

Audit Report

**Department of Transportation
Maryland Aviation Administration**

December 2009



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

December 29, 2009

Bruce A. Myers, CPA
Legislative Auditor

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Department of Transportation – Maryland Aviation Administration (MAA) for the period beginning November 1, 2005 and ending November 18, 2008. MAA is responsible for the operation, maintenance, protection, and development of the Baltimore/Washington International Thurgood Marshall Airport and the Martin State Airport, and operates a program to foster, develop, and regulate aviation within the State.

Our audit disclosed that MAA had not fulfilled certain Federal Aviation Administration requirements relating to its noise compatibility program and, as a result, had not obtained \$2.4 million in available federal funding. In addition, MAA did not have procedures in place to ensure the propriety of incentive payments, totaling \$7.9 million, made to an airline, and violated State travel regulations in its purchases of high-priced airline tickets for foreign travel.

MAA's solicitation specifications for an ambulance purchase appeared to have been written to favor a particular vendor, in violation of State law and regulations. Finally, our audit noted control and record keeping deficiencies relating to purchasing transactions, materials and supplies, and equipment.

An Executive Summary of our findings can be found on page 5. The Maryland Department of Transportation's response to this audit, on behalf of MAA, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by MAA.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

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Executive Summary

Legislative Audit Report on Maryland Aviation Administration (MAA) December 2009

- **MAA did not fulfill certain Federal Aviation Administration (FAA) requirements relating to its noise compatibility program and, as a result, had not obtained \$2.4 million in available federal funding.**

MAA should comply with FAA requirements regarding its noise compatibility program and, in conjunction with the FAA, should work to obtain federal funds for previous noise compatibility projects.

- **MAA did not have procedures to ensure that incentive payments totaling \$7.9 million made to an airline were supported and properly calculated.**

MAA should establish procedures to ensure the propriety of incentive payments to airlines.

- **Prices paid for airline tickets for foreign travel appeared to be excessive. State travel regulations require that such tickets are to be purchased with the same care that a prudent person would entail when traveling for personal reasons.**

MAA should purchase such airline tickets in the most cost-effective manner, in accordance with State travel regulations.

- **Proper internal controls were not established over the processing of certain purchasing transactions. Specifically, eight employees had the capability to initiate purchase orders and to also make changes to them after independent approvals were obtained.**

MAA should establish appropriate internal controls over the processing of purchasing transactions.

- **MAA's solicitation specifications for an ambulance purchase appeared to have been written to favor a particular vendor, in violation of State law and regulations. Additionally, information regarding why only one bid response was received was inaccurately presented to the BPW.**

MAA, in conjunction with the Office of the Attorney General, should conduct a review of the aforementioned procurement and take appropriate follow-up actions. Additionally, MAA should advise BPW of the inaccuracy previously reported and ensure that, in the future, specifications are written to permit maximum competition.

- **Certain inventories were not adequately controlled. For example, MAA's purchases of certain materials and supplies appeared to be far beyond its needs, and the related record keeping and physical inventories were inadequate.**

MAA should take the recommended actions to improve controls and record keeping over its inventories.

Background Information

Agency Responsibilities

The Maryland Aviation Administration (MAA) is responsible for the operation, maintenance, protection, and development of the Baltimore/Washington International (BWI) Thurgood Marshall Airport and the Martin State Airport, and operates a program to foster, develop, and regulate aviation within the State. According to the State's records, during fiscal year 2008, MAA's operating expenditures (excluding capital expenditures and debt service) totaled approximately \$241 million (special funds of \$232 million and federal funds of \$9 million), and revenue generated by airport operations totaled approximately \$180 million. The amount by which special fund expenditures exceeded revenues (approximately \$52 million) was funded by the State's Transportation Trust Fund. According to MAA's records, approximately \$80 million of other revenue (passenger facility charges, customer facility charges, and parking revenue) was also generated and used for debt service and expenditures associated with capital projects.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of 15 findings contained in our preceding audit report dated October 19, 2006. We determined that MAA satisfactorily addressed 14 of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Federal Funds

Finding 1

Federal funding for \$2.4 million in expenditures had not been obtained by the Maryland Aviation Administration because it had not fulfilled certain requirements relating to its noise compatibility program.

Analysis

Federal funding totaling \$2.4 million had not been obtained by the Maryland Aviation Administration (MAA) because it had not fulfilled certain requirements relating to its noise compatibility program. The noise compatibility program provides funding for residential sound insulation projects and for the acquisition of properties in areas exposed to significant aircraft noise.

Our prior audit report noted that MAA had not complied with certain federal requirements and, as such, had not obtained federal funding that was available at that time. Our current audit noted that, while these requirements were subsequently met, \$975,000 in funding had still not been obtained. In February 2008, the Federal Aviation Administration (FAA) instituted additional requirements for obtaining noise compatibility funding. These additional requirements required MAA to develop a plan by October 2009 to dispose of excess land, which was previously purchased with federal funds as part of the noise compatibility program, and to use the proceeds from those sales to fund the program. We were subsequently advised by MAA management that such a plan was sent to the FAA for its approval at the end of that month. During our current audit period, MAA had \$1.4 million in noise compatibility expenditures, which were not reimbursed from federal funds.

We were advised by FAA management that the February 2008 requirements now apply to the recovery of the full \$2.4 million noted above, and that recovery is available at any time after MAA complies with the additional requirements.

Recommendation 1

We recommend that MAA

- a. comply with current FAA requirements regarding its noise compatibility program; and**
- b. work in conjunction with the FAA, as needed, to obtain federal funds for previous noise compatibility projects noted above.**

Airline Incentives

Finding 2

MAA did not have procedures to ensure that incentive payments totaling \$7.9 million made to an airline were proper.

Analysis

MAA did not have procedures to ensure that incentive payments totaling \$7.9 million made to an airline during our audit period were proper. Specifically, our review of these payments disclosed that there was no verification performed (such as an audit) to ensure that the amounts paid were supported and properly calculated. These incentive payments and the verification process are the subject of periodic memorandums of understanding (MOU) between MDOT Office of the Secretary and the airline, for which MAA serves as the contract monitor, on behalf of MDOT.

The MOU requires the State to pay the airline an amount not to exceed \$5.5 million annually if the airline does not attain a specified profit margin from its air service operations to and from Baltimore Washington International (BWI) Thurgood Marshall Airport. The related agreements that were executed for each payment provide MAA with the authority to conduct independent audits of the payments for a period of up to three years after payment is made.

Recommendation 2

We recommend that MAA establish adequate procedures to ensure that payments to the aforementioned airline (including, to the extent possible, the aforementioned payments of \$7.9 million) are proper.

Foreign Travel

Finding 3

MAA did not comply with State travel regulations related to foreign travel by its employees.

Analysis

MAA did not comply with State travel regulations related to foreign travel by its employees. Specifically, during the period from November 2005 to October 2008, MAA purchased 67 business class airline tickets for foreign travel costing \$543,000 from the same airline. The individual tickets, which were round-trip, ranged in price from \$3,480 to \$10,960. For example, our review of six of these ticket purchases disclosed that the tickets were purchased for round-trip direct flights between BWI Thurgood Marshall Airport and London at an average cost

of approximately \$9,400 each. These prices appear to be excessive given that a round trip non-stop coach class ticket on the same flight in May 2009 cost only \$2,084 (almost 80 percent less), and, in that same month, other airlines at BWI Thurgood Marshall Airport offered one-stop round trip business class tickets at prices as low as \$2,227.

While State regulations permit business class travel on overseas flights, State regulations also require State employees to exercise the same care incurring expenses for travel as would a prudent person traveling for personal reasons, and that travel for business be conducted at a minimum cost. Considering the price of these business class tickets in relation to coach class tickets, and to tickets on one-stop flights, MAA did not appear to be exercising the same care as an individual traveling for personal reasons.

Recommendation 3

We recommend that MAA purchase airline tickets for foreign travel in the most cost-efficient manner, as required by State regulations.

Purchases

Finding 4

Proper internal controls were not established over the processing of certain purchasing transactions.

Analysis

Proper internal controls were not established over the processing of certain purchasing transactions. Specifically, MAA's established online approval rules allowed eight employees with the capability to initiate purchase orders to also make changes to those transactions after independent approvals were obtained. Consequently, the aforementioned employees had the capability to make unauthorized changes to critical information (such as vendors and amounts) without those changes being subject to independent approval.

According to the State's accounting records, in fiscal year 2008, MAA used the Maryland Department of Transportation's Financial Management Information System (FMIS) to process disbursements totaling \$182.8 million, of which approximately \$14.6 million related purchase orders.

Recommendation 4

We recommend that MAA establish approval requirements that prevent individuals with the capability of initiating purchasing transactions from modifying the transactions after related approvals have been obtained.

Ambulance Procurement

Finding 5

Specifications in MAA's solicitation for the purchase of an ambulance appeared to favor a particular vendor, in violation of State law.

Additionally, inaccurate information was provided to the Board of Public Works to explain why only one bid response was received.

Analysis

MAA's specifications for an ambulance purchase solicitation appeared to have been written to favor a particular vendor, in violation of State law. Additionally, inaccurate information explaining why there was only one bid received in response to this solicitation was presented to the Board of Public Works (BPW). In July 2006, MAA publicly advertised and issued solicitation specifications to a number of vendors for the purchase of a new ambulance. A contract was awarded in November 2006, in the amount of \$169,885, to the sole vendor who submitted a bid. Although we noted that two MAA Office of Fire and Rescue employees were also employed by the vendor awarded the contract, we were advised by MAA management that these employees were not involved in this procurement. Our review disclosed the following conditions:

- Our comparison of MAA's bid specifications with the website of the manufacturer used by the vendor awarded the contract disclosed eight features from the MAA bid specifications that were written in virtually the identical language as the manufacturer's descriptions of its ambulances. For example, the three warranties (including structural and electrical) required in MAA's bid specifications distinctly matched the terminology used in the awarded vendor's manufacturer's warranties. Three other features (such as side impact safety rail) included in MAA's bid specifications matched those on the manufacturer's website, where they were described as being exclusive to that manufacturer.
- In order to determine why other vendors had not submitted bids for the procurement, we contacted two vendors who had been sent solicitations, but who had failed to submit bids. Both vendors advised us that MAA's specifications were written such that only the vendor that won the contract was able to fulfill the specifications. Because of the restrictions of the specifications, these vendors did not submit a bid.
- MAA did not accurately inform BPW why there was only a single bid response. That is, in the documentation submitted to BPW for consideration of approval of the contract award, MAA reported that one of the five vendors stated that it did not reply to the solicitation due to not having sufficient time

to respond. However, this was inaccurate because this vendor had informed MAA in writing that the reason it had not responded was because the specifications were either unclear or too restrictive.

State law requires that specifications be written so as to permit maximum practicable competition without modifying the State's requirements, and further requires that specifications not be drawn in such a manner as to favor a single vendor over other vendors.

Based on the above conditions, we referred this matter to the Office of the Attorney General - Criminal Division.

Recommendation 5

We recommend that MAA

- a. in conjunction with the Office of the Attorney General, conduct a review of the aforementioned procurement and take the appropriate follow-up action deemed necessary;**
- b. ensure that, in the future, procurement specifications are prepared in accordance with the spirit and intent of State law; and**
- c. advise BPW of the inaccuracy previously reported and ensure that, in the future, it informs BPW of all relevant information when submitting contracts for approval.**

Inventories

Finding 6

MAA's purchases of certain materials and supplies appeared to be far beyond its needs, and the record keeping and physical inventories for these materials and supplies were inadequate.

Analysis

MAA's purchases of certain materials and supplies appeared to be far beyond its needs, and the record keeping and physical inventories for these materials and supplies were inadequate. MAA management advised us that these materials and supplies were purchased in conjunction with various construction projects, so that MAA would have sufficient back-up supplies for any subsequent repairs. In this regard, we noted that MAA maintained eight trailers containing excess materials and supplies. Our review disclosed the following conditions:

- The quantities that remained on hand in the trailers for certain items appeared to be far beyond that which would be necessary for any routine repairs. For example, in one trailer there were 1,368 boxes of the same type of ceramic tile

(a total of 32,800 tiles) which we estimated were valued at \$86,000. There was no indication that these tiles had been used (that is, needed for repairs) for an extended period. Other items included lighting fixtures and remote control radios. Furthermore, MAA did not have documentation available to explain how it determined how much of each inventory item should be purchased for subsequent use. MAA advised that the trailers were only accessed a few times each year.

- MAA did not maintain adequate perpetual inventory records over the items in the trailers. Specifically, MAA did not ensure that it received from the contractor the amount of supplies purchased for subsequent repairs as specified in the related contract. Furthermore, the records maintained for these items did not contain sufficient detailed information. For example, of the 25 items that we tested, unit prices were not recorded in the records for 18 of them; the value of the 7 items, for which unit prices were recorded in the records, totaled \$260,285. Furthermore, the records maintained were inaccurate as our test of 20 different items contained in the trailers disclosed that, for 6 items, the amounts per the records did not agree to the actual number of items on hand. For example, for one item, lighting trim, MAA's inventory records indicated that 611 units were on hand; however, we were only able to locate 99 units on hand. These 512 missing units were valued at approximately \$46,000.
- Physical inventories of the items in the trailers were inadequate. Although we were advised by MAA that the most recent physical inventory had been taken in June 2008, we noted that 31 of the 138 separate items that were stored in the trailers had not been inventoried.

The Department of General Services' *Inventory Control Manual* requires for materials and supplies that the inventory records be maintained accurately and include such detailed information as the unit of measure and the unit cost. The *Manual* further requires that physical inventories of all items are conducted annually.

Recommendation 6

We recommend that MAA

- a. document its determination of any excess materials and supplies to be purchased by contractors as back-up supplies for subsequent repairs, and ensure that the amounts stipulated in the contracts are received at the completion of the projects; and**
- b. maintain adequate perpetual inventory records for the items stored in the trailers, investigate missing items identified, and conduct complete inventories of such items, as required.**

Finding 7**Adequate controls were not established over adjustments to materials and supplies inventories.****Analysis**

Proper controls were not established over adjustments to materials and supplies inventories at MAA's warehouse. In this regard, we noted that MAA was unable to provide any documentation to support significant inventory record adjustments made as a result of two physical inventories taken in June and August 2008. Specifically, as a result of the inventories, MAA adjusted 2,117 items; the total dollar variance between the perpetual inventory records and the physical counts for those items was \$691,000 (shortages of \$325,000 and overages of \$366,000). In addition, these adjustments were made without supervisory approval.

The Department of General Services' *Inventory Control Manual* specifies the recordkeeping and control procedures that State agencies are required to have in effect for materials and supplies inventories. For example, the *Manual* requires that supervisory personnel approve any adjustments to the inventory records.

According to MAA's records, as of June 30, 2008, the inventory value of materials and supplies maintained at MAA's warehouse totaled approximately \$843,000.

Recommendation 7**We recommend that MAA establish procedures to ensure that all adjustments are properly supported and approved.****Finding 8****Physical inventories of sensitive equipment items were not completed and equipment records were not adequately maintained, as required.****Analysis**

MAA did not comply with physical inventory provisions and record keeping requirements of the Department of General Services' *Inventory Control Manual*. Specifically, we noted the following conditions:

- Physical inventory counts of all sensitive equipment items (such as computers) had not been conducted, as required. For example, as of February 2009, MAA records indicated that at least 315 sensitive items totaling \$357,000 had not been subject to physical inventory counts for periods dating back to at least April 2007. A similar condition was commented upon in our two preceding audit reports.

- Our test of 10 acquisitions (comprising 93 items) totaling \$744,272 disclosed that 35 furniture items costing \$126,611 (purchased in June 2007) had not been recorded in the detail equipment records as of February 2009.

The Department of General Services' *Inventory Control Manual* requires that physical inventories of sensitive equipment items be completed at least annually. The *Manual* further requires that detail equipment records be maintained on a current basis. The book value of MAA's equipment at February 6, 2009 totaled approximately \$87.6 million. The value of sensitive equipment was not readily available because MAA's records do not denote which items are considered sensitive.

Recommendation 8

We recommend that MAA

- a. conduct physical inventories of sensitive equipment items at least annually (repeat), and**
- b. maintain detail equipment records on a current basis.**

Audit Scope, Objectives, and Methodology

We have audited the Department of Transportation – Maryland Aviation Administration (MAA) for the period beginning November 1, 2005 and ending November 18, 2008. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine MAA's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. The areas addressed by the audit included federal fund reimbursements, procurements and disbursements for airport design and construction, and for MAA's operating expenditures, as well as payroll, cash receipts, accounts receivable, and equipment and materials and supplies inventories. We also determined the status of the findings included in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MAA's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include certain payroll support services provided by the State Highway Administration to MAA. These payroll support services are included within the scope of our audit of the State Highway Administration.

Our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of MAA's compliance with federal laws and regulations pertaining to those programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including MAA.

MAA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

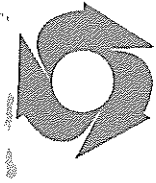
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MAA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MAA that did not warrant inclusion in this report.

The Department of Transportation's response, on behalf of MAA, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MAA regarding the results of our review of its response.

APPENDIX



Maryland Department of Transportation
The Secretary's Office

Martin O'Malley
Governor

Anthony G. Brown
Lt. Governor

Beverley K. Swaim-Staley
Secretary

Harold M. Bartlett
Deputy Secretary

December 21, 2009

Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
Department of Legislative Services
Room 1202
301 West Preston Street
Baltimore MD 21201

Dear Mr. Myers:

Enclosed please find the Department's responses to the Legislative Auditor's draft report dated December 2009 for the Department of Transportation - Maryland Aviation Administration for the period of November 1, 2005 to November 18, 2008. Additionally, an electronic version of this document has been sent to your office via e-mail (file name:MAALegAuditDraftNov09) to response@ola.state.md.us.

If you or your staff have any questions or need additional information, please do not hesitate to contact me or Mr. David L. Fleming, Finance Director. Mr. Fleming can be reached at 410-865-1035.

Sincerely,

A handwritten signature in black ink, appearing to read 'Beverley K. Swaim-Staley'.

Beverley K. Swaim-Staley
Secretary

Enclosure

cc: Mr. Harold M. Bartlett, Deputy Secretary, Maryland Department of Transportation
Mr. Patrick Bradley, Acting Finance Director, Maryland Aviation Administration
Mr. Timothy L. Campbell, Executive Director, Maryland Aviation Administration
Mr. David L. Fleming, Chief Financial Officer, Maryland Department of Transportation
Mr. David Kalampnayil, Chief of Internal Audits, Maryland Aviation Administration
Mr. Joseph J. Lambdin, Director, Office of Audits, Maryland Department of Transportation

**Maryland Department of Transportation
Maryland Aviation Administration
Draft Audit Report Responses
Period November 1, 2005 to November18, 2008**

Federal Funds

Finding 1

Federal funding for \$2.4 million in expenditures had not been obtained by the Maryland Aviation Administration because it had not fulfilled certain requirements relating to its noise compatibility program.

Recommendation 1

We recommend that MAA

- a) comply with current FAA requirements regarding its noise compatibility program; and**
- b) work in conjunction with the FAA, as needed, to obtain federal funds for previous noise compatibility projects noted above.**

Response 1:

The Administration concurs with the legislative auditors' recommendations.

- a) The MAA is complying with the Federal Aviation Administration (FAA) requirements of the noise compatibility program. The FAA approved the Noise Exposure Map element of the Part 150 Program Update in April of 2006, and the Noise Compatibility Program in February of 2008. A Program Guidance Letter issued by the FAA in February of 2008 added a new requirement that airports prepare a Land Inventory and Re-Use Plan by October of 2009. The Guidance requires airports to dispose of unneeded Noise Land and place the federal portion of the disposal proceeds into an escrow for use on future FAA approved noise projects. MAA submitted the Land Inventory and Re-Use Plan to the FAA in October 2009. Upon FAA approval, MAA will immediately move forward with the disposal of all unneeded noise parcels in four phases beginning with those properties which are most likely to move quickly in today's market.
- b) The Federal portion of all disposal proceeds will be placed in an escrow account established with Columbia Bank. The FAA must approve noise grant applications before any escrow account funding can be utilized. MAA will work with the FAA on the usage of escrow account funds for new residential soundproofing requests and retroactive reimbursement of all eligible expenditures since FY 2003 as monies become available.

Airline Incentives

Finding 2

MAA did not have procedures to ensure that incentive payments totaling \$7.9 million made to an airline were proper.

Recommendation 2

We recommend that MAA establish adequate procedures to ensure that payments to the aforementioned airline (including, to the extent possible, the aforementioned payments of \$7.9 million) are proper.

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Response 2:

The Administration concurs with the legislative audits' recommendation. The MAA, as contract monitor on behalf of MDOT, has established adequate procedures to ensure the payment requirements are met before payments are made. To that effect, quarterly meetings are held with the airline, where MAA personnel reviews and discusses financial route result data. In addition, MAA engaged an international aviation consulting firm to conduct an independent analysis of the route performance to ascertain that the calculations and methodologies utilized for prior payments were correct and consistent with similar long haul aviation operations for other carriers. Their independent review confirmed that the route results were calculated properly and that they are consistent with the carrier's audited financial statements for the payments that were made. The MAA will continue to utilize the services of this consulting firm in the future.

Foreign Travel

Finding 3

MAA did not comply with State travel regulations related to foreign travel by its employees.

Recommendation 3

We recommend that MAA purchase airline tickets for foreign travel in the most cost-efficient manner, as required by State Regulations.

Response 3:

The Administration concurs with the legislative auditors' recommendation. State travel regulations permit business class travel outside of North America. It is in the State's best interest to support international air service at BWI Marshall by using incumbent air carrier service for its own travel. MAA personnel will ensure foreign travel is conducted in the most cost efficient manner possible consistent with State policy.

Purchasing

Finding 4

Proper internal controls were not established over the processing of certain purchasing transactions.

Recommendation 4

We recommend that MAA establish approval requirements that prevent individuals with the capability of initiating purchasing transactions from modifying the transactions after related approvals have been obtained.

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Response 4:

The Administration concurs with the legislative auditors' recommendation.

The MAA has instituted measures that prevent individuals with the capability of initiating purchasing transactions from modifying the transactions after related approvals have been obtained. Further, MAA has taken appropriate corrective actions in the FMIS access profiles of the eight employees cited and implemented procedures to periodically monitor FMIS access for related employees as appropriate.

Ambulance Procurement

Finding 5

Specifications in MAA's solicitation for the purchase of an ambulance appeared to favor a particular vendor, in violation of State law. Additionally, inaccurate information was provided to the Board of Public Works to explain why only one bid response was received.

Recommendation 5

We recommend that MAA

- a) in conjunction with the Office of the Attorney General, conduct a review of the aforementioned procurement and take the appropriate follow-up action deemed necessary;**
- b) ensure that, in the future, procurement specifications are prepared in accordance with the spirit and intent of State law; and**
- c) advise BPW of the inaccuracy previously reported and ensure that, in the future, it informs BPW of all relevant information when submitting contracts for approval.**

Response 5:

The Administration concurs with the legislative auditors' recommendations.

- a) The Office of the Attorney General in conjunction with the MAA is reviewing the procurement.
- b) MAA has established procedures to ensure that procurement specifications are drafted independently and prepared in accordance with State laws and regulations, especially when specialized equipment is to be procured.
- c) The MAA has advised the BPW by letter, as to why there was only a single bid received for DOT Action Agenda Item 28-E. In the future MAA will ensure the BPW is informed of all relevant information when contracts are submitted for approval.

**Maryland Department of Transportation
Maryland Aviation Administration
Draft Audit Report Responses
Period November 1, 2005 to November18, 2008**

Inventories

Finding 6

MAA's purchases of certain materials and supplies appeared to be far beyond its needs, and the record keeping and physical inventories for these materials and supplies were inadequate.

Recommendation 6

We recommend that MAA

- a) document its determination of any excess materials and supplies to be purchased by contractors as back-up supplies for subsequent repairs, and ensure that the amounts stipulated in the contracts are received at the completion of the projects; and**
- b) maintain adequate perpetual inventory records for the items stored in the trailers, investigate missing items identified, and conduct complete inventories of such items, as required.**

Response 6:

The Administration concurs with the legislative auditors' recommendations.

- a) The MAA has established new procedures related to Construction Contract Maintenance Repair Operating (MRO) items, and its ordering, receiving and accounting of them. The Office of Design, Office of Maintenance and Office of Procurement will jointly develop and determine the correct MRO contract items and quantities of items that will be procured under any given contract with accompanying proper documentation. In addition, the MAA has implemented new procedures requiring a Record of Delivery form be completed ensuring that all appropriate quantities and related information is received as stipulated in the contract at the completion of the projects.
- b) MAA is in the process of doing a complete inventory of items stored in the trailers and will investigate any differences observed and maintain appropriate ongoing perpetual inventory record for these items. MAA expect to have this completed by Spring of 2010.

Finding 7

Adequate controls were not established over adjustments to materials and supplies inventories.

Recommendation 7

We recommend that MAA establish procedures to ensure that all adjustments are properly supported and approved.

Response 7:

The Administration concurs with the legislative auditors' recommendation.

A new procedure was established for all adjustments made, effective April 3, 2009. No adjustments to the inventory will be made without proper documentation and all adjustments will be researched, verified and explained.

**Maryland Department of Transportation
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Period November 1, 2005 to November18, 2008**

Finding 8

Physical inventories of sensitive equipment items were not completed and equipment records were not adequately maintained, as required.

Recommendation 8

We recommend that MAA

- a) conduct physical inventories of sensitive items at least annually (repeat), and**
- b) maintain detail equipment records on a current basis.**

Response 8:

The Administration concurs with the legislative auditors' recommendations.

- a) Sensitive inventory items mentioned in the report dating back to 2007 were subsequently located, except for 41 items with a value of \$37k. For the aforementioned 41 items an appropriate report was filed with Department of General Services (DGS-950-8) and DGS has approved MAA write off request. In addition, MAA has updated its fixed asset database system to reflect that sensitive items are identified accordingly and a physical inventory of all sensitive items will be done on an annual basis.
- b) The 35 furniture items mentioned in the report were subsequently recorded in the detail equipment record, as of April 2009. Further, going forward the MAA will strengthen management oversight of fixed asset inventories and will comply with the requirements of the DGS Inventory Control Manual.

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