

Audit Report

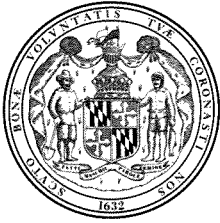
Maryland Transportation Authority

March 2014



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

March 27, 2014

Thomas J. Barnickel III, 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 Transportation Authority (MDTA) for the period beginning January 7, 2010 and ending March 26, 2013. MDTA is responsible for the supervision, financing, construction, operation, maintenance, and repair of the State's toll facilities.

Our audit disclosed that MDTA had not established controls over the processing of certain purchasing transactions to ensure only authorized purchases were made. In addition, the disaster recovery plan for the locally housed components of the *E-ZPass* toll collection system was not current and complete, nor had the plan been tested.

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

Respectfully submitted,


Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

Title 4 of the Transportation Article, Annotated Code of Maryland, establishes the Maryland Transportation Authority (MDTA) as an agency of the State, to act on behalf of the Maryland Department of Transportation with regard to the supervision, financing, construction, operation, maintenance, and repair of the State's toll facilities.

The governing board of MDTA consists of eight members who are appointed by the Governor with the advice and consent of the Senate. The Secretary of Transportation serves as the Chairman. MDTA's operating activities are primarily funded through the collection of toll revenues. According to its audited financial statements, MDTA's operating revenues and expenses totaled \$617 million and \$346 million, respectively, during fiscal year 2013, and its net position totaled \$3.1 billion as of June 30, 2013.

Financial Statement Audits

MDTA engaged an independent accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2010, 2011, 2012, and 2013. In the related audit reports, the firm stated that MDTA's financial statements presented fairly, in all material respects, the financial position of MDTA as of June 30, 2010, 2011, 2012 and 2013, and the respective changes in its financial position and cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated December 7, 2010. We determined that MDTA satisfactorily addressed three of those findings. The remaining finding is repeated in this report.

Findings and Recommendations

Purchasing Transactions

Finding 1

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

Analysis

The Maryland Transportation Authority (MDTA) had not established proper internal controls over certain purchasing transactions. Specifically, 60 employees had the ability in MDTA's automated purchasing system to initiate and approve purchasing transactions, and record the receipt of the related purchases without independent approval. As a result, unauthorized purchases could be made and not be readily detected by MDTA management. A similar condition was commented upon in our preceding audit report.

According to MDTA's records, during calendar year 2012, purchases totaling approximately \$933,000 were initiated and approved by the same employee, and approximately \$377,000 of these purchases were also recorded as having been received by the same employee.

Recommendation 1

We recommend that MDTA ensure that all purchasing transactions are subject to independent online approval (repeat).

***E-ZPass* Toll Collection System**

Background

MDTA's information systems provide substantial support for accomplishing MDTA's mission including supporting the *E-ZPass* toll collection system. The *E-ZPass* toll collection system acts as a central hub for *E-ZPass* customer account information and is used to process all toll collections. Maintenance and operation of this system and the integrated statewide network, which supports this system, are provided by contractor and State personnel. The *E-ZPass* system is supported by numerous servers and network devices which are housed locally, and MDTA is responsible for the disaster recovery plan for these local servers and network devices.

Finding 2

MDTA's disaster recovery plan for the locally housed components of the E-ZPass toll collection system was not current and complete, nor had it been tested.

Analysis

MDTA's disaster recovery plan (DRP) for the locally housed components of the E-ZPass toll collection system was not current and complete, nor had the DRP been tested. The State of Maryland *Information Technology (IT) Disaster Recovery Guidelines* provide information on the minimum required elements needed for a complete information system DRP. Our review of MDTA's DRP disclosed that the DRP did not address the following required elements:

- Alternate site processing arrangements were not specified. We were advised by MDTA personnel that a backup alternate site will be established with an estimated completion of summer 2014.
- Plans for the restoration of network connectivity were not outlined. Furthermore, while the DRP did reference a communications plan, this plan had not been updated since May 2010 and did not address the technical considerations for restoring network connectivity.
- The DRP was last updated in September 2010. As a result, sections of the plan, including hardware and software components and Disaster Team designations and contacts were outdated.
- Formal, documented testing of the DRP had not been performed.

As a result, a disaster could cause significant delays (for an undetermined period of time) in restoring operations for information systems beyond the expected delays that would exist in a planned recovery scenario.

According to MDTA's records, during fiscal year 2012, toll collections totaled in excess of \$389 million, of which over \$249 million was collected through the E-ZPass system.

Recommendation 2

We recommend that MDTA develop and maintain a current and complete disaster recovery plan and periodically test the plan in accordance with the aforementioned *IT Disaster Recovery Guidelines*.

Audit Scope, Objectives, and Methodology

We have audited the Maryland Transportation Authority (MDTA) for the period beginning January 7, 2010 and ending March 26, 2013. 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 MDTA'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. The areas addressed by the audit included procurements and disbursements for construction of toll facilities, tunnels, and bridges as well as for MDTA's operating expenses; cash receipts; and payroll.

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

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

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

APPENDIX



Maryland Department of Transportation
The Secretary's Office

Martin O'Malley
Governor

Anthony G. Brown
Lt. Governor

James T. Smith, Jr.
Secretary

March 20, 2014

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

Dear Mr. Barnickel:

Enclosed please find the Department's responses to the draft Legislative Auditor's Report dated March 6, 2014 for the Maryland Transportation Authority (MDTA) for the period beginning January 7, 2010 and ending March 26, 2013. Additionally, an electronic version of this document was sent to your office via email at response@ola.state.md.us.

The MDTA concurs with the two Findings and Recommendations contained in this audit report. We appreciate the thorough examination of our financial transactions, records and internal controls, and evaluation of our compliance with applicable State laws, rules, and regulations professionally conducted by your staff. We will work towards compliance with the report's recommendations in a manner outlined in the final responses.

If you have any questions or need additional information, please do not hesitate to contact Mr. David L. Fleming, Maryland Department of Transportation (MDOT) Chief Financial Officer. Mr. Fleming can be reached at 410-865-1035. Of course, you may always contact me directly.

Sincerely,

A handwritten signature in black ink, appearing to read "James T. Smith, Jr.", written over a large, loopy scribble.

James T. Smith, Jr.
Secretary

Enclosure

cc: Ms. Brenda Cachuela, Director, Office of Audits, MDOT
Mr. Leif A. Dormsjo, Deputy Secretary for Planning and Project Management, MDOT
Mr. David L. Fleming, Chief Financial Officer, MDOT
Mr. Bruce W. Gartner, Executive Director, MDTA
Mr. Jody McCurley, Director, Office of Audits, MDTA
Mr. Wilson H. Parran, Deputy Secretary for Administration and Operations, MDOT
Ms. Deborah E. Sharpless, Deputy Executive Director, MDTA

**Maryland Department of Transportation
Maryland Transportation Authority
Draft Audit Report Responses
Period January 7, 2010 to March 26, 2013**

Purchasing Transactions

Finding 1
Proper internal controls were not established over the processing of certain purchasing transactions.

Recommendation 1

We recommend that MDTA ensure that all purchasing transactions are subject to independent online approval (repeat).

Response

MDTA concurs with the recommendation. Significant limitations exist with MDTA's current purchasing system to restrict user access rights. A development of a new purchasing system has been underway. The functionality of this system will be implemented in 3 phases: purchasing cards, contracts \$200,000 and greater, and all remaining purchases. Phases I and II are expected to be completed by October 1, 2014 and December 2014, respectively. The implementation date for the final phase will be determined after completion of Phases I and II. In the interim, access rights will be restricted to the extent feasible in the system.

**Maryland Department of Transportation
Maryland Transportation Authority
Draft Audit Report Responses
Period January 7, 2010 to March 26, 2013**

***E-ZPass* Toll Collection System**

Finding 2

MDTA's disaster recovery plan for the locally housed components of the *E-ZPass* toll collection system was not current and complete, nor had it been tested.

Recommendation 2

We recommend that MDTA develop and maintain a current and complete disaster recovery plan and periodically test the plan in accordance with the aforementioned *IT Disaster Recovery Guidelines*.

Response

MDTA concurs with the recommendation. The Back-up and Disaster Recovery Plan was last updated September 2010 and minor changes are needed to update some of the administrative processes contained in the Plan and to include the new warm backup alternate site currently under development. The Plan will be updated and annual testing will occur after completion of the new warm backup site in 2014.

The risk of lost revenue is minimized by the redundant set-up between the systems. The lane controllers are equipped with Uninterruptible Power Supplies (UPS) to allow them to continue to work until the standby generator kicks in, in the event of a power loss. In addition, the lane controllers are designed to store up to thirty (30) days of transaction data and are able to operate stand alone in the event of network or plaza and/or host computer failure. The process above was executed in 2010 when thirty-six (36) hours of transactions were successfully restored to the servers with no loss of revenue to the MDTA.

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