

Audit Report

**Department of Transportation
Maryland Port Administration**

October 2011



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

-
- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
 - Electronic copies of our audit reports can be viewed or downloaded from our website at <http://www.ola.state.md.us>.
 - Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
 - The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.
-



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

October 14, 2011

Bruce A. Myers, CPA
Legislative Auditor

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

Ladies and Gentlemen:

We have audited the Maryland Department of Transportation – Maryland Port Administration (MPA) for the period beginning January 8, 2008 and ending January 19, 2011. 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 MPA had not established adequate controls over cash receipts and certain purchases. For example, the procedures in place to ensure that all collections were deposited were not sufficient.

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 audit by MPA.

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce A. Myers".

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Maryland Port Administration (MPA) is part of the Maryland Department of Transportation (MDOT) 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 2010 expenditures totaled approximately \$138 million. Furthermore, according to MPA's records, during fiscal year 2010, cargo shipped through MPA's port facilities totaled approximately 7.6 million tons, and overall port revenues totaled \$69.3 million, the majority of which related to terminal activity (such as fees for use of MPA's piers, wharfs, and equipment).

Seagirt Marine Terminal

MPA entered into a partnership (lease) agreement with a private company to operate and provide certain improvements to the Seagirt Marine Terminal. The agreement essentially turned over operation of the terminal to the company for 50 years beginning in January 2010. In exchange, MPA will receive annual lease payments of \$3.2 million with periodic increases based on the rate of inflation. The agreement also required the company to make a one-time payment of \$140 million to the Maryland Transportation Authority, which owned the property being leased; in exchange, the Authority transferred ownership of the terminal to MPA to provide for the lease. Furthermore, the company is responsible for funding certain improvements to the terminal, including the construction of a new 50-foot berth and the purchase of new cranes capable of loading and unloading containers from larger container ships; the agreement requires these to be placed into service no later than July 1, 2014.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the nine findings contained in our preceding audit report dated February 23, 2009. We determined that MPA had satisfactorily addressed eight of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1

The Maryland Port Administration (MPA) did not establish adequate controls to ensure all collections were deposited.

Analysis

MPA did not establish adequate controls over collections, which totaled approximately \$63 million during fiscal year 2010, and consisted primarily of payments from shipping companies and other customers for the use of MPA port facilities (including piers, docks, buildings, and land). Specifically, we noted that MPA's deposit verification procedures were not properly performed and were not always documented. In particular, we found that MPA compared documentation of deposited collections to certain cash receipt records, but not to the document in which the collections were first recorded. Therefore, there was a lack of assurance that all collections received and recorded by MPA were deposited. Deposit verifications should be performed by tracing all recorded collections from the initial records to validated deposit documentation from the bank.

Furthermore, our review of collections for 20 days, totaling approximately \$16.7 million, disclosed that documentation that the deposit verification procedures had been performed was not on file for 15 days with collections totaling \$11.2 million.

Similar conditions were commented upon in our preceding audit report.

Recommendation 1

We recommend MPA

- a. properly verify collections to deposit by comparing the initial record of receipts to validated deposit documentation from the bank (repeat), and**
- b. ensure that the verification of collections to deposit is documented (repeat).**

Purchases and Disbursements

Finding 2

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 and disbursement transactions on the Maryland Department of Transportation's Financial Management Information System (FMIS). Specifically, MPA's established online approval rules allowed four employees the capability both to initiate purchase orders and to make changes to those transactions after independent approvals were obtained. Consequently, these employees could make unauthorized changes to critical purchasing information (such as vendors and amounts) without those changes being subject to independent approval.

During fiscal year 2010, MPA used FMIS to process disbursements totaling approximately \$112 million, of which \$15.3 million related to purchase orders.

Recommendation 2

We recommend that MPA establish FMIS approval requirements that prevent individuals with the capability to initiate purchasing transactions from modifying the transactions after related approvals have been obtained.

Audit Scope, Objectives, and Methodology

We have audited the Maryland Department of Transportation – Maryland Port Administration (MPA) for the period beginning January 8, 2008 and ending January 19, 2011. 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 controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained 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. The primary areas addressed by the audit included cash receipts, disbursements, accounts receivable, materials and supplies, and certain other transactions specifically associated with port activities, such as lease agreements for the use of port facilities. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MPA'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 MPA. These payroll support services are included within the scope of our audit of the State Highway Administration. In addition, 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. We also did not review MPA's compliance with federal laws and regulations relating to port operations because compliance is regulated and monitored by certain units within the United States Department of Homeland Security.

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.

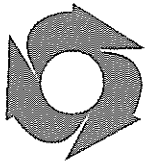
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 findings relating to conditions that we consider to be significant deficiencies 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 audit did not disclose any significant instances 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 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

Beverley K. Swaim-Staley
Secretary

Darrell B. Mobley
Deputy Secretary

October 12, 2011

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

Dear Mr. Myers:

Enclosed please find the Department's responses to the draft Legislative Auditor's Report dated September 2011 for the Maryland Department of Transportation – Maryland Port Administration for the period January 8, 2008 through January 19, 2011. Additionally, an electronic version of this document has been sent to your office via e-mail (file name: MPAFinalResponseDraftReportOCT72011) 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, Chief Financial Officer. 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. John G. Arnold, Chief Auditor, Office of Audits, Maryland Port Administration
Mr. David L. Fleming, Chief Financial Officer, Office of Finance, Maryland Department of Transportation
Mr. Joseph J. Lambdin, Director, Office of Audits, Maryland Department of Transportation
Mr. Vincent J. Marsiglia, Director, Office of Finance, Maryland Port Administration
Mr. Darrell B. Mobley, Deputy Secretary, Maryland Department of Transportation
Mr. James J. White, Executive Director, Maryland Port Administration

My telephone number is 410-865-1000
Toll Free Number 1-888-713-1414 TTY Users Call Via MD Relay
7201 Corporate Center Drive, Hanover, Maryland 21076

**MARYLAND DEPARTMENT OF TRANSPORTATION
MARYLAND PORT ADMINISTRATION
DRAFT AUDIT REPORT RESPONSES
REPORT PERIOD JANUARY 8, 2008 TO JANUARY 19, 2011**

Cash Receipts

Finding 1

MPA had not established adequate controls over collections, which totaled approximately \$63 million during fiscal year 2010.

Response

The Administration concurs with the auditors' recommendation.

a. & b.

Effective May 16, 2011, the MPA has further revised its cash receipts procedures to ensure that an independent verification of all collections from the initial record of receipts will be validated to deposit documentation from the bank, and that the independent verification will be documented as verified on the initial record of receipts as well as the validated deposit documentation from the bank.

Purchases and Disbursements

Finding 2

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

Response

The Administration concurs with the auditors' recommendation.

The Administration has revised the FMIS approval paths for purchasing transactions to eliminate the possibility of purchasing transactions being altered after designated approvals had been obtained. This change will prevent purchasing document approvals from returning to the initiator of the document.

AUDIT TEAM

Paul R. Denz, CPA
Audit Manager

Nelson W. Hopkins, CPA
W. Thomas Sides
Senior Auditors

Lauren C. Ahlers
Marissa L. Eby
Erin D. Erdley
Evan E. Naugle
Staff Auditors