

Audit Report

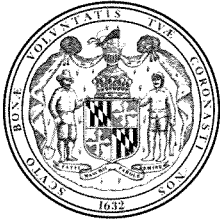
**Department of Transportation
Maryland Transit Administration**

February 2015



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

February 13, 2015

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Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate Craig J. Zucker, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Transportation – Maryland Transit Administration (MTA) for the period beginning January 1, 2011 and ending December 15, 2013. 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 that MTA did not adequately verify certain contract costs and payments. For example, MTA did not verify the accuracy of direct labor rates paid to the four architectural and engineering contractors developing the Baltimore Red Line and the Washington Area Purple Line. In accordance with the contract terms for these two light rail transit projects, each contractor's overhead rate and profit are determined using a formula based on direct labor costs. The value of the direct labor, overhead, and profit totaled approximately \$233 million for these contracts. MTA also approved a \$24 million contract change order for additional commuter rail services to be provided by one vendor without evaluating the reasonableness of the cost increase, as determined by the vendor, and certain billed costs totaling \$6 million were paid to the vendor without a review of the supporting documentation.

MTA did not properly calculate the billing rates for the three vendors providing Mobility Paratransit Program (MPP) services, resulting in an overpayment of approximately \$10 million during the period from February 2013 to August 2014. MTA is currently consulting with legal counsel to assess potential corrective actions. In addition, MTA continued to pay State excise taxes for fuel used in State vehicles by the three MPP vendors, although there appears to be a provision of State law exempting MTA from such taxes, which totaled \$498,000 during fiscal year 2012. Procedures and controls were not sufficient to ensure only eligible individuals were enrolled and received identification cards for the MPP.

Sufficient procedures and controls were not in place to ensure that all procurements were in accordance with State regulations and the best value was obtained. The justifications for sole source contract awards were not always adequately documented, the receipt of bid documents was not always recorded, and MTA did not routinely publish contract awards on the State's *eMaryland Marketplace*, as required. Finally, internal control and procedural deficiencies were noted with respect to transit fare collections, which totaled \$47.6 million in fiscal year 2013, and the equipment inventory.

An executive summary of our finding 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 course of this audit by MTA.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

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

Audit Scope, Objectives, and Methodology

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Agency Response

Appendix

Executive Summary

Legislative Audit Report on the Maryland Transit Administration (MTA) February 2015

- **MTA did not verify the accuracy of contractor-billed direct labor rates for four architecture and engineering contracts for the Red and Purple light rail line projects. The accuracy of these rates also affects the cost of overhead and profit because both include a component based on total billed direct labor rates. According to contract documents, the total potential costs impacted by these direct labor charges were \$232.8 million (Finding 1).**

MTA should perform verifications of the billed direct labor rates with the contractors' records of rates used to pay its employees.

- **MTA's error in calculating the vendors' service hour billing rates for the Mobility Paratransit Program (MPP) resulted in vendor overpayments for fuel costs. Upon OLA bringing this error to MTA's attention, MTA determined that the error resulted in it overpaying approximately \$10 million for fuel costs during the period from February 2013 to August 2014 (Finding 2). In addition, the MPP eligibility process was not sufficiently controlled (Finding 3).**

MTA should ensure that service hour billing rates are properly calculated in the future and take appropriate action to recover the overpayments for fuel from the MPP vendors. MTA should also establish the recommended controls over the MPP eligibility process.

- **MTA continued to pay State excise taxes for fuel used in MPP service vehicles although State law appears to exempt MTA from paying these taxes. During fiscal year 2012, MTA paid approximately \$498,300 in State excise taxes (Finding 4).**

MTA should obtain a formal legal opinion from the Office of Attorney General to determine if MTA is exempt from the payment of State excise taxes for fuel used in MTA's MPP service vehicles.

- **MTA accepted a contractor's price quote of \$24 million for additional commuter rail services under a change order, without preparing an independent cost analysis to determine whether the price was reasonable. In addition, MTA did not adequately verify the propriety of certain billed charges relating to this contract, which totaled \$6 million during fiscal year 2014 (Finding 5).**

MTA should ensure independent cost estimates are prepared to support and evaluate change order amounts. MTA should also perform a documented review of the supporting documentation for billed costs.

- **MTA did not always comply with State procurement regulations. Specifically, certain sole source contracts were not adequately justified, the date of receipt of bid documents on competitive procurements was not always recorded, and contract awards were frequently not published, as required (Finding 6).**

MTA should comply with State procurement regulations.

- **Effective controls were not established over fare collections, purchases and disbursements, and equipment inventory (Findings 7, 8, and 9).**

MTA should ensure that appropriate controls are established and followed.

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 bus, Metro subway, 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 2013, MTA's operating and capital expenditures totaled approximately \$1.06 billion. These expenditures were funded by special funds totaling approximately \$853 million and federal funds totaling approximately \$207 million.

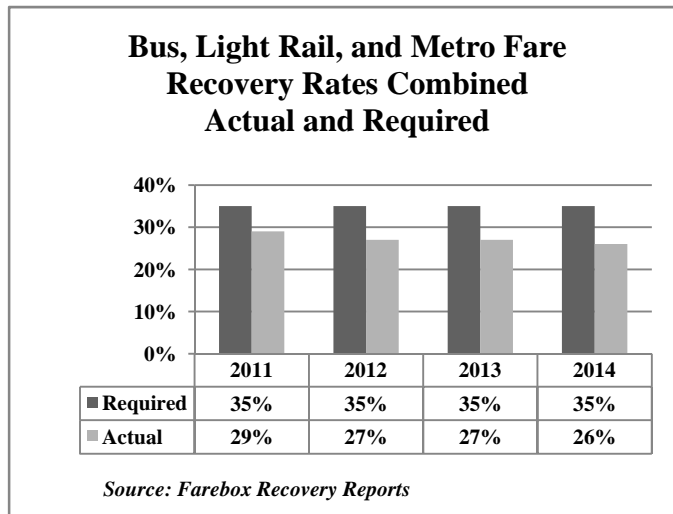
Fixed Route Transit Systems Passenger Fare Recovery Rates

MTA reported that it did not attain passenger fare revenue levels during fiscal years 2011, 2012, 2013, and 2014 as required.

State law provides that the MTA shall recover 35 percent of its operating costs by establishing reasonable fares and implementing necessary cost containment measures.

However, as noted in this chart, during fiscal years 2011 through 2014, MTA's combined

farebox recovery rates for its bus, Metro subway, and light rail operations failed to meet required levels in each year. As reported upon in our preceding audit report, required levels have not been attained since fiscal year 2005.



For example, during fiscal year 2014, MTA's reported net passenger fare revenues totaled approximately \$83 million and net operating expenses totaled approximately \$319 million. To have satisfied the State law requiring a 35 percent farebox recovery rate during fiscal year 2014, MTA would have needed to realize additional passenger fare revenues of approximately \$28.6 million or implement cost containment measures to reduce its system operating costs by approximately \$81.6 million (or a combination thereof).

According to Chapter 429, Laws of Maryland 2013, beginning in fiscal year 2015, MTA is required to increase base fare prices and the cost of multiuse passes, to the nearest 10 cents, for all transit services except commuter rail and commuter bus service, based on a specified biennial increase in the Consumer Price Index (CPI). Every five years thereafter, MTA must increase one-way zone fare prices and the cost of multiuse passes, to the nearest dollar, for commuter rail and commuter bus service by at least the same percentage as the five-year increase in a specified CPI and by any additional amount MTA determines is necessary after considering certain factors affecting commuting costs. These required fare increases are not subject to specified public hearing requirements.

According to its fiscal year 2014 *Farebox Recovery Report* dated January 8, 2015, MTA determined that, to comply with the aforementioned 2013 law, fares will need to increase by at least \$0.10 before the end of fiscal year 2015. Nevertheless, this required fare increase, based on the CPI, would not solely enable MTA to achieve the 35 percent farebox recovery rate in 2015.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the 11 findings contained in our preceding audit report dated February 17, 2012. We determined that MTA satisfactorily addressed 10 of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Light Rail Capital Projects

Background

In 2010, the Maryland Transit Administration (MTA) obtained approval from the Board of Public Works to contract with four architectural and engineering (A&E) joint venture entities related to two light rail transit capital projects under development – the Baltimore Red Line and the Washington Area Purple Line. Both projects have experienced increases in estimated A&E and construction costs and changes to the scope and schedules at various times since the preliminary engineering phase. The Red Line was originally planned to cost \$2.2 billion and, as of September 2014, has increased to \$3 billion, and the Purple Line's original estimated cost of \$1.9 billion has increased to \$2.4 billion. Sources of funding are to include the State's Transportation Trust Fund, federal funds, public-private partnerships, and local governments.

At the time of our audit, contracts for construction had not been awarded; however, four A&E contracts had been awarded with original maximum not-to-exceed amounts totaling \$280 million. In July 2013 the value of the A&E contracts was increased to \$547.1 million, which included approximately \$19.1 million in profit and approximately \$528 million in estimated reimbursable costs (direct labor costs of \$91.1 million, overhead costs of \$122.6 million, travel and office expenses of \$13.6 million, and subcontractor costs of \$300.7 million). According to MTA's project reports, as of September 2014, A&E expenditures totaled approximately \$302.4 million (\$170.2 million for the Red Line and \$132.2 million for the Purple Line).

Finding 1

MTA did not verify the accuracy of billed direct labor rates for the architectural and engineering (A&E) contracts for the Red and Purple Lines.

Analysis

MTA did not verify the accuracy of contractor-billed direct labor rates for the Red and Purple Lines' four A&E contracts by periodically reviewing contractor records to substantiate those rates. The related contracts were cost-plus-fixed fee, with the contractor receiving payment for the actual cost of direct labor for individuals working on the project and other relevant expenses, plus an overhead rate, and a fixed rate to provide a profit for the contractors. In accordance with the payment terms, each contractor's overhead rate and the fixed rate profit are calculated using a formula based on the total billed direct labor costs.

Direct labor costs were based on an hourly labor rate and the billable hours worked by contractor employees on the MTA projects. The hourly labor rates were not specifically identified in the contracts, except to limit the maximum hourly rate to \$80. Each contractor was to notify MTA of its actual hourly rates based on their actual employee costs, including any subsequent rate increase, which MTA was to pre-approve. The monthly contractor billings were accompanied by a payroll report, certified by a contractor official as to accuracy and completeness, which identified the contractor employees, their hourly rates, and the number of hours worked on the MTA project.

MTA did not have a comprehensive procedure to verify the propriety of labor rates billed. Although MTA had sufficient procedures in place to approve changes to labor rates, had verified hours worked by individuals, and had monitored the overall progress of the work, MTA did not conduct periodic verifications of the contractors' payroll reports. Consequently, there was a lack of assurance that the billed rates agreed with the actual labor rates the contractors used to pay their employees. Furthermore, MTA did not compare the billed labor rates on the contractors' invoices to the rates that MTA previously approved to ensure agreement. Besides directly affecting billed direct labor charges, the use of inappropriate billing rates would also impact the overhead charges and fixed rate profit, since these are based on the direct labor costs.

Recommendation 1

We recommend that MTA

- a. perform verifications of contractor labor rates, at least on a test basis, to ensure that billed labor rates reflect the actual labor rates paid to contractors' employees; and**
- b. agree the billed labor rates on contractor invoices to the MTA pre-approved rates.**

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 subway, or light rail services due to a disability. The MPP provides door-to-door service within a three-quarter mile range from any fixed route system. Participants must generally pay the \$1.85 fare or provide an MTA prepaid fare ticket to the driver prior to obtaining a ride. According to MTA records, there were 24,860 certified participants as of June 30, 2013.

MTA awarded contracts to three vendors in February 2013 to provide MPP services. The current contracts are for a three-year period (and allow for two one-year renewal options) and collectively total approximately \$231.9 million. The vendors provide the service using MTA-owned vehicles and are responsible for providing the drivers, fuel, and vehicle maintenance. MTA receives monthly invoices for MPP services performed by the three vendors. The amounts 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. As of July 2014, payments to these vendors since inception of the contracts totaled approximately \$89.9 million.

Finding 2

An MTA error resulted in the MPP vendors being overpaid for fuel costs by approximately \$10 million during the period from February 2013 to August 2014.

Analysis

MTA's error in calculating the vendors' service hour billing rates resulted in vendor overpayments. When awarding the contracts to each vendor, MTA used the vendor's financial proposal information to calculate a service hour billing rate for each vendor to use when invoicing MTA. However, MTA incorrectly included the annual estimated fuel costs in its calculation. Since the contracts required MTA to reimburse the vendors for actual fuel costs separately, the inclusion of the estimated fuel costs in the service hour billing rates over-stated the billing rates and resulted in overpayments. For example, our test of three invoice payments totaling \$5.2 million to one vendor disclosed that the \$4.1 million for service hour charges included approximately \$511,400 for estimated fuel costs. Since the aforementioned three invoices also included a direct charge of \$683,600 for actual fuel costs, MTA had overpaid the vendor by \$511,400.

MTA was unaware of this overbilling issue until we brought it to management's attention in July 2014. MTA investigated the matter and agreed with our conclusion. We noted that there was no evidence that the calculation of the service hour billing rates prepared by an MTA management employee was independently reviewed. On October 6, 2014, MTA determined that, during the period from February 2013 to August 2014, it had overpaid the vendors approximately \$10 million for estimated fuel costs included in the service hour payments. We determined MTA's calculation of the overpayment was reasonable. MTA also met with each of the three vendors to communicate the overbilling issue and formally notified them on October 27, 2014 that the service hour billing rates would be corrected for fiscal year 2015, beginning in July 2014.

MTA made certain retroactive adjustments for the July and August 2014 bills, which addressed \$1.2 million of the total calculated overpayment. As of November 2014, MTA, in consultation with its legal counsel, was assessing potential actions to be taken to pursue recovery of the remaining \$8.8 million it overpaid for fuel during the months prior to July 2014.

Recommendation 2

We recommend that MTA

- a. ensure that service hour billing rates are properly calculated in the future, and**
- b. work in conjunction with its legal counsel to determine the appropriate action to be taken to recover the aforementioned overpayments from the vendors.**

Finding 3

The MPP eligibility process was not sufficiently controlled.

Analysis

MTA lacked adequate procedures and controls over the MPP eligibility process. 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) the applicant is unable to use MTA fixed route transportation services. Each applicant is interviewed by an MTA eligibility specialist who is responsible for reviewing the application and supporting documentation and determining the applicant's eligibility. Once approved, each applicant receives 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.

- The employee performing the daily independent review to verify that ID cards were properly issued and accounted for did not document the completion of the review. Specifically, a certain number of ID cards were issued daily to be used for MPP applicants. At the end of the day, an independent review was performed to verify all ID cards had either been issued to MPP applicants or had been returned as unused.

- MTA conducted monthly reviews of a select number of approved applicants to ensure proper determinations had been made by the eligibility specialists. However, the reviews provided insufficient control because the eligibility database identifying the population of applicants who received approval was not used as the source for selecting eligibility determinations. Rather, the physical files containing supporting documentation for the eligibility determinations were used to select approved applicants for review. Consequently, there is a risk that MTA would not detect applicants who were approved for eligibility without the appropriate supporting documentation.

Recommendation 3

We recommend that MTA

- a. document the independent verifications conducted to determine that ID cards were properly issued and accounted for, and**
- b. use the eligibility database as the source for selecting eligibility determinations to review for completeness and accuracy.**

Finding 4

MTA continued to pay State excise taxes to the Comptroller of Maryland for fuel used in MPP service vehicles, although MTA may be tax exempt. During fiscal year 2012, MTA reimbursed vendors approximately \$498,300 for State excise taxes.

Analysis

MTA continues to pay State excise taxes to the Comptroller of Maryland for fuel used in MPP service vehicles. There appears to be conflicting legal advice regarding MTA's exemption from paying State taxes.

In our preceding audit report we commented that MTA had not attempted to obtain refunds of both federal and State fuel excise taxes for MPP vehicles. MTA was able to successfully recover federal excise taxes. At that time, MTA pursued its exemption from and recovery of State fuel excise taxes from the Comptroller based on the Tax-General Article of the Annotated Code. However, in February 2013, the Comptroller's legal counsel advised MTA that its MPP service did not qualify for an exemption and refund under that law since MPP service did not operate on regular fixed schedules and routes, which was one of the criteria for recovery.

However, according to the Transportation Article of the Annotated Code of Maryland, with the exception of water and sewer charges imposed by the State or any of its agencies or political subdivisions, MTA (including its activities and the property it owns or controls) is exempt from all taxes, assessments, and charges,

whether State or local. We brought this law to the attention of MTA's legal counsel in June 2014. MTA's legal counsel agreed that the law applied to MPP service vehicles, which are owned by MTA, exempting MTA from the payment of State excise taxes and permitting recovery of excise taxes paid. As of October 2014, MTA's legal counsel was planning to request a formal legal opinion from the Office of the Attorney General to resolve the issue.

According to MTA's federal fuel (diesel and gasoline) excise tax refund records, MTA purchased 2.1 million gallons of fuel for MPP vehicles during fiscal year 2012. Based on the State's fiscal year 2012 excise tax rate for fuel (\$0.2425 per gallon for diesel and \$0.2350 cents per gallon for gasoline), we estimate MTA paid approximately \$498,300 for State excise taxes during that year alone. MTA has continued to pay State excise taxes during fiscal years 2013 and 2014, but the amount of taxes paid was not readily available.

Recommendation 4

We recommend that MTA obtain a formal legal opinion from the Office of Attorney General to determine if it is exempt from the payment of State excise taxes for fuel used in MTA's MPP service vehicles. If the opinion concludes that MTA is exempt from such taxes, MTA should seek recovery of the taxes paid.

Contract Monitoring and Payments

Finding 5

MTA did not ensure the value of a \$24 million contract change order that was determined by a contractor was reasonable, and certain billed contract costs were not adequately verified.

Analysis

MTA did not ensure the value of a \$24 million change order on a MARC commuter rail services contract was reasonable in relation to the services provided. In addition, variable costs billed under the original contract were not adequately verified.

In October 2012, MTA entered into a five-year and eight-month contract (with one five-year renewal option), with a base term valued at approximately \$204.7 million, for the operation and management of two of its three MARC commuter rail lines. As part of the contract's scope, the contractor was to provide personnel to operate and manage the service and inspect and maintain the service equipment, facilities, and property. The cost to provide these services consisted of both fixed and variable cost components. A contract change order, effective

December 2013, increased the fixed cost component by approximately \$24 million to provide additional services, including new service operations and the maintenance of a new train storage facility, bringing the maximum total contract value to \$228.7 million (including \$80.8 million in variable costs).

- MTA did not prepare an independent cost analysis to determine the reasonableness of the aforementioned \$24 million contract change order. Instead, MTA accepted the contractor's price quote for the additional services, which was based on certain assumptions MTA supplied to the contractor (such as the number of personnel to run the additional services). MTA management personnel responsible for monitoring the contract advised us that verbal negotiations were conducted with the contractor to determine the final change order amount. Although, under these circumstances such negotiations were permissible, MTA's *Procurement Policies and Procedures* require an independent cost analysis to be performed for change orders to ensure the costs proposed by contractors are reasonable.

Additionally, MTA paid the contractor approximately \$362,400 during fiscal year 2014 for one-time mobilization costs associated with the new services (that is, to move contractor equipment to the facility site) even though mobilization costs were not included in the approved change order. This differed from the original contract which separately identified mobilization costs as a variable cost component. Consequently, the Board of Public Works (BPW) did not approve these one-time mobilization costs when it approved the change order.

- Payments for supplemental work, including the purchases of rolling stock parts and improvements to facilities, under the original contract's variable cost component, were not adequately verified. MTA did not document its review of supporting documentation submitted by the contractor, such as sub-contractor invoices, prior to approving contractor invoices for payment. Rather, we were advised by MTA management that it only reviewed a cost summary schedule provided by the contractor. Accordingly, MTA lacked assurance that these variable costs for supplemental work were reasonable and properly supported and were not included in the fixed costs separately billed for maintenance of equipment and facilities. As of March 31, 2014, MTA paid approximately \$6 million for supplemental work during fiscal year 2014.

According to State accounting records, as of July 10, 2014, payments to the contractor since the beginning of the contract totaled approximately \$29.7 million.

Recommendation 5

We recommend that MTA

- a. ensure independent cost estimates are prepared to support and evaluate change order amounts as required,**
- b. pay only for costs supported by an approved contract or change order,**
- c. amend the change order to identify the mobilization costs and submit it for retroactive approval from BPW, and**
- d. perform a documented review of the supporting documentation for variable costs to ensure the costs are reasonable and were not already provided for in the fixed costs.**

Procurement and Disbursements

Finding 6

MTA did not always comply with State procurement regulations with respect to sole source procurements and contract award requirements.

Analysis

MTA did not always comply with State procurement regulations for sole source contracts, recording bids received on competitive bid contracts, and publishing contract awards.

- Sole source contracts were not always procured in accordance with State procurement regulations. Our test of 13 sole source procurements totaling approximately \$4 million disclosed that, for 8 procurements totaling \$2.4 million, MTA did not have adequate justifications to support that only the contracted vendors could provide the necessary goods or services, as required. For example, for 2 sole source procurements totaling \$1.6 million, for information technology services and bus engines, the documentation merely claimed that the vendors were reliable and could provide the goods and services in a cost-effective or reasonable manner. For 5 other procurements totaling \$690,300, we identified other potential vendors that could possibly provide similar goods within MTA's specifications.
- MTA did not always record when bid documents were received, as required. Our test of seven contracts totaling approximately \$681.2 million disclosed that MTA could not provide any documentation (such as a date stamp on the bid documents) that bids had been received by the submission deadlines for six contract awards totaling approximately \$645.1 million. For example, the

bid documents for a \$156.5 million contract for overhauling light rail vehicles were not recorded upon receipt. Accordingly, there is no assurance that the bids met the bid submission deadline and therefore were qualified for consideration of an award.

- MTA did not routinely publish contract awards on *eMaryland Marketplace* (eMM), as required. Based on our review of eMM records, MTA had 153 contracts with bid opening dates of January 24, 2012 through December 15, 2013; however, no awards were published on eMM, as of June 27, 2014, for 135 contracts, including the aforementioned \$156.5 million light rail contract.

State procurement regulations require that the justifications for sole source procurements be prepared and approved prior to contract award and that they be documented in writing, that a record be maintained of the date of receipt of contract bids, and that contract awards greater than \$25,000 be published on eMM within 30 days of the contract award.

Recommendation 6

We recommend that MTA comply with State procurement regulations.

Specifically, we recommend that MTA

- a. procure sole source contracts only when a single vendor can meet the requirements and adequately document its justification,**
- b. record bid documents when they are received, and**
- c. publish contract awards on *eMaryland Marketplace* as required.**

Finding 7

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

Analysis

The security features available on the State's Financial Management Information System (FMIS) were not fully used by MTA to establish proper internal control over certain purchasing and disbursement transactions. Specifically, MTA had not established adequate electronic approval paths over all critical purchasing and disbursement transactions for 17 of its 27 departments.

Consequently, 14 employees could process critical transactions in departments with inadequate or no approval paths. Specifically, 8 employees could initiate and approve purchase orders and 5 other employees could initiate and approve disbursements in multiple departments (for example, bus inventory), without independent approval. Additionally, one employee with the aforementioned abilities also had the capability to initiate and approve both purchasing and

disbursement transactions in the accounts payable grants office. Furthermore, 3 of the employees who could initiate disbursements could also approve and release the disbursements for payment.

Although our testing did not disclose any improper disbursements, unauthorized transactions could be processed which may not be readily detected. During fiscal year 2013, MTA used FMIS to process disbursements totaling approximately \$804 million.

Recommendation 7

We recommend that MTA fully use available FMIS security controls by establishing independent electronic approval requirements for all critical purchasing and disbursement transactions.

Transit Fare Collections

Finding 8

MTA did not have adequate procedures to ensure all fare collections were deposited and security over the collections needs improvement.

Analysis

Collections were not adequately verified to bank deposit and security over the collections needs improvement. MTA collects cash and credit card passenger fares through ticket vending machines for light rail and Metro subway and collects bus fares through on-board fareboxes. All passenger fare collections are recorded in an automated fare collection system upon receipt. Although various fare collection system reports are generated, we found that MTA was not using all the appropriate reports to verify that all recorded collections were subsequently deposited. Furthermore, controls over employee access to fare collection equipment were inadequate and MTA did not periodically assess its protection of credit card information collected through ticket vending machines in accordance with industry standards.

Bus fare collection boxes containing cash and coin are securely transferred to safes, which are transported daily to MTA's secured central money room. Locked collection boxes are retrieved from Metro subway and light rail ticket vending machines and transported daily to the money room. The collections are not accessible until received in the money room, where the safes and locked collection boxes are opened and the funds are counted and prepared for bank deposit. During fiscal year 2013, collections processed through the money room and deposited totaled approximately \$47.6 million, including \$32.6 million from

bus operations and \$15 million from ticket vending machines. Additionally, MTA collected credit card receipts totaling approximately \$7.2 million through the ticket vending machines.

- MTA did not use two available reports generated by its automated fare collection system to ensure that all initially recorded fare collections were subsequently transferred to the money room. One of these reports detailed the daily amount of fares initially collected and recorded by each bus farebox. The second report detailed the amount of these collections that were not placed in a safe for transfer to the money room. Instead, MTA only used a third report that identified the amount of these initial collections that were actually placed in a safe for transfer to the money room. The use of all three reports is necessary since, due to mechanical issues related to the transfer process between the bus fareboxes and the safes, all collections for a particular day may not always make it into a safe at the same time for transport to the money room.

The failure to use these three reports together resulted in a lack of assurance that all daily collections were accounted for from initial receipt to deposit. For example, for the month of May 2013, MTA accounted for collections totaling \$2,764,212 that were placed in safes to be transported to the money room. However, had MTA used the aforementioned two reports, it would have identified farebox collections totaling \$2,813,574 to be accounted for. According to MTA's records, during fiscal year 2013, the amount of cash and coin fares collected but not placed in a safe for transfer to the money room on the same day totaled \$623,933. Consequently, there is a lack of assurance that all farebox collections were properly accounted for and transferred to the money room for deposit.

Although it was not documented, MTA believes that all daily farebox collections were subsequently deposited, perhaps the next day. With the existing records it was not possible to verify MTA's assertion; however, our limited review of one month's farebox collection records and related deposits did disclose that deposit amounts sometimes exceeded the fare collection report totals for that day.

- MTA did not compare the deposit documentation available from the bank to deposit totals prepared by the money room to ensure that all funds were deposited with the bank. Furthermore, MTA did not verify that the proper amount from credit card collections initially recorded in its automated fare collection system agreed to reported fare collections from its credit card processor and the amounts deposited to its bank account.

- MTA did not periodically generate and review reports of employees with access to the fare collection equipment or the secure money room to determine the appropriateness of the access. For example, our review of a list of 190 employees with access to various keys used in the fare collection process identified 17 individuals with incompatible key access, which if certain keys were used together, could allow unrestricted access to cash.
- MTA had not conducted quarterly vulnerability scans and annual self-assessments, recommended by the Payment Card Industry (PCI), to determine compliance with PCI's Data Security Standard (DSS). These periodic scans and assessments would assist in protecting cardholder data for credit card transactions processed through its ticket vending machines. Specifically, although MTA completed a self-assessment questionnaire on January 9, 2014, questionnaires were not completed in previous years and vulnerability scans were not performed. Without periodic vulnerability scans and annual self-assessments, data security weaknesses may not be detected and corrected timely. For example, the January 2014 self-assessment disclosed that anti-virus software used by certain fare collection equipment was not current.

Recommendation 8

We recommend that MTA

- use available reports from its automated fare collection system to verify all cash and credit card collections initially received are subsequently deposited and determine if the aforementioned \$623,933 has been accounted for,**
- periodically (such as monthly) generate and review access reports to ensure that there is a proper separation of key assignments and that only authorized employees have access to fare collection equipment or to the money room,**
- remove the improper key access of the aforementioned employees, and**
- perform periodic vulnerability scans and assessments of credit card processing activities in accordance with the PCI DSS.**

Equipment

Finding 9

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

Analysis

MTA did not adequately control its equipment and properly maintain the related records. According to MTA's records, its equipment inventory totaled

approximately \$1.4 billion as of June 30, 2013, the majority of which was rolling stock (such as buses and rail cars).

- MTA did not conduct a physical inventory of sensitive equipment items during our audit period. As a result, there was a lack of assurance that all equipment was recorded in the detailed records. The last complete sensitive inventory count was conducted in December 2010.
- Certain equipment recorded in MTA's detailed property records could not be located. Specifically, our test of 25 equipment items totaling \$17.5 million disclosed that MTA could not locate 4 items totaling \$16.8 million. For example, we were advised that 2 recorded items totaling \$16.6 million were actually multiple information technology and communication equipment items; however, MTA could not identify the items included. MTA advised us that these multiple equipment items were probably old and most likely had been disposed of in prior years. A similar condition was commented upon in our preceding audit report.
- MTA did not have an adequate process for identifying all purchased equipment items required to be included in the detailed property records. Rather, MTA relied on notifications from the employees who purchased the equipment items and, as a result, certain items were not recorded. Our test of 25 equipment items at MTA locations disclosed that 8 items (including digital cameras) were not recorded in the detailed property records. A similar condition was commented upon in our preceding audit report.

The Department of General Services' *Inventory Control Manual* requires that a physical inventory be conducted for sensitive items on an annual basis and that equipment records be maintained in accordance with prescribed standards.

Recommendation 9

We recommend that MTA ensure that equipment is properly accounted for and controlled in accordance with the Department of General Services' *Inventory Control Manual*. Specifically, we recommend that MTA

- a. conduct sensitive inventory counts annually;**
- b. investigate the aforementioned missing equipment and take appropriate corrective action (repeat); and**
- c. ensure all equipment, including the items noted above, is properly recorded in the detailed property records (repeat).**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Transportation – Maryland Transit Administration (MTA) for the period beginning January 1, 2011 and ending December 15, 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 MTA's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included cash receipts, procurement and disbursements for capital projects and operating expenditures, payroll, federal Mobility/Paratransit and Reduced Fare programs, state grants, federal funds, equipment, and materials supplies. We also determined the status of the findings contained in our preceding audit report.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MTA's operations, and tests of transactions. We also performed various data extracts of pertinent information from the State's Financial Management Information System and the Maryland Department of Transportation's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). 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 MTA's union payroll and pension systems for the purposes of testing payroll and pension transactions. 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 objectives. The reliability of data used in this report for background or informational purposes was not assessed.

Our audit did not include certain payroll support services provided by the State Highway Administration to MTA for its non-union management payroll. 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 related 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 regarding 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 Maryland 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.



Maryland Department of Transportation
The Secretary's Office

APPENDIX

Lawrence J. Hogan, Jr.
Governor

Boyd K. Rutherford
Lt. Governor

Pete K. Rahn
Acting Secretary

February 13, 2015

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

Dear Mr. Barnickel:

Enclosed please find the Maryland Department of Transportation's (MDOT) responses to the Legislative Auditor's fiscal compliance audit for the Maryland Transit Administration (MTA) for the period January 1, 2011 to December 15, 2013.

I would like to thank your staff for their thorough examination and professional conduct displayed during this audit. We agree with all of the findings detailed in this scheduled tri-annual audit. These fiscal compliance issues clearly demonstrate the need for MTA to institute comprehensive control measures that ensure taxpayer funds are fully accounted for and spent properly on programs and initiatives that help us build and operate a safe, convenient transit system for the citizens of Maryland. I can assure you that the issues raised in this audit are taken seriously by MDOT. Upon learning of the audit findings and recommendations, MTA worked to develop detailed corrective actions and strengthened existing procedures.

The enclosed materials provide MDOT's responses to each of the recommendations. An electronic version was forwarded by email. If you have any questions or need additional information, please do not hesitate to contact Mr. David L. Fleming, MDOT Chief Financial Officer at 410-865-1035. Of course, you may always contact me directly.

Sincerely,

Pete K. Rahn
Acting Secretary

Confidential Enclosures

cc: Ms. Brenda Cachuela, Director, Office of Audits, MDOT
Mr. David L. Fleming, Chief Financial Officer, MDOT
Mr. Robert L. Smith, Administrator, MTA
Mr. Matthew Streett, Audit Manager, Office of Legislative Audits, Maryland General Assembly
Ms. Channel Sumpter, Director of Audits, MTA
Ms. D'Andrea Walker, Deputy Administrator, MTA

**Maryland Department of Transportation
Maryland Transit Administration
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Finding 1

MTA did not verify the accuracy of billed direct labor rates for the architectural and engineering (A&E) contracts for the Red and Purple Lines.

Recommendation 1

We recommend that MTA

- a. perform verifications of contractor labor rates, at least on a test basis, to ensure that billed labor rates reflect the actual labor rates paid to contractors' employees; and**
- b. agree the billed labor rates on contractor invoices to the MTA pre-approved rates.**

Response:

- a. The MTA concurs with the auditor's recommendation. To ensure that billed labor rates reflect labor rates paid, the MTA Office of Audits will perform verifications, on a test basis, of the prime contractor's payroll reports for the aforementioned A&E contracts. These payroll verifications will be incorporated into the Office of Audits annual audit plan beginning fiscal year 2016. The verifications will be conducted annually and will consist of testing a sample of invoices billed by the prime contractors and verifying that the direct labor rates billed to the MTA represent the contractor's actual direct labor costs. This verification is an additional internal control over the accuracy of A&E contractor billings. As noted in the analysis, A&E contractors are required to certify the accuracy of the rates billed on every monthly invoice.
- b. The MTA concurs with the auditor's recommendation. The MTA Office of Transit Development and Delivery performs a monthly reconciliation to ensure that the labor rates billed by the consultant agree with the preapproved hourly labor rates in the Financial Management Component (FMC) system. The FMC was specifically developed to record consultant hours worked in a Work Breakdown Structure. The MTA Office of Transit Development and Delivery also records the consultant hourly labor rates, overhead rates and profit percentage in the FMC system. The data in the FMC system are then compared and reconciled to the consultant's invoice. This reconciliation will be documented and retained for audit purposes.

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Finding 2

An MTA error resulted in the MPP vendors being overpaid for fuel costs by approximately \$10 million during the period from February 2013 to August 2014.

Recommendation 2

We recommend that MTA

- a. ensure that service hour billing rates are properly calculated in the future, and**
- b. work in conjunction with its legal counsel to determine the appropriate action to be taken to recover the aforementioned overpayments from the vendors.**

Response:

- a. The MTA concurs with the auditor's recommendation. The MTA identified and reviewed the proper formula for calculation of variable rates from the contractor's Best and Final Offer (BAFO) cost sheets. The MTA has provided the BAFO cost sheets to each contractor, which includes the correct variable rates for each year of the contract term. The contractors are currently billing the MTA at the correct variable rates based on the approved BAFO rates excluding the Estimated Fuel Cost. The MTA will continue to closely review each submitted invoice for completeness and accuracy to ensure that the billing rates are accurate before approving contractor invoices for payment.
- b. The MTA concurs with the auditor's recommendation. The MTA is actively pursuing recovery of all overpayments. Following a meeting with the three contractors, the MTA has successfully recovered the overpayment for one contractor and will have equal monthly amounts deducted from future invoices to the two remaining contractors through December 2015 to ensure all overpayments have been recovered. The MTA has recalculated the variable billing rates using the contractor's BAFO cost sheets. These rates were used to determine the amount of overpayments for each contractor from prior invoiced billings.

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Maryland Transit Administration
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Finding 3

The MPP eligibility process was not sufficiently controlled.

Recommendation 3

We recommend that MTA

- a. document the independent verifications conducted to determine that ID cards were properly issued and accounted for, and**
- b. use the eligibility database as the source for selecting eligibility determinations to review for completeness and accuracy.**

Response:

- a. The MTA concurs with the auditor's recommendation. The Mobility staff performs a daily review using information from the ID Card Camera database and compares it to eligibility information from the Mobility Client Database. An independent verification is performed, which is documented and signed by a supervisor, to ensure the accuracy of the daily audit review.
- b. The MTA concurs with the auditor's recommendation. The Mobility Office has created a client database report titled Certification Data Validation Report that is currently used when sampling eligibility determinations to review for completeness and accuracy. The Mobility Client Database record is reviewed for each determination in the sample selection. If an individual was certified, or denied certification, the file is reviewed and signed by a supervisor to ensure accuracy and completeness. These reviews will be performed monthly to allow time for all the documentation to be scanned into the database.

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Finding 4

MTA continued to pay State excise taxes to the Comptroller of Maryland for fuel used in MPP service vehicles, although MTA may be tax exempt. During fiscal year 2012, MTA reimbursed vendors approximately \$498,300 for State excise taxes.

Recommendation 4

We recommend that MTA obtain a formal legal opinion from the Office of Attorney General to determine if it is exempt from the payment of State excise taxes for fuel used in MTA's MPP service vehicles. If the opinion concludes that MTA is exempt from such taxes, MTA should seek recovery of the taxes paid.

Response:

The MTA concurs with the auditor's recommendation. The MTA Administrator sent a letter to the Office of the Attorney General seeking a formal legal opinion to determine if MTA is exempt from paying State excise taxes on fuel for mobility service vehicles. Upon receipt of the formal legal opinion, the MTA will take the appropriate follow up action, including the recovery of the taxes paid, if that determination is made.

Finding 5

MTA did not ensure the value of a \$24 million contract change order that was determined by a contractor was reasonable, and certain billed contract costs were not adequately verified.

Recommendation 5

We recommend that MTA

- a. ensure independent cost estimates are prepared to support and evaluate change order amounts as required,**
- b. pay only for costs supported by an approved contract or change order,**
- c. amend the change order to identify the mobilization costs and submit it for retroactive approval from BPW, and**
- d. perform a documented review of the supporting documentation for variable costs to ensure the costs are reasonable and were not already provided for in the fixed costs.**

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Response:

- a. The MTA concurs with the auditor's recommendation. For future contract change orders, independent cost estimates will be prepared to support and evaluate change order amounts. The MTA Procurement Office will add this step as part of its change order checklist and will ensure completion prior to submitting change orders for Board of Public Works (BPW) approval. The Procurement Office and the MTA project/contract managers will be required to submit the independent cost analysis as part of the change order packet. The MTA change order procedures will be updated and distributed to all project/contract managers and procurement officers by February 28, 2015.
- b. The MTA concurs with the auditor's recommendation. The MTA will only pay for costs invoiced and supported by an approved contract or change order and submitted with appropriate documentation.
- c. The MTA concurs with the auditor's recommendation. Please note that the MTA reviewed the change order documentation and determined that the mobilization costs were identified in the original proposal submitted by the Contractor and were subsequently approved by BPW as required. Mobilization costs were clearly identified in the proposal as a one-time cost to be applied to the first month invoice of the first year. The MTA will consult with the BPW staff by March 16, 2015, regarding the details of the aforementioned change order. The MTA will take appropriate corrective action based on the advice of the BPW staff.
- d. The MTA concurs with the auditor's recommendation. The MTA will perform a review of supplemental services to determine if the services are reasonable and not already provided in the fixed fee costs. Effective February 28, 2015, the project manager will implement an internal invoice review and sign-off procedure, improve the task order process for Stations and Facilities and retain monthly documentation of the invoice review.

**Maryland Department of Transportation
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Finding 6

MTA did not always comply with State procurement regulations with respect to sole source procurements and contract award requirements.

Recommendation 6

We recommend that MTA comply with State procurement regulations. Specifically, we recommend that MTA

- a. procure sole source contracts only when a single vendor can meet the requirements and adequately document its justification,**
- b. record bid documents when they are received, and**
- c. publish contract awards on *eMaryland Marketplace* as required.**

Response:

- a. The MTA concurs with the auditor's recommendation and has taken appropriate measures to ensure that all procurements of goods and services, especially sole source procurements, are conducted within the Code of Maryland Regulations (COMAR) and BPW advisories. The Office of Procurement has conducted training for its procurement officers to ensure sole source procurements are in accordance with COMAR regulations. Furthermore, the MTA is currently using a checklist for each procurement ensuring that all procurements have the required backup documentation prior to award: procurement officer's determination, letter from vendor stating sole proprietorship/manufacture and distributor of item(s) or services (if applicable), and written approval by the MTA Administrator or designee.
- b. The MTA concurs with the auditor's recommendation. The Procurement Office has created and is currently using a bid receipt form that records the date stamp, bidder's information, contract number and name of the individual who received the bid. A copy of the bid receipt form is given to the bidder's representative and the original is maintained with the procurement file.
- c. The MTA concurs with the auditor's recommendation and will update its Standard Operating Procedures by February 28, 2015, to incorporate posting all solicitations and awards on *eMaryland Marketplace* instead of providing a link directing bidders/proposers to the MTA's Procurement website to download the solicitation.

**Maryland Department of Transportation
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Finding 7

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

Recommendation 7

We recommend that MTA fully use available FMIS security controls by establishing independent electronic approval requirements for all critical purchasing and disbursement transactions.

Response:

The MTA concurs with the auditor's recommendation and has taken the appropriate actions to establish and limit the initiation and approval of both purchasing and disbursement transactions. Approval path levels were updated as of February 9, 2015, for each identified area and the applicable individuals will only have the ability to either initiate or approve transactions, not both.

Finding 8

MTA did not have adequate procedures to ensure all fare collections were deposited and security over the collections needs improvement.

Recommendation 8

We recommend that MTA

- a. use available reports from its automated fare collection system to verify all cash and credit card collections initially received are subsequently deposited and determine if the aforementioned \$623,933 has been accounted for,**
- b. periodically (such as monthly) generate and review access reports to ensure that there is a proper separation of key assignments and that only authorized employees have access to fare collection equipment or to the money room,**
- c. remove the improper key access of the aforementioned employees, and**
- d. perform periodic vulnerability scans and assessments of credit card processing activities in accordance with the PCI DSS.**

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Response:

- a. The MTA concurs with the auditor's recommendation. Effective November 1, 2014, the Office of Fare Collection Systems & Services (formerly Treasury) began using the two reports referenced in the finding when reconciling bus revenue. Using both reports in our bus reconciliation will ensure that all bus revenue has been accounted for and securely deposited. By using these reports, the MTA was able to determine that the noted fiscal year 2013 difference was actually deposited into the State Treasury and reconciled to revenue reports. As noted by the auditors in the finding, there are inherent mechanical issues related to the bus fare collection equipment. By utilizing these available reports, the MTA is able to have assurance that all bus farebox collections are properly accounted for and safely deposited in the bank.

The Office of Fare Collection Systems & Services reconciles credit sales on a monthly basis using deposit data received from the State Treasurer's Office and verified against the bank settlement data segregated by Credit Card issuer. Beginning November 1, 2014, the Office of Fare Collection Systems & Services started to compare the daily settlement reports from the Debit/Credit Switch against the bank daily settlement reports. This review will ensure that all transactions approved by the fare collection system Debit/Credit Switch have been processed and settled properly by the bank.

- b. The MTA concurs with the auditor's recommendation. As a standard procedure, an employee's access to the key cabinet is revoked upon their departure from the MTA or when they no longer need access to the keys. The Office of Fare Collection Systems & Services maintains a log of when employees' access has been revoked. The Office of Fare Collection Systems & Services will perform reviews twice a year to ensure employees no longer needing access have had their permissions revoked. These reviews will be documented and retained for audit purposes.
- c. The MTA concurs with the auditor's recommendation. To prevent improper access to fare collection revenues, the key cabinet is programmed to allow Fare Collection Systems & Services technicians to remove only one key set from the secured cabinet at a time. This control will not allow an individual to possess multiple key sets at any given time, therefore preventing improper access to fare collection revenues. These controls have been in place since the key cabinets were installed five years ago. The MTA verified that the 17 employees identified in the finding are given access to pull only one set of keys from the key cabinet at a time.
- d. The MTA concurs with the auditor's recommendation. Security scans and penetration testing is conducted on a consistent basis with monthly reviews of our network infrastructure. This process is conducted throughout the MTA/MDOT network and is performed by MDOT's security department in cooperation with MTA's network/systems personnel. The MTA's Office of Fare Collection Systems & Services is currently in the process of updating the ticket vending equipment, and installing a new anti-virus software package on 172 ticket vending machines. The anti-virus software is in compliance with MTA/MDOT security policies. The MTA anticipates completion of the installation by June 30, 2015. This will bring the fare collection equipment into compliance with PCI policies.

**Maryland Department of Transportation
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Finding 9

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

Recommendation 9

We recommend that MTA ensure that equipment is properly accounted for and controlled in accordance with the Department of General Services' *Inventory Control Manual*. Specifically, we recommend that MTA

- a. conduct sensitive inventory counts annually;**
- b. investigate the aforementioned missing equipment and take appropriate corrective action (repeat); and**
- c. ensure all equipment, including the items noted above, is properly recorded in the detailed property records (repeat).**

Response:

- a. The MTA concurs with the auditor's recommendation. A physical inventory count of sensitive items was initiated in April 2013 and completed in June 2013. Moving forward, the MTA will perform a physical inventory of sensitive items annually as specified in the Department of General Services' *Inventory Control Manual*. The MTA is currently working on a multistep procurement for inventory support services to assist with the comprehensive inventory. The current sensitive inventory count will be complete in April with the final reconciliation done by June 30, 2015.
- b. The MTA concurs with the auditor's recommendation. The MTA is currently investigating the missing equipment items noted in the audit finding. Based on the results of the investigation, the appropriate corrective action will be taken by April 30, 2015.
- c. The MTA concurs with the auditor's recommendation. The MTA will strengthen its inventory control procedures to ensure that all equipment is properly recorded in the detailed property records. The MTA will conduct training at the various locations for all accountable officers once a year. The Fixed Assets Division will perform a quarterly review to include updating the accountable officers list and a succession plan with mandatory training for employees identified as the "backup" accountable officer. In addition, Standard Operating Procedures for fixed assets will be issued and distributed as part of the current accountable officer training, which will conclude by February 28, 2015. These controls, policies and procedures will ensure that effective communication, training and follow-up will lead to equipment being identified, tagged and communicated to fixed assets in an efficient manner. The MTA investigated and identified the 8 items noted in the finding, and subsequently updated the detailed property records.

AUDIT TEAM

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