Audit Report

Department of Transportation
Maryland Port Administration

October 2014

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

Thomas J. Barnickel III, CPA
Legislative Auditor

October 1, 2014

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Transportation – Maryland Port Administration (MPA) for the period beginning January 20, 2011 and ending January 12, 2014. MPA operates State-owned port facilities and promotes the economic well-being of Maryland's ports. Specifically, MPA is responsible for managing the State's investment in port facilities, developing trade by promoting maritime business, and coordinating the delivery of services to the maritime community.

Our audit disclosed that certain cash receipts and accounts receivable functions were not adequately segregated. We also noted that delinquent accounts receivable were not always submitted to the State's Central Collection Unit when required, including one account that was delinquent for four years and was not submitted until the outstanding balance was approximately $1 million.

The Department's response to this audit, on behalf of MPA, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by MPA.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Maryland Port Administration (MPA) is part of the Maryland Department of Transportation and operates State-owned port facilities and promotes the economic well-being of Maryland's ports. MPA is responsible for managing the State's investment in port facilities, developing trade by promoting maritime business, and coordinating the delivery of services to the maritime community (for example, dredging and navigational aids).

According to the State's records, MPA's fiscal year 2013 expenditures totaled approximately $128.4 million. Furthermore, according to MPA's records, during fiscal year 2013, approximately 9.6 million tons of cargo were shipped through MPA's port facilities, and overall port revenues totaled $48.4 million, the majority of which related to terminal activity (such as fees for use of MPA's piers, wharfs, and equipment).

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated October 14, 2011. We determined that MPA satisfactorily addressed these findings.

Findings and Recommendations

Cash Receipts

Finding 1
The Maryland Port Administration (MPA) did not adequately separate the cash receipts and accounts receivable functions.

Analysis
MPA had not established adequate controls over cash receipts which totaled approximately $26.4 million during fiscal year 2013 and consisted primarily of payments from shipping companies and other customers for the use of port facilities. Specifically, an employee who periodically handled collections was also responsible for maintaining the related accounts receivable records. Although we were advised that this employee only served in a back-up capacity for cash receipts functions, our review of selected deposits identified at least four deposits totaling $202,000 that were prepared by this employee. Under these conditions, collections could be misappropriated without detection.

The Comptroller of Maryland's *Accounting Procedures Manual* requires the segregation of the cash receipts handling duties from the accounts receivable record keeping functions.

Recommendation 1
We recommend that MPA adequately segregate the cash receipts handling and accounts receivable record keeping functions. We advised MPA on accomplishing the necessary separation of duties using existing personnel.

Accounts Receivable

Finding 2
Delinquent accounts receivable were not always submitted to the State's Central Collection Unit (CCU) when required.

Analysis
Delinquent accounts receivable were not always submitted to CCU when required. Our test of 10 accounts receivable, as of December 31, 2013, totaling $127,517 disclosed 2 accounts totaling $27,473 that, at the time of our review, had been overdue for more than 180 days, but had not been submitted to CCU for further collection action.

We also noted another delinquent account due from a tenant that was not submitted to CCU in a timely manner resulting in a significant increase in the outstanding balance. Specifically, MPA continued to lease space for a four-year period to a tenant that was delinquent with its lease payments and did not refer the account to CCU. In July 2010, MPA renewed this tenant's lease without collecting past due rent totaling approximately $55,000 and operating expenses totaling approximately $172,000. As an incentive for the tenant to sign the new lease, MPA agreed to waive the past due rent. Beginning in July 2010, the tenant made most of the current monthly payments, but from July 2011 to December 2011 no rent payments were made. The tenant's delinquent account totaled more than $400,000 as of December 31, 2011. Over the next two years, MPA continued unsuccessfully to work with this tenant to resolve the outstanding balance. Ultimately, the lease was terminated, the tenant vacated the rental space, and the account was submitted to CCU in April 2014 at which time the outstanding balance, including interest and penalties, was approximately $1 million.

CCU regulations, as amended for MPA, call for outstanding accounts to be submitted to CCU within 180 days of the original billing date. MPA's accounts receivable as of December 31, 2013 totaled approximately $5.6 million, including accounts overdue by more than 180 days totaling $738,000.

Recommendation 2
We recommend that MPA submit delinquent accounts to CCU within the required time frame.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Transportation – Maryland Port Administration (MPA) for the period beginning January 20, 2011 and ending January 12, 2014. 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 the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine MPA's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included cash receipts, procurements and disbursements, accounts receivable, equipment, and certain other transactions specifically associated with port activities, such as lease agreements for the use of port facilities. We also determined the status of the findings contained in our preceding audit report.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MPA's operations, and tests of transactions. We also performed various data extracts of pertinent information from the State's Financial Management Information System and the Maryland Department of Transportation's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from MPA's billing and reporting system for the purpose of testing accounts receivable. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

Our audit did not include certain payroll support services provided by the State Highway Administration to MPA. 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 MPA'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 MPA.

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

The Maryland Department of Transportation's response, on behalf of MPA, 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 the Department 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

James T. Smith, Jr.
Secretary

September 19, 2014

Mr. Thomas J. Barnickel, III, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street
Room 1202
Baltimore MD 21201

Dear Mr. Barnickel:

Enclosed please find the Department's responses to the draft Legislative Auditor's Report dated September 2014 for the Maryland Department of Transportation - Maryland Port Administration for the period January 20, 2011 to January 12, 2014. Additionally, an electronic version of this document has been sent to your office via e-mail (file name: MPAFinalResponseDraftReportSeptember2014) to response@ola.state.md.us.

If you should have any questions regarding these responses, please do not hesitate to contact Mr. David L. Fleming, Chief Financial Officer, Maryland Department of Transportation (MDOT) at 410-865-1035, toll-free 888-713-1414 or via email at dfleming@mdot.state.md.us.

Sincerely,

James T. Smith, Jr.
Secretary

Enclosure

cc: Mr. John Arnold, Chief Internal Auditor, Maryland Port Administration
Ms. Kathy Broadwater, Deputy Administrator, Maryland Port Administration
Ms. Brenda Cachuela, Director, Office of Audits, MDOT
Mr. Bekana Edossa, Audit Manager, Office of Legislative Audits
Mr. David L. Fleming, Chief Financial Officer, Office of Finance, MDOT
Mr. Wilson H. Parran, Deputy Secretary for Administration and Operations, MDOT
Ms. Wonza Spann-Nicholas, Director of Finance, Maryland Port Administration
Mr. James White, Administrator, Maryland Port Administration

MARYLAND DEPARTMENT OF TRANSPORTATION
MARYLAND PORT ADMINISTRATION
DRAFT AUDIT REPORT RESPONSES
REPORT PERIOD JANUARY 20, 2011 TO JANUARY 12, 2014

Cash Receipts

Finding 1
The Maryland Port Administration (MPA) did not adequately separate the cash receipts and accounts receivable functions.

Recommendation 1
We recommend that MPA adequately segregate the cash receipts handling and accounts receivable record keeping functions. We advised MPA on accomplishing the necessary separation of duties using existing personnel.

Response:
The MPA agrees with the finding and recommendation. Effective June 1, 2014, the Account Receivable staff will not handle any cash receipts under any circumstances. Effective June 1, 2014, the Accounts Payable Supervisor now serves as the backup processor to ensure necessary and appropriate segregation of duties.

Accounts Receivable

Finding 2
Delinquent accounts receivable were not always submitted to the State's Central Collection Unit (CCU) when required.

Recommendation 2
We recommend that MPA submit delinquent accounts to CCU within the required time frame.

Response:
The MPA agrees with the finding and recommendations. The MPA has implemented the following corrective action:

a. Effective July 15, 2014, the collection policies and procedures was reviewed and re-written to adequately document and cover collection efforts beyond 90 days of delinquency, and to ensure that all efforts are exhausted before forwarding an account to CCU after the 180-day extension period.

b. Effective July 15, 2014, a comprehensive review hierarchy was developed and utilized to ensure delinquent accounts do not reach the 180 day delinquent period, or are held beyond that period. After 180 days, delinquent accounts will be forwarded to CCU for collection.

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