

Audit Report

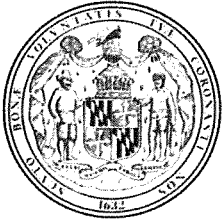
**Department of Transportation
Maryland Transit Administration**

February 2012



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

February 17, 2012

Bruce A. Myers, CPA
Legislative Auditor

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 audited the Maryland Department of Transportation – Maryland Transit Administration (MTA) for the period beginning November 1, 2007 and ending December 31, 2010. The MTA is responsible for the construction, operation, and maintenance of the Baltimore metropolitan area transit system and for commuter services in suburban areas of the State.

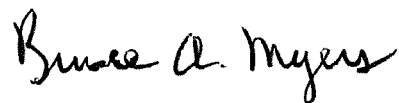
Our audit disclosed that MTA did not adequately monitor certain contracts and related payments. For example, MTA made payments for employee and retiree healthcare coverage totaling approximately \$112.7 million for fiscal years 2009 through 2011 without ensuring the amounts billed were proper and that claims were paid only for services provided for covered members. For another \$10 million engineering contract, MTA did not ensure that direct labor and overhead rates paid were consistent with the contract.

Sufficient procedures and controls were not in place to ensure that only eligible individuals were enrolled in the Mobility Paratransit Program (MPP) and the Reduced Fare Program. For example, MTA had not established formal guidance to assist MTA staff in making eligibility decisions and such decisions were not subject to independent review to ensure that only eligible individuals received services. MTA also did not adequately monitor payments to a large MPP vendor. In addition, MTA did not attempt to obtain refunds of federal and State excise taxes paid for fuel used in State vehicles by the three MPP vendors; such taxes totaled \$744,000 during fiscal year 2011.

Finally, internal control and procedural deficiencies were noted in several other areas including payroll, equipment, materials and supplies, disbursements, and bus inspections.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce A. Myers". The signature is written in a cursive style with a large initial "B".

Bruce A. Myers, CPA
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

Executive Summary

Legislative Audit Report on Maryland Transit Administration (MTA) February 2012

- **MTA did not ensure the propriety of claims reimbursements and administrative fee payments for employee and retiree healthcare costs, which totaled \$112.7 million during fiscal years 2009 through 2011. Specifically, MTA paid for claims reimbursements invoiced by the vendor without any verification that the amounts invoiced were proper and did not conduct claims reviews to ensure that the vendor only paid claims for services provided to eligible individuals. MTA also did not verify that administrative fees invoiced and paid for each individual were consistent with the coverage selected. Finally, MTA did not ensure the vendor conducted utilization reviews.**

MTA should verify the propriety of claims reimbursements and administrative fees invoiced by the vendor and should identify and recover any amounts improperly paid to the vendor. In addition, MTA should conduct comprehensive claims reviews to ensure that only valid claims were paid for services actually provided for covered members. MTA should also ensure that the vendor conducts appropriate utilization reviews and that the results of these reviews are used to better manage the cost and effectiveness of the program.

- **MTA lacked adequate procedures and controls to ensure that amounts paid under a \$10 million engineering contract were proper. Specifically, MTA could not document that it approved increases in direct labor rates paid to the contractor, nor did MTA compare the direct labor rates on the invoices with the related contract. MTA also paid overhead rates based on estimated or provisional rates because actual audited overhead rates were not provided, as required; overhead rates paid to the contractor ranged from 100 to 130 percent of the direct labor costs.**

MTA should ensure that rates paid are in accordance with the contract and any increases in the rates are approved in advance. MTA should recover any amounts paid for rates that were not properly approved. MTA should request audited overhead rates since the inception of the contract, review the rates for propriety, make appropriate adjustments to past billings and payments, and withhold overhead cost reimbursements if the audited rates are not received.

- **MTA lacked sufficient procedures and controls over the eligibility process for the Mobility Paratransit Program (MPP) for individuals who are unable to use fixed route services, and did not adequately monitor one MPP contract and related payments. For example, eligibility determinations were not subject to independent review and approval and there was no formal guidance to assist MTA staff in determining applicant eligibility. Furthermore, MTA did not attempt to obtain refunds of federal and State excise taxes paid for fuel used in State vehicles by the three MPP vendors, which totaled \$744,000 during fiscal year 2011.**

MTA should establish procedures to ensure MPP eligibility decisions are subject to independent review and approval and should establish formal guidance to aid in the eligibility decisions. MTA should also ensure that amounts billed by the MPP vendors are accurate and properly supported. Finally, MTA should seek refunds of past federal and State excise taxes to the extent allowable and should recover future excise taxes in a timely manner.

- **The Reduced Fare Program (RFP) application process for disabled individuals who use the fixed route system was not sufficiently controlled and lacked formal guidance to assist MTA staff in determining applicant eligibility. For example, one individual had unilateral control over the RFP application process without any independent review and approval.**

MTA should establish controls over the RFP application process, including requiring independent supervisory reviews of applications and the development of guidance for use by MTA staff when evaluating applications.

- **Deficiencies were noted with respect to disbursements, payroll, bus inspections, materials and supplies, and equipment. For example, access to critical payroll systems was not properly restricted.**

MTA should take the recommended actions to improve the deficiencies noted in these areas.

Background Information

Agency Responsibilities

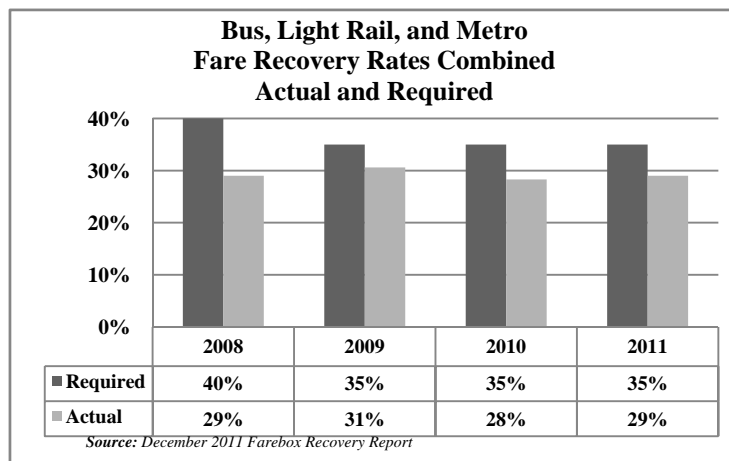
The Maryland Transit Administration (MTA), a unit of the Maryland Department of Transportation, is responsible for the construction, operation, and maintenance of the Baltimore metropolitan area transit system and for commuter services in suburban areas of the State. Transit modes in operation primarily include the Metro subway, bus, light rail, and the Maryland Rail Commuter (MARC) service. MTA is headquartered in Baltimore City and maintains a workforce of approximately 3,100 employees. According to State records, during fiscal year 2011, MTA’s operating and capital expenditures totaled approximately \$947 million. These expenditures were funded by special funds totaling approximately \$692 million and federal funds totaling approximately \$255 million.

Fixed Route Transit Systems Passenger Fare Recovery Rates

MTA reported that it did not attain passenger fare revenue levels during fiscal years 2008, 2009, 2010, and 2011, as required. State law provides that the MTA shall recover a percentage of its operating costs by establishing reasonable fares and implementing necessary cost containment measures. However, as noted in the chart below, during fiscal years 2008 through 2011, the MTA’s combined fare box recovery rates for its bus, Metro subway, and light rail operations failed to meet required levels. As reported upon in our preceding audit report, required levels have not been attained since fiscal year 2005.

For example, during fiscal year 2010, MTA’s reported net passenger fare revenues and net operating expenses totaled approximately \$81 million and \$283 million, respectively.

Therefore, during fiscal year 2010, MTA would have needed to realize additional passenger fare revenues of \$19 million or to have implemented cost containment measures to reduce its system operating costs by \$54 million (or a



combination thereof) to have complied with State law requiring a 35 percent farebox recovery rate.

Fares for Mobility Paratransit and Reduced Fare Programs

The regulations for the federally mandated Mobility Paratransit Program (MPP) and Reduced Fare Program (RFP) specify the maximum fares that can be charged by transit systems to eligible individuals. The fares charged by MTA under these programs are significantly lower than the stipulated maximum fares. As a comparison, the Washington Metropolitan Area Transit Authority (WMATA) has set its fares for MPP and RFP riders at the maximum rates allowed by federal regulations.

The MPP provides door-to-door service to individuals who are unable to use MTA's fixed route system due to a disability. Federal regulations for MPP allow MTA to charge up to twice the fare that would be charged to an individual paying the full per-trip fare on the fixed route system, which is \$1.60 for the transit system in the Baltimore area. Therefore, MTA could have charged up to \$3.20 for each MPP trip; however, the fare was \$1.85 per MPP trip. According to MTA's records (and as noted later in this report), the average cost per MPP trip (which could include multiple riders) was \$39.47 during fiscal year 2011, and 1.7 million rides were provided. If MTA charged \$3.20 per MPP trip, we estimated that additional fares totaling \$1.6 million could have been collected during fiscal year 2011.

The RFP provides a discounted rate on the fixed route system to elderly and disabled individuals who are still able to use the fixed route system. Federal regulations for RFP require MTA to provide a discount so that the amount paid is no more than one-half (50 percent) of the standard fare. Under MTA's fare structure, a monthly pass for those eligible for the RFP was discounted by 74 percent. The daily pass (and single ride fare) was discounted by 66 percent. As noted in our preceding comment on the passenger fare recovery rates, MTA has not attained passenger fare revenues on its fixed route system to the level required by State law. If MTA limited discounts for the RFP to 50 percent, we estimated that additional fares totaling \$3.4 million could have been collected during calendar year 2010.

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 November 5, 2008. We determined that MTA had satisfactorily addressed eight of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Contract Payments and Monitoring

Finding 1

Maryland Transit Administration (MTA) did not ensure the propriety of payments for employee and retiree healthcare costs.

Analysis

MTA lacked procedures and controls over self-insurance payments to a vendor for employee and retiree healthcare coverage. MTA contracted with a vendor to administer and pay healthcare claims on behalf of its union employees and retirees. The vendor provides medical coverage options that include medical plans, and prescription drug, dental, and vision plans. During fiscal years 2009 through 2011, MTA paid the vendor \$112.7 million, consisting of \$104.4 million in reimbursements for claims paid by the vendor and \$8.3 million in administrative fees. As of August 2010, there were approximately 3,600 union employees and retirees receiving benefits under this contract. Our review of MTA's procedures and controls over the contract and related payments disclosed the following conditions:

- MTA paid for claim reimbursements invoiced by the vendor without any verification that the amounts invoiced were proper. For example, MTA paid a March 2011 weekly invoice totaling \$2.6 million without any verification of these amounts. The vendor invoiced for \$220,000 related to estimated claims activity, \$520,000 related to actual claims activity, and \$1.8 million related to previously invoiced amounts for which the vendor had not received payment.

MTA also did not conduct claims reviews to ensure that the vendor paid claims only for eligible individuals in accordance with the contract terms, and did not review claims documentation to ensure that services were actually provided. In this regard, the Department of Budget and Management, which has similar claims processing contracts for State employees, contracted with a third-party vendor (other than the vendor processing the claims) to conduct reviews of claims paid.

- MTA did not adequately ensure that administrative fees invoiced and paid to the vendor were proper. For example, MTA paid administrative fees for the period from January 2011 through April 2011 without verifying that the rates billed for each individual were consistent with the coverage selected. Administrative fees per a July 2011 invoice ranged from \$1.02 for individuals only enrolled in the prescription drug plan to \$70.48 for individuals enrolled in multiple plans.

MTA also did not ensure the vendor conducted utilization reviews, for which the vendor was paid an administrative fee of \$2.23 per enrollee per month in calendar year 2010. Health provider utilization reviews are typically conducted to determine the necessity, appropriateness, and efficiency of medical services, procedures, facilities, and practitioners, and can be used to better manage the cost and effectiveness of the healthcare programs.

Recommendation 1

We recommend that MTA

- a. verify the propriety of claims reimbursements and administrative fees invoiced by the vendor,**
- b. conduct comprehensive claims reviews to ensure that only valid claims were paid for services actually provided for covered members,**
- c. ensure that the vendor conducts appropriate utilization reviews and that the results of these reviews are utilized to better manage the cost and effectiveness of the program, and**
- d. identify and recover any amounts improperly paid to the vendor.**

Finding 2

MTA lacked adequate procedures and controls to ensure that amounts paid under a \$10 million engineering contract were proper.

Analysis

MTA lacked adequate procedures and controls to ensure that amounts paid under a consulting services contract were proper. The engineering contract provides for consulting services, provided by the contractor and various subcontractors, relating to the purchase and maintenance of MTA's metro, light rail, bus, Maryland Rail Commuter (MARC), and paratransit vehicles. The contract covers a five-year period ending January 2014 and is valued at \$10 million, consisting primarily of \$8.9 million in estimated reimbursable direct labor and overhead costs (ranging from 100 to 130 percent of direct labor costs) and \$880,000 in fixed fees. Billing documents indicate that, as of November 10, 2011, approximately \$5.5 million had been billed and paid under the contract. Our review disclosed the following conditions:

- MTA could not document that it approved increases in direct labor rates paid to the contractor, nor did MTA compare the direct labor rates on the invoices with the related contract. For example, our review of a July 2010 task order totaling \$40,586, included in a \$501,030 invoice, disclosed that the amounts billed for all four employees did not agree with the contract, resulting in potential overpayments of \$2,807, or seven percent of the task order invoice

amount. In addition, for three of the employees, the rates invoiced also did not agree with direct labor rates included in the related task order.

The contract prohibited the contractor from increasing the direct labor rates without the prior written approval from MTA. However, there was no evidence that formal requests for increased direct labor rates were made by the contractor.

- MTA did not ensure the propriety of the reimbursable overhead costs paid to the contractor. For example, MTA paid the primary contractor based on an estimated overhead rate set at the inception of the contract, rather than based on the actual overhead rate for each fiscal year as provided for in the contract. Since the contract's inception in calendar year 2009, MTA has paid the contractor an overhead rate of 130 percent of direct salaries and wages, which represented the audited rate as of March 2007. In addition, MTA continued to pay one subcontractor based on a provisional reimbursable overhead rate of 100 percent of the direct labor rate because the subcontractor did not submit an audited rate with its financial proposal, as required by the request for proposals. The subcontractor has never submitted an actual audited overhead rate. The contract with the primary contractor provided that the actual allowable overhead rate shall be determined for each fiscal year for the contractor and subcontractors and that any overpayments or underpayments should be billed or credited.

Recommendation 2

We recommend that MTA

- a. review the rates paid on this contract and recover any amounts paid for rates that were not properly approved;**
- b. ensure that future amounts paid are in accordance with the contract and any increases in the rates are approved in advance;**
- c. request audited overhead rates since the inception of the contract, review the rates for propriety, and make appropriate adjustments to past billings and payments; and**
- d. withhold overhead cost reimbursements if the audited rates are not received.**

Disbursements

Finding 3

MTA did not always use the appropriate payment method for disbursement transactions, as required.

Analysis

MTA did not always use the appropriate payment method for disbursement transactions. According to the State's accounting records, during the period from July 2009 through December 2010, \$930 million of MTA's \$991 million in disbursement transactions (94 percent) were processed using an automated payment method that allowed for the payment of invoices without electronically matching the invoices to the purchase orders (and, when applicable, to the receiving reports) to ensure agreement. The Department of Information Technology's *Internal Control and Security Policy and Procedures Manual* requires the use of a match payment method for the purchases of services and commodities unless an agency is exempt under State Procurement Regulations, which MTA is not.

Although MTA and the Maryland Department of Transportation personnel advised us that they believe this payment method would be appropriate for many of these payments, they have not conducted a formal analysis of payments.

Recommendation 3

We recommend that MTA use the appropriate payment method to process disbursement transactions to ensure that purchase orders are prepared for all applicable expenditures and are matched with the related invoices prior to payment.

Payroll

Finding 4

MTA did not adequately control payroll payments and pension records for union operator employees.

Analysis

MTA had not established adequate controls to ensure the propriety of payroll payments and pension records for union operator employees, who are exempt from State personnel and payroll laws. MTA is responsible for all aspects of its union payroll and pensions including tracking employee pay rates and hours worked, maintaining pension and leave records, posting adjustments to the

pension and payroll records, and processing weekly payments via check or direct deposit. Our review of procedures and controls disclosed the following conditions:

- Modifications to MTA's pension master file and payroll payment records were not subject to any independent review and approval. For example, two employees were responsible for entering payroll adjustments (for example, to process a payment for an employee on sick leave) into the payroll system. However, there was no independent review performed to ensure that the adjustments were proper and supported by a supervisory approved request form.
- MTA could not provide us with a listing of employees who had the ability to process critical pension master file and payroll payment transactions and had no process to periodically review system access to ensure that it was properly restricted. In this regard, our review disclosed that MTA did not adequately segregate certain payroll functions. For example, we noted one employee processed payroll adjustments, could print payroll checks, submitted payroll information to the bank, and distributed the related payroll checks.

MTA payroll and pension expenditures for union employees and retirees totaled approximately \$201 million during fiscal year 2011. Adjustments to union payroll recorded in October and November 2010 resulted in increasing payroll payments by approximately \$190,000.

Recommendation 4

We recommend that MTA

- a. ensure that an independent employee periodically obtains a complete listing of adjustments to the pension master file and operator payroll records and verifies these entries to properly approved requests,**
- b. establish a means to identify employee access to critical payroll functions and ensure such access is periodically reviewed for propriety, and**
- c. ensure that critical payroll duties are properly segregated.**

Mobility Paratransit Program (MPP)

Background

MTA operates the federally mandated Mobility Paratransit Program (MPP) for individuals who are unable to use the MTA's fixed route bus, metro, or light rail services. As with other MTA transit operations, the MPP is funded by the Transportation Trust Fund. The MPP provides door-to-door service within a three-quarter mile range from any fixed route system. An individual requesting MPP services is required to submit an application signed by a healthcare professional documenting his or her disability and the reason(s)

Fiscal Year 2011 MPP Statistics
Annual Cost - \$59.7 million
Rides Provided – 1.7 million
Average Cost Per Trip - \$39.47
Standard Fare Charged Per Trip - \$1.85
Source: MTA Records (unaudited)

why he or she is unable to use MTA fixed route transportation services. Each applicant is then interviewed by MTA staff that is responsible for reviewing the application and supporting documentation and determining the applicant's eligibility, which is generally granted for a three-year period. Once approved, applicants receive a photo identification (ID) card, which must be presented to the driver before each trip. In addition, the card allows these individuals free access to MTA's fixed route system.

MTA contracted with three vendors to provide MPP services. Primarily the vendors provided services using MTA-owned vehicles. (Under certain circumstances, the vendors' vehicles were used.) The vendors were responsible for providing the drivers, fuel, and maintenance for the State vehicles, although MTA paid for or reimbursed for all costs. To schedule a ride, participants must contact MTA's call center. Ride requests are recorded by MTA on an automated system that generates a schedule for each vehicle. Participants must generally pay the \$1.85 fare (or provide an MTA pre-paid fare ticket) to the driver prior to obtaining a ride. According to MTA records, there were 18,691 certified participants as of June 2011.

Finding 5

The MPP eligibility process was not sufficiently controlled.

Analysis

MTA lacked adequate procedures and controls over the MPP eligibility process. Our review disclosed the following conditions:

- Eligibility determinations were not subject to independent review and approval to ensure that the eligibility determinations were proper. Our test of the applications for 30 MPP enrollees disclosed that they all lacked critical information to support the applicant's eligibility. Although required for each application, in all 30 instances, the healthcare professional did not describe the circumstances in which the applicant would not be functionally able to use the MTA's fixed route system. Rather, only a description of the patient's medical condition or handicap was generally provided. In addition, two applications indicated that the individuals had conditions that would require MPP services for only a short period (such as six months) but the interviewer granted them both eligibility for the full three-year period.
- MTA had not established formal guidance to assist MTA staff in determining applicant eligibility. Eligibility was determined based on a completed application and an in-person interview with MTA staff. While the application included several questions regarding the applicant's physical capabilities, the decision-making process tended to be subjective since the eligibility determinations required consideration of factors that may be unique to each applicant. Therefore, guidance is necessary to promote consistency and adherence to management's intent.

In addition, MTA did not adequately define which healthcare providers were qualified to certify an applicant's disability. The MPP application requires a healthcare professional to complete certain information and sign the application certifying the applicant has a need for the program. MTA staff advised us that healthcare professionals would include both licensed providers such as physicians, registered nurses, and social workers, and unlicensed providers such as alcohol and drug abuse counselors. However, this is not an official policy and it is not defined on the application. Our review of the Washington Metropolitan Area Transit Authority's (WMATA) MPP application disclosed that it was more comprehensive, required certification from "a healthcare provider holding active licensure or credentials in the area of your disability," and included a more restrictive list of the qualified providers (such as, physicians, physician assistants, and nurse practitioners).

- MTA did not adequately control access to the MPP eligibility database and the related ID card system and did not ensure that ID cards were only issued to approved applicants. Specifically, we noted that five employees who had the ability to add new enrollees to the eligibility database could also print the related ID cards. As a result, these employees could improperly add new enrollees to the system and issue the related cards without detection.

Recommendation 5

We recommend that MTA

- a. establish procedures to ensure MPP eligibility decisions are subject to independent review and approval;**
- b. establish formal guidance to aid in the eligibility decisions, including the definition of a qualified healthcare professional; and**
- c. ensure that access to the eligibility and ID card systems is properly controlled.**

Finding 6

MTA did not have a process in place to adequately monitor one MPP contract and related payments.

Analysis

MTA did not adequately monitor one MPP contract selected for review and the related payments. MTA receives monthly invoices for MPP services performed by the three vendors. The amount invoiced primarily related to amounts due for service hours (hours worked by the vendors' drivers), fixed costs (such as maintenance), and fuel costs. In addition, invoices were reduced for fares collected by the drivers. Our review of MTA's procedures for ensuring the propriety of the invoices for monitoring one of the three vendors, which had a three-year contract totaling \$57 million, disclosed the following conditions:

- While MTA stated it took certain steps to verify driver hours billed by the vendor, this process was not documented. Furthermore, the described procedures were not comprehensive. Specifically, we were advised that an MTA employee selected several vehicle runs from each vendor billing and manually compared the reported driver hours to reports maintained on MTA's automated records of actual trip times; however, there was no documentation of these comparisons. Furthermore, MTA vehicles are equipped with a monitoring device that downloads data onto an automated system. Drivers use the device to record when they start and end their shifts, from which the automated system records the time the vehicle was placed in and out of service. Therefore, MTA could perform a comprehensive verification of all driver hours billed with actual hours on an automated basis.
- MTA paid the vendor for vehicle runs based on scheduled ending times even when the routes were completed early. Our review of one day's billing from August 2010, totaling \$50,000, disclosed that MTA overpaid the vendor approximately \$2,400 (or 5 percent of the amount billed) for vehicle runs that ended prior to the scheduled time. The vendor's contract provides for

reimbursement based on vehicle hours which is defined as “the scheduled (or actual, if later) time the vehicle leaves the garage to go to its first pick up *until the vehicle returns to the garage after the last drop off.*”

- MTA did not ensure that fuel charges invoiced by the vendor were proper. The vendor billed MTA on a monthly basis for fuel used for MPP activity. To support the amount invoiced, the vendor submitted a schedule of the mileage and gallons of fuel used for each MPP vehicle, along with the “average fuel cost.” However, MTA did not verify the average fuel costs reported. Specifically, MTA did not obtain documentation of the actual fuel used in MTA’s vehicles and the related cost to facilitate this verification, as provided for in the contract. In addition, MTA did not verify the mileage to actual odometer readings and did not calculate the average miles per gallon (MPG) for each vehicle to determine the reasonableness of the fuel usage reported by the vendor. The MPG is used to monitor fuel usage in other State vehicles.
- MTA did not ensure that fare collections received and retained by the vendor were properly used to reduce invoice amounts. Most riders are required to pay a \$1.85 fare, or provide a prepaid MTA voucher to the driver. Fare collections are reported by the vendor as an offset to amounts billed; however, there was no verification that the proper amount of fare collections was reported.

Recommendation 6

We recommend that MTA establish adequate controls over MPP contracts and related payments. Specifically, we recommend that MTA

- a. ensure that amounts billed for service hours are accurate and represent actual hours worked and that related verifications are documented,**
- b. verify the fuel costs invoiced by the vendors, and**
- c. ensure that the vendors properly account for all fares collected by the drivers and properly reflect these fares as reductions of amounts invoiced.**

Finding 7

MTA did not attempt to obtain refunds of federal and State excise taxes paid for fuel used in State vehicles by the three MPP vendors. During fiscal year 2011, MTA paid the vendors approximately \$744,000 in federal and State excise taxes.

Analysis

MTA did not attempt to obtain refunds of federal and State excise taxes paid to the MPP vendors for fuel used in State vehicles. Our review of the fuel invoices supporting the cost of the fuel purchased and billed to MTA disclosed that the amounts invoiced to MTA included federal (\$0.244 per gallon for diesel and \$0.184 per gallon for gas) and State (\$0.2425 per gallon for diesel and \$0.235 per gallon for gas) excise taxes. During fiscal year 2011 alone, we determined that MTA paid the three MPP vendors \$331,028 and \$412,789 for federal and State excise taxes, respectively. MTA advised us that it has been operating under this current contract structure since August 2008.

According to federal law, MTA is eligible for a refund of the federal taxes. State law provides that the State fuel excise tax exemption applies to motor fuel that is bought by the Department of General Services for use by State agencies, but does not specifically address fuel purchased by MTA. Nevertheless, we confirmed by review of its fuel bills that MTA does not pay federal or State excise taxes for its own vehicles. We were advised by MTA management that MTA has never attempted to recover these taxes (that is, by filing the appropriate paperwork for a refund). In response to our finding, MTA submitted a refund request in December 2011 for \$224,488 in State excise taxes paid for the six months ending June 2011. As of January 20, 2012, no attempt has been made to recover any federal excise taxes. The extent to which these excise taxes can be retroactively recovered needs to be determined.

Recommendation 7

We recommend that MTA

- a. determine the amount of federal and State excise taxes that can be recovered and seek refunds of these taxes, and**
- b. ensure that future excise taxes are properly recovered in a timely manner.**

Reduced Fare Program (RFP)

Background

As required by federal regulations, MTA operates the Reduced Fare Program (RFP) for individuals who are 65 years or older or who, as a result of a disability, are unable to use the fixed route system as effectively as others. Eligibility entitles individuals to receive a discount on both monthly and daily passes (which allow unlimited travel on local bus, light rail, and Metro) and on fares paid for individual trips. For example, the regular fare for monthly passes is \$64 while the reduced fare is \$16.50 (a 74 percent discount). Individuals 65 years or older must present a valid government identification (such as a driver's license) to obtain the RFP discount. Eligibility for disabled individuals is determined based on an application process. According to MTA records, the value of RFP discounts provided totaled \$10.8 million during calendar year 2010.

Finding 8

The RFP application process for disabled individuals was not sufficiently controlled.

Analysis

MTA lacked sufficient policies, procedures, and controls over the RFP application process for disabled individuals. Disabled individuals under the age of 65 must complete an application certified by a healthcare professional describing the nature of the disability and an explanation of how it affects the applicant's ability to use regularly scheduled mass transit service. Our review disclosed the following conditions:

- One individual had unilateral control over the RFP application process. This employee received the applications, reviewed the supporting documentation, entered the information into the RFP database, and issued the related RFP identification cards. There were no independent supervisory reviews performed to ensure that the applications were properly processed.

Our review of the applications for 22 individuals enrolled in the RFP disclosed 12 applications with deficiencies. Specifically, 11 applications did not contain sufficient evidence of the applicants' disabilities, and 5 applications did not reflect the eligibility periods and/or the eligibility periods were not properly recorded on the RFP database. For example, seven applications stated the applicant's medical condition (such as, diabetes), but did not explain how the condition constituted a disability that would warrant a reduced fare as required by the application instructions. Two other applicants

were given five-year disability status on the RFP system even though the health care professionals indicated the applicants had a temporary disability.

- MTA had not established formal guidance to assist MTA staff in determining applicant eligibility. Eligibility was determined based on a completed application. While the application included questions regarding the applicant's physical capabilities, since the eligibility determinations required consideration of factors that may be unique to each applicant, the decision-making process tended to be subjective. Therefore, guidance is necessary to promote consistency and adherence to management's intent.

In addition, the RFP application requires a healthcare professional to complete certain information about the applicant's disability and to sign the application certifying its accuracy. MTA did not adequately define which qualified healthcare providers could certify an applicant's disability. MTA staff indicated that healthcare professionals would include both licensed providers such as physicians, registered nurses, and social workers, and unlicensed providers such as alcohol and drug abuse counselors. However, this is not an official policy and it is not defined on the application. Our review of the WMATA RFP application disclosed that it specified the type of healthcare professionals qualified to complete the application, such as physicians, physician's assistants, and licensed clinical psychologists.

As of June 2011, there were approximately 53,000 disabled individuals in the RFP, and MTA could not readily quantify those individuals 65 or older receiving benefits.

Recommendation 8

We recommend that MTA

- a. require that independent supervisory personnel review each RFP application to ensure that the applicant was eligible for the services and that information was properly entered into the RFP database; and**
- b. develop guidance to aid in eligibility decisions, including the definition of a qualified healthcare professional.**

Bus Inspections

Finding 9

MTA did not maintain reliable mileage records to ensure that bus inspections were performed as required.

Analysis

MTA did not maintain adequate records to ensure that bus inspections were performed as required. MTA used estimates of bus mileage based on the buses' assigned routes to schedule the required inspections without ensuring that the estimates were consistent with the actual mileage. The Federal Transit Administration (FTA) requires a transit agency to establish a preventive maintenance inspection plan that provides for at least 80 percent of its bus fleet to be inspected timely. To be considered timely, FTA stipulates that an inspection must be performed within 10 percent of the mileage interval stated in the agency's inspection plan. According to MTA's records, 4,953 of the 5,366 inspections (92 percent) in calendar year 2010 were completed in a timely manner. However, we were unable to assess the accuracy of these records due to the lack of actual mileage information. Specifically, for the six buses tested, there was no correlation between the mileage reflected in MTA's records and the related bus odometer readings.

We were advised by management that MTA historically did not have a reliable method to track the mileage because the odometer readings are often inaccurate due to odometer malfunctions. However, MTA management advised us that, effective April 2011, it implemented a new system to track actual mileage, which has resulted in "a significant increase in bus mileage" compared to the previous method of using estimates. Consequently, the number of aforementioned inspections actually performed timely could be lower.

The failure to ensure the required inspections are performed could result in sanctions by the federal granting agency or could compromise bus manufacturers' warranties and bus safety. During fiscal year 2011, MTA received approximately \$30.3 million in federal funding for bus operations.

Recommendation 9

We recommend that MTA maintain and use accurate mileage information to monitor compliance with federal maintenance inspection requirements.

Materials and Supplies

Finding 10

Inventories of materials and supplies were not adequately controlled.

Analysis

MTA had not established adequate controls over materials and supplies inventories maintained at its three primary storerooms and four satellite storerooms. As of June 30, 2011, these inventories totaled approximately \$36.8 million. Our review disclosed the following conditions:

- Materials and supplies maintained at the four satellite storerooms were not accounted for on MTA's automated perpetual inventory record system. During fiscal year 2010, the value of inventories transferred to these four storerooms totaled approximately \$12 million. State agencies are generally required to maintain perpetual records for all materials and supplies inventories for which the related annual expenditures exceed \$250,000. A similar condition was commented upon in our two preceding audit reports.
- Requisition forms for items withdrawn from the three main storerooms frequently were not signed as required. Specifically, our test disclosed that 15 of 45 requisition forms reviewed lacked the required signatures of the employees to whom such items were issued. As a result, MTA lacked assurance that items and quantities on the forms used to record the withdrawals were not altered and that the withdrawals were authorized. A similar condition was commented upon in our preceding audit report.
- Critical duties were not adequately segregated at the seven primary and satellite storeroom locations. Specifically, we noted that four supervisory employees had access to storerooms, reviewed and approved adjustments to the related inventory records, and had access to the storeroom surveillance videos. As a result, materials and supplies potentially could be misappropriated without detection. A similar condition was commented upon in our two preceding audit reports.

The Department of General Services' *Inventory Control Manual* establishes requirements to be followed by State agencies, including the maintenance of perpetual inventory records, establishing adequate segregation of duties, and documenting inventory activity, including withdrawals and adjustments.

Recommendation 10

We recommend that MTA comply with the recordkeeping requirements of the Department of General Services' *Inventory Control Manual*. Specifically, we recommend that MTA

- a. establish and maintain perpetual inventory records for all materials and supplies at its four satellite storerooms (repeat),**
- b. prepare and maintain requisition forms bearing the signatures of employees to whom the applicable items were issued (repeat), and**
- c. segregate duties at all storeroom locations so that employees having access to storeroom contents do not have access to the related perpetual inventory records and video surveillance tapes (repeat).**

Equipment

Finding 11

MTA did not accurately maintain detail records and account for all its equipment.

Analysis

MTA did not adequately control its equipment and maintain related records. According to MTA's records, as of June 30, 2011, MTA's equipment inventory totaled approximately \$1.4 billion, the majority of which was rolling stock. Our review of MTA's procedures and controls over the equipment disclosed the following conditions:

- Certain equipment recorded on MTA's detailed property records could not be located. Specifically, our test of 22 equipment items totaling \$344,000 disclosed that MTA could not locate 5 items from three locations totaling \$328,000 (including computers, power tools, and a GPS).
- Certain equipment was not recorded on the detailed equipment records and/or tagged as required. Specifically, our test of 30 equipment items at MTA locations disclosed that 13 items (including electronic equipment and computers) were not recorded on the detail property records, 9 of which also did not have property tags affixed.

The Department of General Services' *Inventory Control Manual* requires that State agencies maintain their equipment records in accordance with prescribed standards, including placing proper identification on each equipment item.

Recommendation 11

We recommend that MTA ensure that equipment is properly controlled and safeguarded. Specifically we recommend that MTA

- a. investigate the aforementioned missing equipment and take appropriate corrective action; and**
- b. ensure all equipment, including the items noted above, are properly recorded in the detailed records and tagged as required by the Department of General Services' *Inventory Control Manual*.**

Audit Scope, Objectives, and Methodology

We have audited the Maryland Department of Transportation – Maryland Transit Administration (MTA) for the period beginning November 1, 2007, and ending December 31, 2010. 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 MTA'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, procurement and disbursements, payroll, federal Mobility/Paratransit and Reduced Fare programs, property, materials and supplies, information systems, and certain other transactions specifically associated with MTA activities, such as bus maintenance. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MTA'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 MTA. 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 MTA'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 MTA.

MTA'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 MTA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our audit also disclosed significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MTA that did not warrant inclusion in this report.

The Department of Transportation's response, on behalf of MTA, 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

February 16, 2012

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

Martin O'Malley
Governor

Anthony G. Brown
Lt. Governor

Beverley K. Swaim-Staley
Secretary

Darrell B. Mobley
Deputy Secretary

Dear Mr. Myers:

Enclosed please find the Department's responses to the Office of Legislative Audits' Report dated February 2012 for the period November 1, 2007 and ending December 31, 2010, for the Maryland Department of Transportation (MDOT) – Maryland Transit Administration (MTA). Additionally, an electronic version of this document has been sent to your office via email at response@ola.state.md.us.

I assure you that the issues raised in your report are being taken very seriously. As deficiencies were raised by your staff, MTA began taking corrective actions by instituting changes in policies and procedures. I also want to express my appreciation for the assistance your staff provided to the Department during the course of this audit.

If you have any questions or need additional information, please do not hesitate to contact Mr. Ralign T. Wells MTA Administrator or myself. Mr. Wells can be reached at 410-767-3946, or by e-mail at RWells@mta.maryland.us.

Sincerely,

A handwritten signature in cursive script, appearing to read "Beverley K. Swaim-Staley".

Beverley K. Swaim-Staley
Secretary

Enclosure

cc: Mr. David L. Fleming, Chief Financial Officer, Maryland Department of Transportation
Mr. Joseph J. Lambdin, Director, Office of Audits, Maryland Department of Transportation
Mr. Darrell Mobley, Deputy Secretary, Maryland Department of Transportation
Mr. Whitney Tantleff, Chief Financial Officer, Maryland Transit Administration
Mr. Simon R. Taylor, Deputy Administrator, Maryland Transit Administration
Mr. Ralign T. Wells, Administrator, Maryland Transit Administration

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

**Maryland Department of Transportation
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Contract Payments and Monitoring

Finding 1

Maryland Transit Administration (MTA) did not ensure the propriety of payments for employee and retiree healthcare costs.

Recommendation 1

We recommend that MTA

- a. verify the propriety of claims reimbursements and administrative fees invoiced by the vendor,**
- b. conduct comprehensive claims reviews to ensure that only valid claims were paid for services actually provided for covered members,**
- c. ensure that the vendor conducts appropriate utilization reviews and that the results of these reviews are utilized to better manage the cost and effectiveness of the program**
- d. identify and recover any amounts improperly paid to the vendor.**

Response 1:

- a. The Administration concurs with the auditors' recommendation. On August 1, 2011, procedures and controls were put in place to ensure all invoices are audited prior to payment. Weekly claim invoices from the vendor are reviewed and verified against the contract for accuracy prior to payment. Only current invoiced amounts will be paid on this invoice. The Monthly Reconciliation Report from the vendor is reviewed and verified to the weekly claim invoices and the detailed monthly claim reports.

The verified Total Adjustment Due on the Monthly Reconciliation Report will be applied to the next weekly claim invoice. The Monthly Administrative Fee invoice from the vendor is audited prior to payment to ensure the fees invoiced are proper and consistent with MTA enrollment data. All invoices from January 1, 2010 to August 1, 2011 are currently under review. In addition, MTA hired a health care data analyst in January 2012, who continues to review and verify the enrollment data and administrative fee from the vendor. As a long-term solution to improve efficiency and data integrity, MTA is developing an electronic data transmission process between MTA and the vendor. This solution will be operational by late May 2012.

- b. The Administration concurs with the auditors' recommendation. MTA has developed a scope of work to contract with a firm qualified to perform medical claim audits. We anticipate soliciting bids in March 2012. This audit will be conducted beginning with Plan year 2010, and will continue on an annual basis. The audit will include a claims and eligibility review to ensure that the vendor paid claims accurately for eligible individuals and for services actually provided according to the terms of the contract and Schedule of Benefits. The auditor will also review vendor clinical programs, including Utilization Review, to verify these services are being performed effectively and are utilized to better manage the cost and effectiveness of our health care plan.

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- c. The Administration concurs with the auditors' recommendation. MTA has developed a scope of work to contract with a firm qualified to perform audits of Utilization Review programs. This work will be combined with the medical claims audit.
- d. The Administration concurs with the auditors' recommendation. The MTA has identified and recovered administrative fees improperly charged and paid to the vendor as a result of our internal audit. The Claims Audit above will identify any claims improperly paid by the vendor and the MTA will pursue recovery.

Finding 2

MTA lacked adequate procedures and controls to ensure that amounts paid under a \$10 million engineering contract were proper.

Recommendation 2

We recommend that MTA

- a. review the rates paid on this contract and recover any amounts paid for rates that were not properly approved;**
- b. ensure that future amounts paid are in accordance with the contract and any increases in the rates are approved in advance;**
- c. request audited overhead rates since the inception of the contract, review the rates for propriety, and make appropriate adjustments to past billings and payments; and**
- d. withhold overhead cost reimbursements if the audited rates are not received.**

Response 2:

- a. The Administration concurs with the auditors' recommendation. MTA will review the rates in the contract and to recover any amount not pre-approved by the project manager. While there is a contractor rate approval process and escalation established in the contract, MTA did not follow the specific contract language concerning pre-approvals. MTA is adjusting its process to reflect prior approval for personnel rate changes. All firms have been reminded to send in a request letter for any increases in salary. The salary adjustments will be approved or disapproved by the project manager in a letter to the firm.

MTA has reviewed the first year of the contract for any salary discrepancies on the prime firm and sub-consultant firms. We will continue our review of the remaining two years of the contract and submit the analysis to the contractor for reimbursement in March 2012.

- b. The Administration concurs with the auditors' recommendation. MTA will ensure that future amounts paid are in accordance with the contract. MTA sent a letter to all firms in

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February 2012 with various contractual reminders, including the requirement to submit requests and receive approval for any increases in pay prior to the person performing work at the increased rate. MTA will also complete refresher training to the project managers by this spring concerning these requirements.

- c. The Administration concurs with the auditors' recommendation. MTA is in the process of reviewing the rates under this contract and will make appropriate adjustments to past billings. This process will be completed by March 2012. MTA sent letters in December 2011, requesting all firms with provisional overhead rates to supply audits by June 30, 2012, as well as a reminder to all firms that annual audits are required.
- d. The Administration concurs with the auditors' recommendation. MTA will withhold overhead cost reimbursements if audits are not received by the June 30, 2012, deadline. Audits are required every year and overhead rates will be validated.

Disbursements

Finding 3

MTA did not always use the appropriate payment method for disbursement transactions, as required.

Recommendation 3

We recommend that MTA use the appropriate payment method to process disbursement transactions to ensure that purchase orders are prepared for all applicable expenditures and are matched with the related invoices prior to payment.

Response 3:

The Administration concurs with the auditors' recommendation. The Department is in the process of defining and evaluating the requirements necessary to modify the Department's Financial Management Information System in order to support the Administration's business processes. This is a significant modification, and is expected to take until July 2012 to complete. Additionally, the Department will confer with the Department of Information Technology, as well as the State Comptroller's Office - General Accounting Division, to obtain clarification concerning the utilization of the *Internal Control and Security Policy and Procedures Manual* as it relates to certain types of disbursement transactions. The Department will initiate these discussions in March 2011.

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Payroll

Finding 4

MTA did not adequately control payroll payments and pension records for union operator employees.

Recommendation 4

We recommend that MTA

- a. ensure that an independent employee periodically obtains a complete listing of adjustments to the pension master file and operator payroll records and verifies these entries to properly approved requests**
- b. establish a means to identify employee access to critical payroll functions and ensure such access is periodically reviewed for propriety**
- c. ensure that critical payroll duties are properly segregated.**

Response 4:

- a. The Administration concurs with the auditors' recommendation. All changes to the master file are independently reviewed and approved by the Payroll Manager.
- b. The Administration concurs with the auditors' recommendation. On January 31, 2012, MTA hired two payroll staff to better segregate duties in Payroll. In February an additional payroll accountant was hired to provide further controls. A master list of all accesses to the Payroll system is now kept by the Payroll manager and reviewed monthly by the Director of Finance. Access levels are granted and restricted by the payroll manager.
- c. The Administration concurs with the auditors' recommendation. Procedures and job responsibilities for the payroll clerks are currently being developed and will be completed in early March 2012. The job responsibilities allow MTA to segregate duties among the clerks to mitigate any internal control issues. Management staff duties will be documented in March 2012.

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Mobility Paratransit Program

Finding 5

The MPP eligibility process was not sufficiently controlled.

Recommendation 5

We recommend that MTA

- a. establish procedures to ensure MPP eligibility decisions are subject to independent review and approval;**
- b. establish formal guidance to aid in the eligibility decisions, including the definition of a qualified healthcare professional; and**
- c. ensure that access to the eligibility and ID card systems is properly controlled.**

Response 5:

- a. The Administration concurs with the auditors' recommendation. MTA instituted new procedures, which included a random sampling procedure, on December 1, 2011, to ensure that physician licensing and other required information is completed before the processing of Mobility applications. The sample size is currently 10 percent of applications taken by week. On average, Mobility Certification accepts 300 to 400 applications per week. Also included in this procedure is a review by the department manager of all sampled applications to ensure accuracy and completeness of all Mobility applications. The department manager looks for data that is missing or not completed during the intake interview. The sampling data is also used to identify trends in the data collection and develop training for intake personnel.
- b. The Administration concurs with the auditors' recommendation. MTA in October 2011 created an eligibility assessment area staffed with a licensed Physical Therapist to assist in providing functional assessments of an applicant's ability to use fixed route service. Since a paper application and in-person interview does not always provide extensive information to determine if a person with a disability can functionally use fixed route, this addition to the eligibility process will create documented decision-making by a professional trained in this area. A list of professionals such as healthcare workers, case workers, or counselors, that may provide verification is being developed and will be based on a study of other comparable transit properties procedures. This published list will be completed by March 15, 2012.
- c. The Administration concurs with the auditors' recommendation. MTA instituted an audit process as of February 1, 2012. A report has been created to review on a monthly basis certified Mobility clients' records versus new identification cards. This report is reviewed monthly and allows the MTA Certification Manager to investigate discrepancies between the applications and the cards issued.

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Finding 6

MTA did not have a process in place to adequately monitor one MPP contract and related payments.

Recommendation 6

We recommend that MTA

- a. ensure that amounts billed for service hours are accurate and represent actual hours worked and that related verifications are documented,**
- b. verify the fuel costs invoiced by the vendors, and**
- c. ensure that the vendors properly account for all fares collected by the drivers and properly reflect these fares as reductions of amounts invoiced.**

Response 6:

- a. The Administration concurs with the auditors' recommendation. MTA has enforced existing language in the contract that requires payments only be made "gate-to-gate". This contractual element stipulates that vendors will only be paid for service hours that the vehicle is out on the street. Any hours not operated due to the early return of that vehicle are subtracted from the payment due. MTA also requires the vendor to submit electronic billing information for use in verifying the accuracy of the amounts invoiced. This action reduces auditing complexity by creating a uniform process for auditing multiple vendors. As part of this process, daily exception reports are being designed to identify discrepancies between scheduled hours of service and those provided. Report will be finalized and in place by March 30, 2012. Discrepancies will be resolved, documented and reflected in an adjusted invoice.
- b. The Administration concurs with the auditors' recommendation. MTA has strengthened the review of mileage reports as part of the invoicing process that will begin March 1, 2012. The Contract Manager reviews the mileage reports and compares the gallons charged by each contractor against the invoice to ensure accuracy in billing of fuel costs.
- c. The Administration concurs with the auditors' recommendation. MTA will use scheduling data to compare the fare amount that should be collected daily to that reported on the Contractor invoice. This technology is currently available through the scheduling software and will be instituted as part of the invoice reconciliation process. Contractors have been notified this process will begin March 1, 2012.

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Finding 7

MTA did not attempt to obtain refunds of federal and State excise taxes paid for fuel used in State vehicles by the three MPP vendors. During fiscal year 2011, MTA paid the vendors approximately \$744,000 in federal and State excise taxes.

Recommendation 7

We recommend that MTA

- a. determine the amount of federal and State excise taxes that can be recovered and seek refunds of these taxes, and**
- b. ensure that future excise taxes are properly recovered in a timely manner.**

Response 7:

- a. The Administration concurs with the auditors' recommendation. The MTA submitted the refund request of \$224,488 to the State Motor Fuel tax Division on January 9, 2012. The refund should be received by April 2, 2012. This only includes January 2011 through June 30, 2011, as the prior months are ineligible. A request for the balance of the State Motor Fuel Tax refund shall be submitted in accordance with COMAR 03.03.02.

MTA, as a State agency, is exempt from Federal Excise Fuel Tax per 26 USCA §4041(g) and Treasury Regulation 48.6421-2. MTA shall submit a refund request to the IRS for payment of the Federal Fuel Excise Tax in accordance with Treasury regulation 48.6421-3.

- b. The Administration concurs with the auditors' recommendation. Accounting staff will process future refund requests in a timely manner. The excise documentation will be reviewed and approved by the Manager of Accounting to ensure applicable procedures are followed and refunds are received and deposited as expected.

Reduced Fare Program

Finding 8

The RFP application process for disabled individuals was not sufficiently controlled.

Recommendation 8

We recommend that MTA

- a. require that independent supervisory personnel review each RFP application to ensure that the applicant was eligible for the services and that information was properly entered into the RFP database**
- b. develop guidance to aid in eligibility decisions, including the definition of a qualified healthcare professional.**

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Response 8:

- a. The Administration concurs with the auditors' recommendation. The MTA has implemented the following corrective actions. On November 15, 2011 the reduced fare application processing procedure was revised to provide independent supervisory reviews and segregate the data entry and review processes. Office staff input application data into the database and the manager reviews the applications and database records for completeness/accuracy and makes the final determination of eligibility for participation in the program. The segregation of duties and formal review will ensure accurate record keeping and will ensure that only qualified individuals receive reduced-fare benefits.

- b. The Administration concurs with the auditors' recommendation. On November 14, 2011, the MTA enhanced its processes to ensure healthcare providers have active licenses and certifications. Only licensed healthcare professionals are permitted to sign the applications. In limited cases where social service agencies use unlicensed/uncertified employees to assess and assist clients with the application process, those agencies provide MTA with the names of those designated individuals. MTA follows up by researching a random sampling of professionals to validate qualifications.

Bus Inspections

Finding 9

MTA did not maintain reliable mileage records to ensure that bus inspections were performed as required.

Recommendation 9

We recommend that MTA maintain and use accurate mileage information to monitor compliance with federal maintenance inspection requirements.

Response 9:

The Administration concurs with the auditors' recommendation. MTA implemented an information technology solution in April 2011, to address the noted issues. The Fluid Management System (FMS) project was initiated to minimize the potential for human error in recording this data. The data collected by the system is used to track vehicle mileage, monitor fuel and fluid usage, schedule preventive maintenance, reconcile fluids, etc.

The FMS system improves MTA's recordkeeping capabilities; provide reliable statistical data about buses; helps diagnosing vehicle related problems; provides environmental compliance monitoring the storage tanks; provides reliable mileage data, which can later be utilized for planning and scheduling; and provides greater accountability, matching the employee who performs the fueling function with individual vehicles.

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Materials and Supplies

Finding 10

Inventories of materials and supplies were not adequately controlled.

Recommendation 10

We recommend that MTA comply with the recordkeeping requirements of the Department of General Services' *Inventory Control Manual*. Specifically, We recommend that MTA

- a. establish and maintain perpetual inventory records for all materials and supplies at its four satellite storerooms (repeat),**
- b. prepare and maintain requisition forms bearing the signatures of employees to whom the applicable items were issued (repeat), and**
- c. Segregate duties at all storeroom locations so that employees having access to storeroom contents do not have access to the related perpetual inventory records and video surveillance tapes (repeat).**

Response 10:

- a. The Administration concurs with the auditors' recommendation. The MTA reallocated ten positions in December to staff the satellite storerooms and has conducted a bin audit to identify the location of all items at the satellite sites. This audit allows the MTA to establish reorder points, minimum and maximum levels and item value. Staff have been hired into these ten positions and are currently being trained. New policies have been developed for personnel. Materials Management staff will begin manning the storerooms in March, as training is completed. Storerooms will be manned 24 hours a day for 5 days, thereby providing adequate staffing during the busiest days of the week. On the remaining two days, the storeroom will be unmanned but with alternate procedures in place. Accordingly, MTA has installed card access readers on the storeroom doors which only allow authorized personnel access. Supervisors are required to sign off on all parts taken from the storeroom. MTA is currently in the process of a major upgrade to its inventory management system. Once this system is in place, transactions will be recorded and maintained as the satellite storerooms come on line sequentially.
- b. The Administration concurs with the auditors' recommendation. In January 2012 the requisition form was redesigned and reprinted. On March 5, 2012, the new policy, standard operating procedures and requisition form will be implemented.
- c. The Administration concurs with the auditors' recommendation. MTA has security permissions in place that do not allow employees to perform any transactions to any record in the perpetual inventory system. Only MTA IT personnel have the ability to delete any recordings from the video surveillance system. Storeroom personnel have the ability to review, bookmark, and copy the video for follow-up.

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Equipment

Finding 11

MTA did not accurately maintain detail records and account for all its equipment.

Recommendation 11

We recommend that MTA ensure that equipment is properly controlled and safeguarded. Specifically we recommend that MTA

- a. investigate the aforementioned missing equipment and take appropriate corrective actions; and**
- b. ensure all equipment, including the items noted above, are properly recorded in the detailed records and tagged as required by the Department of General Services' *Inventory Control Manual*.**

Response 11:

- a. The Administration concurs with the auditors' recommendation. The MTA agrees with the recommendation for assets to be adequately safeguarded and controlled. Corrective actions have been completed for the each of the deficiencies noted in the audit. MTA investigated these five items and on April 5, 2011, three of the items were submitted to the Department of General Services (DGS) on Missing / Stolen State Property Write-off Authorization forms.

On August 5, 2011, two items were approved by DGS, and removal from FMIS occurred August 12, 2011. The GPS purchased on June 10, 2005, is still pending write-off approval by DGS.

Two mini computers purchased on January 1, 1989 were submitted to the DGS on Missing / Stolen State Property Write-off Authorization forms on May 3, 2011, and are pending write-off approval by DGS.

- b. The Administration concurs with the auditors' recommendation. MTA will continue to tag all equipment and enhance our efforts to meet the recordkeeping and identification standards prescribed by the Department of General Services' *Inventory Control Manual*. MTA will provide additional training for property officers in March 2012 and training for the accountable officers by December 2012.

AUDIT TEAM

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