

Audit Report

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**Maryland Transportation Authority**

December 2010

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**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

December 7, 2010

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 Maryland Transportation Authority (MdTA) for the period beginning November 1, 2006 and ending January 6, 2010. MdTA is responsible for the supervision, financing, construction, operation, maintenance, and repair of the State's toll facilities.

Our audit disclosed that certain collections processed by the *E-ZPass* toll collection system contractor were not adequately controlled and accounted for and that MdTA had not required that an independent audit be performed of the contractor's system to ensure that the related internal controls were adequately designed and operating effectively. In addition, MdTA had not established adequate controls over the processing of certain purchasing and disbursement transactions, and did not always follow State Procurement Regulations when purchasing goods and services.

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,

Bruce A. Myers, CPA  
Legislative Auditor



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

## **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 \$403 million and \$258 million, respectively, during fiscal year 2009, and its net assets (primarily infrastructure, construction in progress, and land) totaled \$2.25 billion as of June 30, 2009.

### **Financial Statement Audits**

MdTA engaged an independent accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2007, 2008, and 2009. 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, 2007, 2008, and 2009, 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 seven findings contained in our preceding audit report dated June 1, 2007. We determined that MdTA had satisfactorily resolved six of those findings. The remaining finding is repeated in this report.

# Findings and Recommendations

## Cash Receipts

### **Finding 1**

**Certain collections processed by the *E-ZPass* system contractor were not adequately controlled.**

### **Analysis**

Checks received at the *E-ZPass* system contractor's customer service center were not adequately controlled. According to the contractor's records, during fiscal year 2009, the service center collected checks (primarily payments on customer accounts) totaling approximately \$5.3 million. However, the checks were not recorded immediately upon receipt. Furthermore, although the checks were batched prior to processing, the batches lacked control totals, and the contractor employees who recorded the checks in the *E-ZPass* system also had the ability to record non-cash credit adjustments to customer accounts. Finally, MdTA did not use the initial record of collections to ensure that all checks recorded by the contractor were subsequently deposited. As a result, MdTA lacked assurance that all checks received by the contractor were deposited, and may not readily detect any misappropriations of checks. Similar conditions were commented upon in our two preceding audit reports.

MdTA contracted with a private company to operate and maintain the *E-ZPass* electronic toll collection system and related facilities in Maryland, including the customer service center. The Comptroller of the Treasury's *Accounting Procedures Manual* requires State agencies to record all incoming cash receipts immediately at the time of collection, segregate the cash handling and account adjustment functions, and verify bank deposits to the initial recordation of collections. We believe a similar standard should be applied to contractors responsible for processing collections on behalf of MdTA.

### **Recommendation 1**

**We recommend that MdTA**

- a. ensure that all incoming cash receipts collected by the contractor are recorded immediately upon receipt (repeat),**
- b. ensure that contractor employees involved in the cash receipts function not have the capability to process non-cash credit adjustments to customer accounts, and**
- c. verify that all initially recorded cash receipts are deposited (repeat).**

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

### **Finding 2**

**MdTA had not required an independent audit of the system contractor's *E-ZPass* toll collection system since May 2006 to ensure that the related internal controls were designed and operating effectively.**

### **Analysis**

A contractor operated MdTA's *E-ZPass* toll collection system using its own data center and applications. However, as of May 2010, MdTA had not required or otherwise obtained an independent audit of the system's controls since May 2006. Currently, MdTA's contract with the system contractor does not require that the contractor obtain an annual independent audit to ensure its system internal controls related to the *E-ZPass* operations were suitably designed and functioning efficiently to safeguard MdTA-related transactions. Consequently, the system could be vulnerable to a variety of exposures, such as third-party access to critical system data. An annual audit is also necessary given that the system periodically undergoes upgrades and revisions. In this regard, we were advised by MdTA management personnel that a major upgrade to the toll collection system was performed during calendar year 2008. Without an annual independent audit, MdTA is essentially relying on the contractor's assertion that the toll collection system is secure and the related applications are functioning properly.

According to MdTA records, during fiscal year 2009, *E-ZPass* toll collections totaled approximately \$157.3 million. After we brought this situation to its attention, MdTA advised that it is in the process of obtaining an independent audit of the contractor's system controls.

### **Recommendation 2**

**We recommend that MdTA obtain annual independent audits of system controls over the *E-ZPass* toll collection system to ensure that the contractor's controls and related policies and procedures are suitably designed and properly operating.**

## Purchases and Disbursements

### **Finding 3**

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

#### **Analysis**

MdTA had not established proper internal controls over certain purchasing and disbursement transactions. Specifically, five employees had the ability in MdTA's accounts payable system to initiate, approve, and release certain disbursement transactions for payment via MdTA's automated accounting system without independent approval. In addition, 59 employees had the ability in MdTA's purchasing system to initiate and approve purchasing transactions and record the receipt of the related purchases without independent approval. As a result, unauthorized purchases and disbursements could be made and not be readily detected by MdTA management.

According to MdTA records, during fiscal year 2009, MdTA processed disbursements totaling approximately \$808 million. During calendar year 2009, purchases totaling approximately \$2 million were initiated and approved by the same employee, and approximately \$491,000 of these purchases were recorded as received by the same employee.

#### **Recommendation 3**

**We recommend that MdTA ensure that all purchasing and disbursement transactions are subject to independent online approval.**

### **Finding 4**

**MdTA did not always follow State Procurement Regulations for purchases of goods and services.**

#### **Analysis**

MdTA did not always follow State Procurement Regulations. Specifically, we noted the following conditions:

- Based on our review of corporate purchasing card (CPC) transactions processed during fiscal year 2009, which totaled approximately \$5.2 million, we noted instances in which MdTA repeatedly procured certain goods and services without soliciting competitive bids and entering into written contracts. Specifically, during fiscal year 2009, MdTA made repeated CPC purchases of \$2,500 or less from 17 vendors totaling approximately \$696,000

for certain goods and services (such as auto parts and repairs, supplies, and transportation services). In addition, MdTA made numerous other purchases from these same vendors totaling \$72,000 during fiscal year 2009 without using Statewide contracts or soliciting competitive bids. For example, 581 CPC purchases totaling approximately \$112,000 were made from one vendor. Although purchases from each of the 17 vendors exceeded \$25,000 during fiscal year 2009, MdTA had not obtained competitive bids for the purchases or entered into written contracts with the vendors. Since the purchases were not consolidated, MdTA's leverage as a high-volume purchaser may not have been maximized.

- Our test of five contracts awarded during fiscal years 2007 to 2009 totaling approximately \$469.5 million disclosed that for two construction contracts totaling approximately \$181 million, the notice of the invitation for bids and the award of the contracts were not published in *eMaryland Marketplace*, as required.

State Procurement Regulations generally require that procurements in excess of \$5,000 be competitively bid and that the related contracts be in writing. In addition, the Regulations require that for all contracts over \$25,000, notices of the invitation for bids be published in *eMaryland Marketplace* at least 20 days before the bid submission date, and that award notices be published in *eMaryland Marketplace* not more than 30 days after the execution and approval of the contract.

#### **Recommendation 4**

**We recommend that MdTA comply with State Procurement Regulations.**

**Specifically, we recommend that MdTA**

- a. use Statewide contracts, when applicable, or solicit competitive bids to help ensure that goods and services are obtained at the lowest available cost;**
- b. ensure that formal written contracts are executed with the vendors that provide such goods and services; and**
- c. timely publish invitation for bids and contract awards in excess of \$25,000 in *eMaryland Marketplace*.**

## **Audit Scope, Objectives, and Methodology**

We have audited the Maryland Transportation Authority (MdTA) for the period beginning November 1, 2006 and ending January 6, 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 MdTA'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 areas addressed by the audit included procurements and disbursements for construction of toll facilities, tunnels, and bridges; cash receipts; purchases and disbursements; and payroll. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MdTA'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 an evaluation of internal controls for bond issuances and an assessment of MdTA's compliance with related laws and regulations because such activity is included in the scope of the work performed by the independent accounting firm that annually audits MdTA's financial statements.

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 the safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

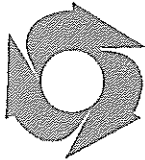
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 report also includes findings regarding 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 MdTA regarding the results of our review of its response.

## APPENDIX



**Maryland Department of Transportation**  
The Secretary's Office

**Martin O'Malley**  
Governor

**Anthony G. Brown**  
Lt. Governor

**Beverley K. Swaim-Staley**  
Secretary

**Harold M. Bartlett**  
Deputy Secretary

December 6, 2010

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

Dear Mr. Myers:

Enclosed please find the Department's responses to the draft Legislative Auditor's report dated November 16, 2010 for the Maryland Transportation Authority for the period beginning November 1, 2006 and ending January 6, 2010. Additionally, an electronic version of this document has been sent to your office via email (file name: MdTAAuditReportResponses112410.doc) to [response@ola.state.md.us](mailto:response@ola.state.md.us).

If you or your staff has any questions or need additional information, please do not hesitate to contact me or Mr. Harold Bartlett, Acting Executive Secretary. Mr. Bartlett can be reached at 410-537-1001.

Sincerely,

A handwritten signature in black ink, appearing to read "Beverley K. Swaim-Staley".

Beverley K. Swaim-Staley  
Secretary

Enclosure

cc: Mr. Harold M. Bartlett, Acting Executive Secretary, Maryland Transportation Authority  
Mr. Randolph P. Brown, Deputy Executive Secretary, Maryland Transportation Authority  
Mr. David L. Fleming, Chief Financial Officer, Maryland Department of Transportation  
Mr. Joseph J. Lambdin, Director, Office of Audits, Maryland Department of Transportation  
Ms. Jody McCurley, Director, Office of Audits, Maryland Transportation Authority  
Ms. Deborah E. Sharpless, Chief Financial Officer, Maryland Transportation Authority

**Maryland Department of Transportation  
Maryland Transportation Authority  
Draft Audit Report Responses  
Period November 1, 2006 to January 6, 2010**

## **Cash Receipts**

### **Finding 1**

**Certain collections processed by the *E-ZPass* system contractor were not adequately controlled.**

#### **Response:**

- a. The MDTA concurs that all incoming cash receipts collected by the contractor should be recorded immediately upon receipt. This procedure is currently being developed and the estimated completion date is November 30, 2010.
- b. The MDTA concurs that contractor employees involved in the cash receipts function should not have the capability to process non-cash credit adjustments to customer accounts. The capability to process non-cash credit adjustments to customer accounts by contractor employees who are involved in the cash receipts functions was terminated on August 12, 2010.
- c. The MDTA concurs that the deposit of all recorded cash receipts collected by the contractor should be verified. This procedure is currently being developed and the estimated completion date is November 30, 2010.

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

### **Finding 2**

**MdTA had not required an independent audit of the system contractor's *E-ZPass* toll collection system since May 2006 to ensure that the related internal controls were designed and operating effectively.**

#### **Response:**

The MDTA concurs that a SAS 70 audit is a valuable review as it would provide further assurance that the controls over the *E-ZPass* toll collection system operated by a third party are sufficiently designed and operating effectively. The MDTA engaged the services of an independent public accounting firm to conduct a SAS 70 Type II audit for FY 2010. The audit has been completed and there were no significant deficiencies identified in the report. The MDTA will have a SAS 70 audit performed on a periodic basis going forward.

**Maryland Department of Transportation  
Maryland Transportation Authority  
Draft Audit Report Responses  
Period November 1, 2006 to January 6, 2010**

**Purchases and Disbursements**

**Finding 3**

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

**Response:**

The MDTA concurs to ensure that all purchasing and disbursement transactions are subject to the independent online approval. This process is currently being developed and will be implemented by June 30, 2011.

**Finding 4**

**MdTA did not always follow State Procurement Regulations for purchases of goods and services.**

**Response:**

- a. and b. The MDTA concurs with the recommendations and will work with the Department of General Services (DGS) to address the first and second recommendations. The purchases noted in these findings pertain to contracts for which the DGS has the delegated authority to negotiate on behalf of the State. Furthermore, these purchases were acquired through the use of corporate purchasing credit cards. State procurement regulations require the use of contracts for cumulative purchases over \$25,000 to a single vendor. Credit card purchases provide a unique challenge in that they are generally not tracked on a per product basis and therefore hinder the identification of needed contracts. In order to comply with this recommendation, MDTA will need to invest in software that allows for the tracking of individual purchases in order to notify DGS, on a quarterly basis, of needed contracts.
- c. The MDTA also concurs and has already implemented procedures to ensure that all invitations for bids and contract awards in excess of \$25,000 are published in eMaryland Marketplace.

AUDIT TEAM

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