

Audit Report

**Department of Transportation
Maryland Transit Administration**

November 2008



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

November 5, 2008

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

Ladies and Gentlemen:

We have audited the Department of Transportation – Maryland Transit Administration (MTA) for the period beginning August 1, 2004 and ending October 31, 2007.

Our audit disclosed that MTA did not adequately control and account for critical keys to bus fare revenue equipment. In January 2008, MTA referred to the Office of the Attorney General – Criminal Division a matter involving an unauthorized employee who used such keys to improperly access bus fare box collections. In addition, MTA did not use reports generated by its automated bus fare box system to ensure that recorded collections were subsequently deposited. In this regard, available system reports identified differences between recorded collections and the amount deposited totaling approximately \$475,000 applicable to the period from March 2007 through June 2007.

In addition, MTA did not comply with federal preventive maintenance inspection requirements applicable to transit buses. For example, we noted that 5,752 of the 8,714 bus inspections performed by MTA during the period from July 2006 through December 2007 were not conducted timely in accordance with MTA's federally-required bus inspection plan.

Finally, internal control and procedural deficiencies were noted in several other areas including grants, information systems security, materials and supplies, equipment, and motor vehicles. For example, during fiscal year 2007, MTA made a grant payment totaling approximately \$433,000 although the related grant agreement expired on June 30, 2003.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Table of Contents

Executive Summary	5
Background Information	7
Agency Responsibilities	7
Transit Systems Passenger Fare Recovery Rates	7
Status of Findings From Preceding Audit Report	8
Findings and Recommendations	9
Transit Operation Fare Box Revenues	
* Finding 1 – MTA Lacked Adequate Controls Over Keys Used to Access Certain Fare Revenue Equipment and Made a Referral to the Office of the Attorney General – Criminal Division Regarding the Unusual Usage of Such Keys	9
* Finding 2 – Surveillance Videos of Passenger Fare Revenue Processing Activities Were Not Independently Reviewed	10
Bus Preventive Maintenance Inspections	
Finding 3 – MTA Did Not Comply With Federal Preventive Maintenance Requirements Applicable to Transit Buses	11
Grant Funds	
Finding 4 – MTA Made a Grant Payment Totaling \$433,000 in Violation of the Related Grant Agreement	12
Computer Security and Processing	
* Finding 5 – Access to Certain Critical Files Was Not Properly Restricted	13
Finding 6 – Changes Made to Critical Payroll Files Were Not Adequately Monitored	14
Materials and Supplies	
* Finding 7 – Controls Over Materials and Supplies Were Inadequate	14
* Denotes item repeated in full or part from preceding audit report	

Equipment	
* Finding 8 – Physical Inventories of Equipment Were Not Completed and Related Supporting Records Were Not Maintained as Required	16
Motor Vehicles	
* Finding 9 – State-Owned Motor Vehicles Were Significantly Underutilized	17
Audit Scope, Objectives, and Methodology	19
Agency Response	Appendix

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

Executive Summary

Legislative Audit Report on Maryland Transit Administration (MTA) November 2008

- **MTA did not adequately control and account for keys to certain fare revenue equipment and, in January 2008, referred to the Office of the Attorney General – Criminal Division a matter regarding an unauthorized employee who used such keys to improperly access certain fare box collections. In addition, MTA did not use reports produced by its automated bus fare box system to ensure that recorded fare collections were subsequently deposited in the bank. Using available system reports, we identified differences between recorded collections and amounts deposited totaling approximately \$475,000.**
- MTA should restrict physical access to all keys for fare revenue equipment to authorized supervisory personnel and maintain a complete and current listing of all such keys. MTA should take corrective measures to ensure the accuracy and reliability of the reports produced by the automated fare box system and use the reports to verify that all recorded bus fare revenues are deposited. Furthermore, MTA, in consultation with the Office of the Attorney – Criminal Division, should investigate the aforementioned differences.
- **MTA did not perform timely preventive maintenance inspections of its transit buses in accordance with federal requirements and MTA’s bus inspection plan.**

MTA should complete preventive maintenance inspections of its transit buses in accordance with federal requirements and MTA’s bus inspection plan.

- **MTA made a grant payment totaling approximately \$433,000 in violation of the related grant agreement.**

MTA should ensure that grantees comply with the terms of all applicable grant agreements. MTA should obtain required documentation and project records for the aforementioned grant, and should recover any grant payments that MTA determines to be unsupported.

- **Internal control deficiencies were noted with respect to information systems security, materials and supplies, and equipment. For example, access to critical payroll systems was not properly restricted. Finally, MTA’s motor vehicle fleet was significantly underutilized.**

MTA should take the recommended actions to improve controls in these areas and should reassign, and/or transfer to other State agencies, motor vehicles that fail to meet minimum annual mileage usage requirements.

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 3,000 employees. According to State records, during fiscal year 2007, MTA's operating and capital expenditures totaled approximately \$657.6 million. These expenditures were funded primarily by special funds totaling approximately \$534.5 million and Federal funds totaling approximately \$123.1 million.

Transit Systems Passenger Fare Recovery Rates

MTA did not attain passenger fare revenue levels of at least 40 percent of its combined operating costs applicable to its bus, Metro subway, and light rail operations during fiscal years 2005, 2006, and 2007 as required by the Transportation Article of the Annotated Code of Maryland. The law further provides that the MTA shall achieve the required recovery ratio by establishing reasonable fares in the Baltimore region and implementing necessary cost containment measures.

According to MTA's records, during fiscal years 2005, 2006, and 2007, the MTA's combined fare box recovery rates for its bus, Metro subway, and light rail operations totaled 33.7 percent, 33.2 percent, and 32.1 percent, respectively. For example, during fiscal year 2007, MTA's net passenger fare revenues and net operating expenses totaled approximately \$83.7 million and \$260.9 million, respectively. Therefore, during fiscal year 2007, MTA would have needed to realize additional passenger fare revenues totaling \$20.6 million or implemented cost containment measures that would have reduced its system operating costs by \$51.7 million (or a combination thereof) to have complied with State law.

Chapter 684, Laws of Maryland for 2008, requires that for fiscal year 2009 and each fiscal year thereafter, MTA shall recover from passenger fares and other operating revenues at least 35 percent of its total combined transit system operating expenses. The law further provides that MARC operations be included in the calculation of the recovery of operating costs.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the 15 findings contained in our preceding audit report dated June 20, 2005. We determined that MTA satisfactorily addressed 9 of the 15 findings. The remaining 6 findings are repeated in this report, 2 of which were combined into 1 finding. In addition, the conditions from another finding in the preceding report are addressed in 2 separate findings in this report.

Findings and Recommendations

Transit Operation Fare Box Revenues

Background

Passenger fares are initially collected by the Maryland Transit Administration (MTA) using automated ticketing machines (for light rail, Metro subway, and MARC operations) or electronic fare boxes (for bus operations). The funds are brought to a central MTA location daily, where the funds are counted and prepared for eventual deposit. During fiscal year 2007, MTA deposited cash receipts totaling approximately \$129 million that primarily consisted of passenger fare revenues from MTA's bus, Metro subway, and light rail operations, with \$60.3 million coming from its bus operations.

Finding 1

MTA did not adequately safeguard and account for keys to certain fare revenue equipment. In January 2008, MTA made a referral to the Office of the Attorney General – Criminal Division regarding the unusual usage of certain critical keys to improperly access bus fare box collections. In addition, MTA did not use automated fare box system reports to ensure all collections were deposited.

Analysis

Controls over certain fare revenue equipment were inadequate. Specifically, our review disclosed the following conditions:

- Keys used to access certain fare revenue equipment, including bus fare boxes and safes, were not adequately safeguarded and accounted for during our audit period. Specifically, such keys were readily accessible to all 34 MTA employees who were responsible for fare revenue processing activities. In addition, during our audit period, MTA did not maintain a complete inventory listing of such keys and did not document the names of employees to whom specific keys were issued and the names of supervisors who issued such keys. A similar condition was also commented upon in our preceding audit report.

In January 2008, MTA referred to the Office of the Attorney General – Criminal Division (OAG-CD) a matter concerning unusual usage of certain critical keys by an unauthorized employee to access bus fare box collections. As of June 30, 2008, this matter was subject to ongoing investigations being conducted by OAG-CD and various federal authorities.

- MTA did not use reports generated by its automated bus fare box system to ensure that recorded fare collections were subsequently deposited in the bank, which is one of the primary uses/benefits of the system. MTA advised us that it does not use the aforementioned reports to verify that recorded fare collections are deposited because it does not believe the reports are accurate and reliable. However, MTA acknowledged that, at the time of our audit, it had not formally pursued this significant issue with the vendor from whom MTA purchased the automated bus fare box system in November 2004 at a cost of approximately \$21 million.

The collections recorded on the system reports, the reliability of which we did not verify, disclosed differences totaling approximately \$475,000 when compared to the amount of cash deposited for the period for March 2007 through June 2007. This difference represents the amount by which collection amounts recorded on the system reports exceeded the amount of cash deposited during the period.

Recommendation 1

We again recommend that, in the future, MTA restrict physical access to all keys for fare revenue equipment to only authorized supervisory personnel and to maintain an accurate listing of key assignments including the reason for issuance and appropriate signatures of the supervisors issuing and employees receiving keys. We also recommend that MTA resolve any deficiencies affecting the accuracy and reliability of the automated fare box reports and that the reports be used to verify that all recorded bus fare collections are deposited. Finally, we recommend that MTA, in consultation with the OAG-CD, investigate the \$475,000 difference to determine if the difference represents a cash shortage and consider expanding the investigation into time periods other than the period reviewed during our audit.

Finding 2

Surveillance videos of passenger fare revenue processing activities were not independently reviewed.

Analysis

Surveillance videos of passenger fare revenue processing activities at the central counting location (for example, the physical counting of collections and preparing of bank deposits) were not independently reviewed as the employees responsible for performing this function also had access to the related cash receipts. This condition was also commented upon in our preceding audit report.

Recommendation 2

We again recommend that surveillance videos of fare revenue processing activities be reviewed, at least on a test basis, by management personnel who do not have access to the related cash receipts.

Bus Preventive Maintenance Inspections

Finding 3

MTA did not comply with federal preventive maintenance inspection requirements applicable to transit buses.

Analysis

During the period from July 1, 2006 to December 31, 2007, MTA did not perform preventive maintenance inspections of its transit buses in accordance with applicable federal requirements.

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. As MTA's inspection plan requires that its buses be inspected at least once every 3,000 miles, an inspection would be considered late if the bus had accumulated more than 3,300 miles since its previous inspection.

However, according to MTA's internal records of the 8,714 inspections conducted by MTA from July 1, 2006 to December 31, 2007, 5,752 inspections, or 66 percent, were not performed within 10 percent of the mileage interval stated in its formal inspection plan. For example, 332 of 432 buses inspected by MTA during August 2007 had accumulated from 3,600 to 6,400 miles since the buses were previously inspected.

MTA could lose federal funds if the FTA imposed fiscal sanctions against MTA for failing to perform timely preventive maintenance bus inspections.

Additionally, untimely inspections could also result in MTA violating bus manufacturers' warranties, potentially resulting in MTA unnecessarily incurring maintenance and repair costs normally covered by such warranties. According to MTA's records, during fiscal year 2007, MTA received approximately \$30.3 million in federal funding for bus operations and total expenditures for bus operations were approximately \$233.7 million.

Recommendation 3

We recommend that MTA perform timely preventive maintenance inspections of its bus fleet in accordance with federal requirements.

Grant Funds

Finding 4

MTA made a grant payment totaling approximately \$433,000 in violation of the related written agreement.

Analysis

During August 2006, MTA made a grant payment totaling approximately \$433,000 even though the related grant agreement had expired on June 30, 2003. Specifically, we were advised by MTA that it made this payment prior to receiving documentation supporting that the grantee had actually incurred eligible, reimbursable costs, and documentation subsequently received indicated that the claimed costs had all been incurred after the expiration date of the grant. Furthermore, even though MTA had previously paid more than \$1 million from the grant, the grantee had not submitted to MTA, as required by the grant agreement, related periodic progress narratives and financial and statistical reports. Finally, although the grant agreement provided that MTA could audit related grantee records, as of March 2008, MTA had not performed such an audit. Consequently, MTA lacked assurance as to the propriety of the aforementioned payments.

During July 2001, MTA awarded the grantee a grant totaling approximately \$1.5 million. While MTA administers the grant and makes all the payments to the grantee, the grant was jointly funded by the MTA and the Maryland Department of Human Resources. The purpose of the grant was to provide the grantee with financial assistance to train selected public assistance recipients to become independent transportation providers.

Recommendation 4

We recommend that, in the future, MTA ensure that grantees comply with the terms of all applicable grant agreements before making related grant payments. We also recommend that for the aforementioned grant, MTA obtain all required documentation and project records to verify that all related grant payments, including the \$433,000 payment, are properly supported. Finally, we recommend that MTA recover any grant payments that MTA determines to be unsupported.

Computer Security and Processing

Background

MTA maintains a network of servers and workstations that are used to access and provide various data processing services for several significant systems and critical applications. For example, the payroll/benefits system includes applications for the processing of payroll checks, and for generating related payroll reports and year-end documents. Security software associated with these systems is capable of restricting access to data files and programs by providing users with access, through identification codes, to only those groups of files and programs necessary for the users to perform their duties.

Finding 5

System access controls and security settings were inadequate.

Analysis

System access controls and security settings were inadequate. Specifically, our review disclosed the following conditions:

- On the server hosting the MTA's payroll system, four programmers had access to a critical administrative account and password giving them complete control over the system. Such unnecessary access could result in unauthorized changes to critical payroll/benefit information without detection by management. In addition, six payroll section employees could bypass structured menus that were designed to limit the capabilities of these users. As a result, these employees could execute system commands and utilities not available on application menus and improperly modify production data and program files. Similar conditions were commented upon in our preceding audit reports.
- Four employees could bypass the employee substance abuse system's user authentication process, which was designed to limit the capabilities of these users. As a result, these employees could inappropriately gain unauthorized modification access to the system's production data and program files. This system is used to record the results of random drug tests and to monitor the rehabilitation of MTA employees.

Recommendation 5

We again recommend that the programmers with access to the critical administrative account and password have such access removed. We also again recommend that MTA prevent system users from bypassing structured

menus. Finally, we recommend that MTA prevent system users from bypassing user authentication processes.

Finding 6

Monitoring of changes made to critical payroll files was inadequate.

Analysis

Monitoring of changes made to critical payroll files was inadequate. Specifically, the payroll section manager who was responsible for receiving and reviewing reports of changes to critical payroll files (such as changes to employee pay rates) also had the capability to make modifications to the entire payroll system. Accordingly, the payroll manager could make improper changes to the payroll system without being detected. In addition, certain reviews of changes to critical payroll files performed by the payroll section manager were not adequately documented.

Recommendation 6

We recommend that the reports of changes to critical payroll system files be reviewed by an individual who is independent of the payroll process. We also recommend that these reviews be properly documented and retained for future reference.

Materials and Supplies

Finding 7

MTA's materials and supplies inventories were not adequately controlled.

Analysis

MTA had not established adequate controls over materials and supplies inventories maintained at its three primary storerooms (bus, Metro subway, and light rail operations) and four satellite storerooms (bus operations only). As of June 30, 2007, the materials and supplies inventories were valued at approximately \$29 million. Specifically, 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 2007, the value of inventories transferred to these four storerooms totaled approximately \$8 million, with one storeroom receiving inventories totaling \$2.5 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 preceding audit report.

- Critical duties were not adequately segregated at the seven primary and satellite storeroom locations as certain supervisory personnel had access to their respective storerooms, reviewed and approved adjustments to the related inventory records, and monitored storeroom surveillance videos. As a result, materials and supplies potentially could be misappropriated without detection.
- Our test of 110 requisition forms for parts and supplies from the primary bus storeroom disclosed that 45 of these forms were not signed by the employees to whom such items were issued. As a result, there was a lack of assurance that such items were actually issued to authorized personnel. A similar condition was also commented upon in our preceding audit report.
- Forms used to record materials and supplies withdrawals to the applicable perpetual inventory records were not compared to the related signed copies of the forms on file in the requisitioning units. As a result, MTA lacked assurance that items and quantities recorded on the forms used to record the withdrawals were not altered and that the withdrawals were authorized.
- Adjustments recorded by MTA to its perpetual inventory records frequently were not supported by related documentation prepared during physical inventory counts. Our test of 16 recorded adjustments disclosed that 12 such adjustments were incorrect. For example, for one item, the recorded adjustment reduced the on-hand quantity shown on the inventory records from 430 units to 142 units even though 370 units were recorded by MTA as having been counted.

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 7

We again recommend that MTA comply with various control and recordkeeping requirements of the Department of General Services' *Inventory Control Manual* related to materials and supply inventories.

Equipment

Finding 8

MTA did not complete physical inventories of equipment and frequently failed to record purchased equipment as required.

Analysis

MTA did not complete physical inventories of equipment and maintain the related detail records as required. According to MTA's records, as of June 30, 2007, MTA's equipment inventory totaled approximately \$1.06 billion, the majority of which was rolling stock. Specifically, our review disclosed the following conditions:

- As of January 2008, MTA had not performed a complete physical inventory of its sensitive and non-sensitive equipment since July 1998.
- MTA failed to record numerous equipment items that were purchased during our audit period in its detail equipment records. Specifically, our tests of 60 equipment items (excluding rolling stock) costing approximately \$467,000, that were purchased by MTA during the period from July 2004 through July 2007, disclosed that 14 of these items costing \$167,000 were not recorded in the detail records as of November 13, 2007.

Similar conditions were commented upon in our two preceding audit reports. The Department of General Services' *Inventory Control Manual* requires a complete physical inventory of all non-sensitive items be conducted at least once every three years and sensitive items be annually inventoried. In addition, the *Manual* requires that all capital equipment items be recorded in the detail equipment records.

Recommendation 8

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

Motor Vehicles

Finding 9

MTA's motor vehicle fleet was significantly underutilized.

Analysis

Thirty-nine of 140 State-owned vehicles (cars, vans, trucks, and SUVs) included in MTA's vehicle fleet and subject to mileage requirements did not accumulate at least 10,000 official miles during fiscal year 2007, as required. According to MTA's vehicle mileage reports, which we tested and found to be reliable, these 39 vehicles averaged 6,137 official miles during the year, with individual mileage ranging from 1,952 miles to 8,897 miles. Furthermore, 22 of the vehicles also failed to meet the mileage requirement for the preceding year.

The Department of Budget and Management's *State Vehicle Fleet Policies and Procedures* require State-owned vehicles to be used for a minimum of 10,000 official miles annually. Furthermore, agencies are required to monitor vehicle usage and reassign vehicles that do not meet the minimum usage requirement. Similar conditions have been commented upon in our six preceding audit reports dating back to May 1992.

Recommendation 9

We again recommend that MTA monitor the use of its motor vehicles and reassign and/or transfer to other State agencies any vehicles that fail to meet the annual minimum official mileage requirement.

Audit Scope, Objectives, and Methodology

We have audited the Maryland Transit Administration (MTA) for the period beginning August 1, 2004 and ending October 31, 2007. 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 control, 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. 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 (SHA) to the MTA. These payroll support services are included within the scope of our audits of SHA.

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.

Our audit scope was limited with respect to MTA's cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during a portion of the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all MTA cash transactions prior to July 1, 2005 were accounted for and properly recorded on the related State accounting records as well as the banks' records.

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.

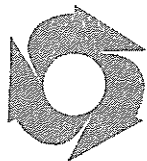
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 report also includes findings of 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 response to our findings and recommendations from the Department of Transportation, on behalf of MTA, 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 MTA 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

John D. Porcari
Secretary

Beverley K. Swaim-Staley
Deputy Secretary

October 31, 2008

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

Dear Mr. Myers:

Enclosed please find the Department's responses to the draft Legislative Auditor's Report dated October 2008, pertaining to your audit of the Maryland Department of Transportation – Maryland Transit Administration for the period of August 1, 2004 through October 31, 2007. Additionally, an electronic version of this document has been sent to your office via email (filename: MTA LA Audit Report Responses) 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 "John D. Porcari".

John D. Porcari
Secretary

Enclosure

cc: Mr. Eric L. Christensen, Deputy Administrator, Maryland Transit Administration
Mr. David L. Fleming, Chief Financial Officer, Maryland Department of Transportation
Mr. Joseph J. Lambdin, Director, Office of Audits, Maryland Department of Transportation
Mr. Charles Lockridge, Director, Office of Audits, Maryland Transit Administration
Ms. Beverley K. Swaim-Staley, Deputy Secretary, Maryland Department of Transportation
Mr. Paul J. Wiedefeld, Administrator, Maryland Transit Administration

**Maryland Department of Transportation
Maryland Transit Administration
Draft Audit Report Responses
Period August 1, 2004 to October 31, 2007**

Transit Operation Fare Box Revenues

Finding 1

MTA did not adequately safeguard and account for keys to certain fare revenue equipment. In January 2008, MTA made a referral to the Office of the Attorney General – Criminal Division regarding the unusual usage of certain critical keys to improperly access bus fare box collections. In addition, MTA did not use automated fare box system reports to ensure all collections were deposited.

MTA Response:

The Administration agrees with the recommendations. In August 2007, MTA transferred responsibility for fare box keys to the Office of Treasury and restricted physical access to fare collection keys. A record is now maintained to document the names of employees to whom a key is issued and the names of the supervisory personnel who authorized the issuance of a specific key. In addition the MTA has procured automated key management systems for all fare collection keys. These systems require personnel to possess an ID card and personal identification number to access keys. The system records who removed which keys and when the keys were returned, limits a particular key to a select list of individuals, limits the number of times keys can be removed, and generates alarms for any exceptions. The automated key management system also allows certain high security keys, such as the keys that open the front doors to the ticket vending machines that are not returned in a timely manner to be automatically deactivated. All fare collection keys are now under strict control procedures. The automated key system will be delivered and installed by December 1, 2008.

The MTA has continued to work to resolve issues affecting the accuracy and reliability of the automated fare collection system reports. The fare collection system and its associated reports must record, catalog, report, and transmit data from over 1 million daily transactions. As a result, many factors can complicate the reliability of data reports. The MTA has begun using an alternative report writing software that collects data from the original data base and does not require the time-consuming computer end-of-day processing of data, thus eliminating one lengthy processing step. The MTA began using these reports in September 2008. The data transmitted through data converters at the Bush bus division was intermittent, which affected the reliability and accuracy of data shown on the revenue reports. MTA replaced the data converters in December 2007 to address this issue. If the battery in a cashbox fails, the identification number from the cashbox cannot be read and the report will not show the revenue from that cashbox correctly. MTA completed a campaign to replace all bus cashbox batteries in September, 2008. The MTA replaced an improperly functioning garage server that was causing errors in data reports in February 2008. In addition, the central computer and computers at each bus division will be replaced during fiscal 2009. Because of faster processors and extended memory, the new central computer and division computers will more quickly and accurately produce the required reports necessary for proper management of our highly complex fare collection system.

Maryland Department of Transportation
Maryland Transit Administration
Draft Audit Report Responses
Period August 1, 2004 to October 31, 2007

As specific issues are identified, the MTA notifies the vendor for corrective action. Providing the vendor with sufficient detailed transactional information is essential for vendor problem resolution. To address this issue, the MTA formed a reconciliation group whose mission was to research, clarify and eliminate the variances in the reports versus the actual cash counts. The MTA also assigned internal resources to begin analyzing data produced by the fare collection system to identify issues. Standard reports provided in the fare collection system did not identify nor clarify the issues and MTA needed to develop new and improved reports.

In October 2007, the MTA staff, while reviewing the fare box usage information, discovered an anomaly, which was then forwarded to the MTA police for investigation. The MTA, in consultation with the OAG-CD, continues to investigate the differences in the cash collected and cash counted over a multi-year period to determine if the difference represents a cash shortage due to fraudulent activity.

Finding 2

Surveillance videos of passenger fare revenue processing activities were not independently reviewed.

MTA Response:

The Administration agrees with the recommendation. The surveillance video system was upgraded during the summer of 2008 and, as of October 22, 2008, the MTA Police began reviewing the fare revenue processing video on a test basis.

Bus Preventative Maintenance Inspections

Finding 3

MTA did not comply with federal preventative maintenance inspection requirements applicable to transit buses.

MTA Response:

The Administration agrees with the recommendation. The Federal Transit Administration requires that agencies meet at least 80% of their preventative maintenance inspections (i.e. oil changes, tire rotations) within 10% of their schedule mileage interval. In October 2007, the Administration revised the triggers in its maintenance management software (MAXIMO) that notifies Bus Maintenance Supervisors when preventive maintenance inspections are to be performed on each bus. This change has allowed the MTA to improve the timeliness of these preventive maintenance inspections. For the period of January 16, 2008 through January 31, 2008 and for the months of February, March and April 2008, MTA completed preventative maintenance inspections in a timely manner (within the required 3,300 mile intervals) for more than 80% of our buses. To meet this challenge we are implementing several actions: retirement of older buses that require higher level of maintenance, revision of the Inspection sheets to make the inspections more efficient, and the purchase of 30 new Hybrid Articulated buses.

**Maryland Department of Transportation
Maryland Transit Administration
Draft Audit Report Responses
Period August 1, 2004 to October 31, 2007**

Grant Funds

Finding 4

MTA made a grant payment totaling approximately \$433,000 in violation of the related written agreement.

MTA Response:

The Administration agrees with the recommendations. In the future, the MTA will ensure that grantees comply with the requirements of all applicable grant agreements. The grant in question supports a Workforce Transportation and Referral Center operated by Sojourner Douglass College (SDC), which provides transportation to low-income individuals or Temporary Assistance for Needy Families recipients. On October 10, 2008, MTA executed a Memorandum of Agreement with SDC to amend the grant agreement to allow for the full expenditure of all grant funds for the program. The MTA requested and received all supporting documentation for expenditures relating to this grant. In addition the MTA Office of Audits conducted an audit of the expenditures made by SDC and has determined that expenditures were supported and appropriate.

Computer Security and Processing

Finding 5

System access controls and security settings were inadequate.

MTA Response:

The Administration agrees with the recommendations. Effective October 15, 2008, the programmers do not have access to the critical administrative account and password. However, if the programmer requires access to resolve a production problem, a procedure has been implemented that allows the programmer temporary access and that access is removed when the problem has been resolved.

In the conversion to the new operating system, the MTA enhanced the Menu screens for our Payroll system in order to restrict the users' access to the required information only. The final version of the payroll menu screen was placed into production on July 1, 2008. System users can not bypass the structured menus and cannot modify production data and program files.

Effective July 31, 2008, the MTA Office of IT created an executable version of the database that will not permit users to bypass user authentication processes to gain unauthorized modification access to the Substance Abuse System's database, including production data and program files.

**Maryland Department of Transportation
Maryland Transit Administration
Draft Audit Report Responses
Period August 1, 2004 to October 31, 2007**

Finding 6

Monitoring of changes made to critical payroll files was inadequate.

MTA Response:

The Administration agrees with the recommendation. Effective with pay period ending February 23, 2008, the reviews of the Payroll System Employee Master File reports of critical changes are performed by the MTA Director of Finance. This individual is independent of the payroll process and does not have modification access to related Payroll System information. These reviews are documented and the documentation is retained for audit verification.

Materials and Supplies

Finding 7

MTA's materials and supplies inventories were not adequately controlled.

MTA Response:

The Administration agrees with the recommendations. Unfortunately, given the current budgetary situation facing State government and the lack of available staff, the MTA will not be able to establish separate perpetual inventory records at bus storerooms. We will establish perpetual inventory records when we are able to provide sufficient staffing.

It is not possible to segregate the duties of the supervisory personnel at the three storerooms. These employees require access to the storerooms to perform their management responsibilities. While they do review for accuracy and approve adjustments recorded to the perpetual inventory records, they do not have the capability to record these adjustments themselves.

The MTA Office of Audits is currently performing an audit verification of material adjustments and will perform such audit verification on an annual basis. It is expected that the audit will be complete by October 31, 2008.

For each fiscal year through fiscal year 2005, the MTA Office of Audits performed a test comparison of the copies of the requisition forms used to record withdrawals to the perpetual inventory records to the copies of the signed requisition forms maintained by the applicable requisitioning units. The MTA Office of Audits is again performing this test comparison for each fiscal year beginning with the fiscal year 2008. This test includes the review of the requisitions for the appropriate signatures of employees to whom the items were issued. Additionally, Standard Operating Procedures concerning inventory withdrawal were re-issued in July 2008.

**Maryland Department of Transportation
Maryland Transit Administration
Draft Audit Report Responses
Period August 1, 2004 to October 31, 2007**

Equipment

Finding 8

MTA did not complete physical inventories of equipment and frequently failed to record purchased equipment as required.

MTA Response:

The Administration agrees with the recommendation. The MTA sent a Letter of Intent to Award to the selected contractor on October 10, 2008. A "Notice to Proceed" (NTP) would be issued shortly after BPW approval, anticipated in December 2008. After the NTP is issued, there would be a period of orientation for the selected contractor to learn the existing data base, the inventory locations and receive necessary training (such as access to Metro and Light Rail track and maintenance areas). We anticipate that a physical inventory of all sensitive and non-sensitive equipment will begin by February 2009, and that the physical inventory and the reconciliation of the physical inventory with the perpetual inventory records will be completed by December 2009. The contractor and MTA will complete subsequent physical inventories of sensitive and non-sensitive equipment on an annual and tri-annual basis, respectively, and reconcile the inventory results to the related perpetual inventory records. In addition the MTA will ensure that all equipment acquisitions are recorded in the perpetual inventory records in a timely manner.

Motor Vehicles

Finding 9

MTA's motor vehicle fleet was significantly underutilized.

MTA Response:

The Administration agrees with the recommendation. The MTA has made considerable progress in its efforts to better utilize its vehicle fleet according to State vehicle fleet policy. In September 2008, MTA identified 8 cars, vans, or SUVs that will not be replaced, thereby reducing the fleet size. In addition, MTA is retiring 7 heavy duty nonrevenue vehicles to further reduce the overall MTA fleet. In addition, in September 2008, MTA reassigned 10 State vehicles from individuals who were using the vehicle to commute to make the vehicles available to all MTA drivers. Finally, as of October 26 2008, the MTA has created a vehicle pool at its Washington Boulevard complex to better use the available fleet at that location.

MTA believes that these actions, as well as continued biannual monitoring by MTA senior management, will better use the vehicle fleet and to accumulate at least 10,000 official miles each fiscal year per vehicle.

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