



Department of Legislative Services  
Office of Legislative Audits

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# Department of Transportation Maryland Aviation Administration

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Presentation to the Joint Audit Committee

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## Department of Legislative Services Office of Legislative Audits

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### Audit Overview

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- The Maryland Aviation Administration (MAA) is responsible for the operation, maintenance, protection, and development of the Baltimore/Washington International (BWI) Thurgood Marshall Airport and the Martin State Airport, and operates a program to foster, develop, and regulate aviation within the State.
- According to the State's records, MAA's fiscal year 2011 expenditures totaled approximately \$214 million (special funds of \$202 million and federal funds of \$12 million).
- The audit report, which covered the period from November 19, 2008 to July 31, 2011, included 8 findings.
- Our prior audit report, dated December 29, 2009 had 8 findings and we determined that all 8 findings were adequately addressed by MAA.



## **Key Audit Issues**

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MAA did not establish adequate monitoring controls over Architectural and Engineering (A&E) contracts and expenditures.

- Financial records were not maintained identifying disbursement details and the unspent balances for individual A&E contracts.
- For two A&E contracts, MAA did not provide the Board of Public Works (BPW) with complete and accurate information when requesting certain contract approvals.
- MAA did not ensure that overhead rates billed by A&E firms were proper.
- MAA did not review and approve all subcontractors hired by A&E firms, as required.
- Comprehensive task orders were not established for certain A&E contracts, as certain required project information was omitted.



## Architectural and Engineering (A&E) Contracts

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### Background

- MAA enters into multi-year contracts with A&E firms to provide consultant services for current and future capital projects. The scope of the services included planning, design, and/or construction management and inspection (CMI).
  - MAA assigns projects to A&E firms based on a firm's expertise and availability, using a task order process.
  - A&E contracts have multiple funding sources, including special funds, federal funds, and passenger facility charges (PFCs). PFCs are based on the number of boarded passengers at commercial airports and are remitted to a non-State trustee account for related payments.
  - According to MAA records, during the period from November 2008 through June 2011, MAA had A&E contracts with 21 firms and expended \$38.3 million on A&E services.
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## A&E Contracts (continued)

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MAA did not establish adequate monitoring controls over costs incurred for individual A&E contracts, which precluded MAA from effectively monitoring contract expenditures and remaining balances. **(Finding 1)**

- Although MAA maintained records reflecting the total amount of A&E contract expenditures from each funding source (such as special funds and PFC funds); it did not track total expenditures in relation to each contract award amount.
- Furthermore, MAA was unable to use the State's Financial Management Information System (FMIS) to monitor A&E contract activity, because FMIS did not reflect expenditure information pertaining to PFC funds, which were maintained in a non-State trustee account. During the audit period, PFC accounted for 30 percent of the A&E contract funding sources. We were advised that MAA is pursuing a solution this issue.



## A&E Contracts (continued)

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For certain contracts, MAA did not provide the Board of Public Works (BPW) with complete and accurate information when it requested contract approvals.

**(Finding 2)** For example:

- In July 2011, MAA requested a 2-year extension for a \$21.4 million contract and informed BPW that, if not extended, ongoing tasks assigned to the current A&E firm may have to be cancelled or reassigned to another firm. However, this was inaccurate since MAA had awarded a 5-year \$10 million contract to that current firm 4 months earlier, for the same services. Therefore, had the contract not been extended, the same services could have been provided under the new contract.



## A&E Contracts (continued)

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MAA lacked procedures to ensure the propriety of overhead rates billed by A&E firms. **(Finding 3)**

- A&E contracts provide for compensation consisting of primarily direct labor and overhead costs (based on direct labor costs) for prime and subcontractors.
  - MAA did not ensure A&E firms obtained annual independent audits of actual overhead rates, as required by the contracts. Rather, MAA routinely paid overhead fees based on the A&E firms' invoiced rates.
  - When questioned, MAA advised that it relied on SHA to verify overhead rates as both used many of the same firms; however, MAA could not document that it had received any results from SHA.
  - We identified 7 firms with open multi-year contracts valued at \$29.8 million, with maximum overhead rates ranging from 161 to 200 percent of direct labor costs, for which audits had not been received since the inception of the contracts (ranging from 4 to 7 years).
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## A&E Contracts (continued)

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MAA did not review and approve subcontractors hired by A&E firms after the initial contracts were procured. **(Finding 4)**

- Six A&E contracts with payments totaling \$6.3 million as of June 2011 included payments totaling \$1.6 million that were for the work of 21 unapproved subcontractors.
- A&E contracts permit firms to hire additional subcontractors (other than those specified in the original contract), but require the firms to obtain MAA approval by submitting written justification, including the subcontractor's qualifications and costs (including direct labor rates and overhead).





## A&E Contracts (continued)

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MAA did not ensure that comprehensive task orders were established for A&E construction management and inspection services (CMI). **(Finding 5)**

- As of June 2011, MAA had four active CMI contracts valued at \$43 million. Our test of 17 task orders totaling \$10 million from one CMI contract (for which MAA had issued a total of 84 task orders) disclosed that none of the 17 task orders included all required information.
- For example, one \$2 million task order did not include project goals, needs, and a list of proposed personnel, as required by the contract.
- Comprehensive task orders are a means to ensure both parties have a common understanding of the work to be performed, the anticipated level of effort and personnel assignments. Additionally, they help ensure that billings are commensurate with the services needed and rendered.



## Other Issues

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- MAA did not adequately restrict access and prevent unauthorized purchasing, disbursement, and adjustment transactions in the Financial Management Information System (FMIS). Numerous employees could process critical transactions without independent approval. **(Finding 6)**
- MAA equipment items purchased were not always accurately recorded in the inventory records and were not identified timely as State property. **(Finding 7)**
- MAA's records for snow removal chemicals did not include information necessary to effectively manage and control inventories, as required by State policies. **(Finding 8)**



## Conclusion

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MAA should:

- Establish a means to readily monitor contract costs by establishing records to track A&E expenditures relative to individual contract awards.
  - Provide the BPW with complete and accurate information and comply with BPW policies concerning contract extensions.
  - Obtain audited annual overhead rates to ensure the consulting firms' overhead fees paid are proper.
  - Ensure that subcontractors added by consultants after initial contracts are procured are reviewed and approved to perform the services.
  - Ensure detailed task orders are established for A&E CMI contracts in accordance with the contract terms.
  - Implement adequate procedures and controls to address the deficiencies noted with respect to FMIS, equipment and materials inventories.
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