items 2019-020 and 2019-021.

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 and significant deficiencies.

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 2019-020 and 2019-021 to be material weaknesses. 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. We consider item 2019-022 to be a significant deficiency.

Findings and Recommendations

SUBRECIPIENT MONITORING

Material Weakness

Material Noncompliance

2019-020	<u>Controls Should Be Strengthened to Ensure Compliance with Subrecipient Monitoring Requirements.</u>
CFDA Number	20.205 – Highway Planning and Construction
Federal Award No.	All Current Active Grants
Federal Agency	United State Department of Transportation
Pass-through Entity	N/A
Questioned Costs	N/A
Criteria	<i>Code of Federal Regulations (2 CFR §200.331(f))</i> states all pass-through entities (PTE's) must verify that every subrecipient is audited as required by Subpart F - Audit Requirements when it is expected that the subrecipient's Federal awards expended during the fiscal year equaled or exceeded the threshold—a non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single audit conducted—set forth in § 200.501 <i>Audit requirements</i> .

Code of Federal Regulations (2 CFR § 200.512(a)(1)) states the audit must be completed and the data collection form and reporting package 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 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 in federal awards during the respective fiscal year is having a single audit or program specific audit performed. MDOT only monitors subrecipients in which they have paid \$750,000 or more of CFDA 20.205 federal awards during the respective fiscal year.

MDOT is not adequately using the FAC to monitor and obtain report submission information on their subrecipient's.

Cause

MDOT has a difference in interpretation of the federal guidelines. In addition, MDOT's Corrective Action Plan for prior year finding regarding Subrecipient Monitoring did not go into effect until July 1, 2019, which is subsequent to 2019 fiscal year. Due to the timing of MDOT's Corrective Action Plan, the prior year finding is noted as a repeat finding for 2019 fiscal year.

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

Yes, 2018-010.

Statistically Valid

The sample is not considered statistically valid.

SECIAL TEST & PROVISIONS – WAGE RATE

Material Weakness

Material Noncompliance

2019-021 Controls Should Be Strengthened to Ensure Compliance with Wage Rate Requirements.

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 *Code of Federal Regulations (29 CFR § 3.3(b) Labor)* requires each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by part 3 and part 5 of this title during the preceding weekly payroll period. This statement shall be executed by the contractor or subcontractor or by an authorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on the back of Form WH 347, "Payroll (For Contractors Optional Use)" or on any form with identical wording.

Code of Federal Regulations (29 CFR § 3.4(a) Labor) requires each weekly statement required under §3.3 shall be delivered by the contractor or subcontractor, within seven days after the regular payment date of the payroll period, to a representative of a Federal or State agency in charge at the site of the building or work, or, if there is no representative of a Federal or State agency at the site of the building or work, the statement shall be mailed by the contractor or subcontractor, within such time, to a Federal or State agency contracting for or financing the building or work.

Mississippi Department of Transportation's (MDOT) Contract Administration Rule 7401.01 states once work has begun on a contract, the contractor and/or subcontractor will be required to submit two copies of his/her weekly payroll forms, forms CAD-880 and CAD-881, on all Federal-Aid projects ... The Project Engineer has one week to check the payrolls and forward such to the Compliance Officer. The warrant will not be issued to the Contractor for payment of the monthly estimate if the required payroll reports have not been received.

Condition MDOT is not requiring contractors or subcontractors to submit within seven days after the regular payment date of the payroll period a statement with respect to the wages paid to each of its employees engaged in federal projects.

In addition, MDOT's Project Engineers are not providing MDOT's Compliance Officer reviewed payroll statements in a timely manner to determine if monthly Contractor's Estimates have required payroll statements submitted.

During review of eighty payroll submissions, we identified the following:

- Sixty-six instances in which payrolls were submitted to MDOT's Project Office after the seven-day submission requirement. The average delinquency for these instances noted was twenty-six days with nineteen instances being submitted after thirty days of noted payroll week ending date. The latest submission was noted to be 228 days after contractor's payroll week ending date.
- Nine instances in which the Project Engineer did not forward reviewed submitted payroll statements to the Compliance Officer within seven days. The average delinquency for these instances noted was twenty-nine days after the Project Engineer's review.
- MDOT did not delay the issuance of warrants issued to contractors or subcontractors that were noted to not be in compliance of the seven-day submission requirement.

Cause MDOT's current standard practice of requiring payroll submissions to be current by the first week of monthly estimates allows contractor submissions to be later than the seven-day submission requirement.

Effect Failure to review contractor or subcontractor submitted payroll forms timely may result in improper payment of wage rates, work performed, and/or abuse of federal funds.

Recommendation We recommend MDOT strengthen controls to ensure compliance with federal wage rate requirements.

Repeat Finding No.

Statistically Valid The sample is not considered statistically valid.

SECIAL TEST & PROVISIONS – QUALITY ASSURANCE PROGRAM

Significant Deficiency

2019-022 Controls Should Be Strengthened Over Special Test Requirements Related to 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 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 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.

Section 4.5, Reviewing and Authorizing Test Results, of the Mississippi Department of Transportation's (MDOT) SiteManager Manual states that the appropriate reviewer will review testing completed and select appropriate response in the status field and then select the "Authorize" option to lock the sample record. Authorization will lock the sample record, preventing any further modifications to the details outlined in the window.

The District Materials Engineer's Responsibilities' section of MDOT Construction Manual states the District Materials Engineer should also use the "Find Sample" report function in SiteManager to check for any outstanding unauthorized sample records on a project. All project samples should be authorized at project closing."

MDOT's sampling personnel are to follow the schedule set for sample size, frequency of sampling and the designation of responsibility for sampling and testing set by MDOT's S.O.P. No.: TMD-20-04-00-000.

Condition MDOT is not properly authorizing Quality Assurance (QA) samples in the SiteManager system utilized for the QA program. Proper authorization of the sample records is required to prevent any further modifications to the details of the sample record. MDOT is not adequately performing the "Find Sample" report function in SiteManager to identify outstanding unauthorized sample records prior to project closing.

In addition, sampling personnel at MDOT were able to unduly alter the sampling rates for materials of QA sampled projects.

During review of fifty QA sample records, we identified the following:

- Four instances in which sample records were not properly authorized in SiteManager, resulting in an 8.0% error rate;
- One instance in which sampling rates for selected QA sample record was changed without proper authorization and not within satisfactory sampling rates. Altered sampling rate was noted to provide only half of required samples.

Cause MDOT staff failed to follow the policies and procedures related to the authorization of sampling records in SiteManager. Additionally, controls were

not operating sufficiently to prevent sampling personnel from unduly altering the number of required samples.

Effect

If the sample is not authorized, the sample record details and results could be altered in SiteManager to the detriment of testing requirements. With regard to the alteration of the sample testing requirements, a sufficient number of samples may not be obtained and tested resulting in improper materials being used on federal projects.

Recommendation

We recommend MDOT strengthen controls over their Quality Assurance program approval process. Further, we recommend MDOT strengthen controls to prevent, deter, and detect any unauthorized alteration of sample requirements.

Repeat Finding

No.

Statistically Valid

The sample is not considered statistically valid.

End of Report

Melinda L. McGrath
Executive Director

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Willie Huff
Director, Office of Enforcement
Charles R. Carr
Director, Office of Intermodal Planning

SINGLE AUDIT FINDINGS

March 26, 2020

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 2019:

AUDIT FINDINGS:

CFDA

Number **20.205 – Highway Planning and Construction**

Compliance

Requirement **Subrecipient Monitoring**

2019-020 **Controls Should Be Strengthened to Ensure Compliance with Subrecipient Monitoring Requirements**

Response: We concur that we were collecting audit reports only from those subrecipients meeting the threshold requirement of \$750,000 when expending US DOT dollars under CFDA number 20.205 designated as pass-through funds of the Mississippi Department of Transportation (MDOT). MDOT acknowledges it is the subrecipients' responsibility to submit the single audit report package directly to the federal audit clearinghouse (FAC) within the submission provisions of Subpart F of the uniform grant guidance and has implemented appropriate measures to monitor compliance of all subrecipients' meeting the threshold requirement of \$750,000 when expending any federal dollars.

It is important to note that in addition to the collection of audit reports, MDOT performs numerous monitoring internal controls throughout a subrecipients' federal award lifecycle to reduce the risk of waste, fraud and abuse. These controls include pre-award and post-award (including audit and close-out) and are outlined in the Project Development Manual (PDM) for Local Public Agencies (LPA), which has been approved by the Mississippi Division of the Federal Highway Administration. These controls are applied to all LPA subrecipients,

regardless if a single audit report is required. We believe these controls adequately and effectively monitor the administration of federal funds.

Corrective Action Plan:

- A. In July 2019, the Director of Internal Audit implemented procedures, detailed below, to address the finding. The instances of non-verification occurred prior to July 2019. Therefore, no additional corrective action is needed.

MDOT developed Single Audit Certification letters to monitor the LPA audit reports for the year ended September 30, 2018. These hardcopy letters were mailed manually to the LPA who have completed and returned to MDOT.

To monitor LPA audit reports for the year ended September 30, 2019 and forward, MDOT has developed an electronic Single Audit Certification letter. The electronic version will address both aspects of the finding by requiring an acknowledgment from the LPA on whether or not a single audit is required based on their incurred federal expenditures. If a single audit is required, the certification letter will indicate that support showing the audit has been accepted by the federal audit clearinghouse (FAC) within the earlier of 30 days after receipt of the CPA's audit report or nine months after the end of the audit period (LPA's fiscal year) should be attached. The subaward agreement documents and the Project Development Manual will be revised accordingly.

MDOT has worked closely with the Federal Highway Administration (FHWA) division office to develop this certification letter.

- B. Emily Harrington, CPA – Deputy Director of Internal Audit and Lee Frederick, PE – State LPA Engineer
- C. For LPA audit reports for the year ended September 30, 2018, the corrective action plan has been implemented and the monitoring process has been completed.

For LPA audit reports for the year ended September 30, 2019 and forward, we expect the electronic certification letter to be implemented no later than June 30, 2020, pending FHWA approval. The revisions to the subaward documents and the LPA Project Development Manual will be completed by June 30, 2020.

MDOT has also implemented a new procedure as part of our LPA pre-award risk assessment which verifies that a single audit reporting package submitted with an LPA's application packet has been accepted by the FAC, if applicable.

CFDA

Number 20.205 – Highway Planning and Construction

Compliance

Requirement Special Test & Provisions – Wage Rate

2019-021 Controls Should Be Strengthened to Ensure Compliance with Wage Rate Requirements

Response: MDOT concurs with this finding.

Corrective Action Plan:

- A. Contract Administration will strengthen its controls to ensure that Section 110 of the Mississippi Standard Specification for Road and Bridge Construction (2017) is being followed by MDOT Project Engineers. In addition, Contract Administration will evaluate payroll submittals for each estimate received prior to processing an estimate for payment. If a payroll is missing, as defined in Section 110, Contract Administration staff will return the estimate to the Project Engineer with information outlining what payrolls are missing. The Project Engineer is responsible for holding the estimate payment and communicating the delinquent payroll information to the contractor. Contract Administration will not process an estimate for payment with delinquent payrolls.
- B. Paul Campbell, Compliance Officer
- C. February 3, 2020

CFDA

Number 20.205 – Highway Planning and Construction

Compliance

Requirement Special Test & Provisions – Quality Assurance Program

2019-022 Controls Should Be Strengthened Over Special Test Requirements Related to the Quality Assurance Program

Response: MDOT concurs with this finding.

Corrective Action Plan:

- A. The proper procedures to verify all samples are authorized have been re-emphasized with District Materials and Materials Division staff. Certificate of Materials and Tests will not be issued until all samples are authorized.

District personnel involved with improperly adjusting sampling frequencies have been contacted and informed of proper procedures. Materials Division staff has been trained on how to check if sampling frequencies have been altered. This additional check will be incorporated into Materials Division's job closing checklist.

B. Alan Kegley, Deputy Director of Materials

C. April 1, 2020

Sincerely,



Melinda L. McGrath, PE
Executive Director

MLM: trb

cc: Lisa Hancock, CPA - Deputy Executive Director/Administration
Brian Ratliff, PE - Deputy Executive Director/Chief Engineer