

Audit Report

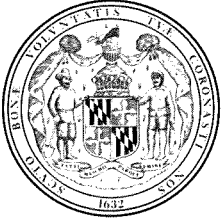
**Department of Transportation
Maryland Aviation Administration**

November 2012



**OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY**

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

November 16, 2012

Thomas J. Barnickel III, CPA
Acting Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

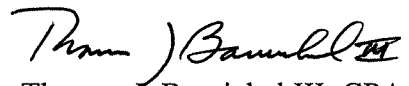
We have audited the Maryland Department of Transportation – Maryland Aviation Administration (MAA) for the period beginning November 19, 2008 and ending July 31, 2011. MAA is responsible for the operation, maintenance, protection, and development of the Baltimore/Washington International (BWI) Thurgood Marshall Airport and the Martin State Airport, and operates a program to foster, develop, and regulate aviation within the State.

Our audit disclosed several deficiencies regarding architectural and engineering (A&E) consultant services contracts, for which MAA spent \$38.3 million during the audit period. MAA did not establish adequate monitoring controls by maintaining records of disbursements and unspent balances for individual A&E contracts. In addition, for two A&E contracts, MAA did not provide the Board of the Public Works with complete and accurate information when requesting certain contract approvals. MAA also did not ensure overhead fees paid to A&E firms were based on independent audits, as required by the contracts. We identified seven firms with open multi-year contracts valued at \$29.8 million for which overhead rate audits had not been received by MAA since the inception of the contracts. Finally, MAA did not approve certain subcontractors hired by the firms, as required, and did not establish comprehensive task orders for construction management and inspection services.

Additionally, we identified internal control and record keeping deficiencies with respect to the Financial Management Information System (FMIS) and MAA's equipment and materials and supplies inventories.

An executive summary of our findings can be found on page 5. The Maryland Department of Transportation's response to this audit, on behalf of MAA, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by MAA.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas J. Barnickel III". The signature is written in a cursive style with a large initial "T" and a stylized "B".

Thomas J. Barnickel III, CPA
Acting Legislative Auditor

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Executive Summary

Legislative Audit Report on Maryland Aviation Administration (MAA) November 2012

- **Multi-year architectural and engineering (A&E) contracts, which provide consultant services for MAA capital projects, were not adequately monitored. MAA spent approximately \$38.3 million during the audit period on A&E services which include planning, design, and/or comprehensive construction management and inspection (CMI) services. MAA did not establish adequate monitoring controls by maintaining records identifying disbursement details and unspent balances for individual contracts.**

MAA should establish a means to readily monitor contract costs by establishing records to track A&E expenditures relative to individual contract awards.

- **MAA did not provide the Board of Public Works (BPW) with complete and accurate information when requesting certain approvals for two A&E contracts. In one instance, when requesting approval for a \$10 million contract in March 2011, it did not disclose that an existing \$21.4 million contract to the same vendor for the same comprehensive construction management and inspection services had an unspent balance of \$7.2 million. Additionally, MAA improperly used unspent contract authorizations for task orders that were not issued until after the contracts' original expirations dates, in violation of a BPW Advisory.**

MAA should provide the BPW with complete and accurate information and ensure contracts are only extended to complete tasks that were issued before the contracts' original expiration dates.

- **MAA did not ensure A&E consulting firms obtained annual independent audits of actual overhead rates as the basis for payments, as required by the contracts. Rather, MAA routinely paid overhead fees based on the A&E firms' invoiced rates. We identified seven 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 by MAA since inception of the contracts.**

MAA should obtain audited annual overhead rates to ensure the firms' overhead fees paid are proper.

- **MAA did not review and approve subcontractors hired by A&E firms after the initial contracts were procured, as required in the firms' contracts. Our testing of 6 contracts disclosed that 21 unapproved subcontractors had received payments totaling \$1.6 million as of June 30, 2011.**

MAA should ensure that subcontractors added by consultants after initial contracts are procured are reviewed and approved to perform the services.

- **Comprehensive task orders were not established for A&E construction management and inspection (CMI) services, as required by the contracts. None of the 17 task orders tested, totaling \$10 million, included all required information such as project goals, needs, and a list of proposed personnel.**

MAA should ensure detailed task orders are established for A&E CMI contracts in accordance with the contract terms.

- **Internal control deficiencies were noted with respect to the Financial Management Information System (FMIS), equipment, and snow removal chemical inventories.**

MAA should take the recommended actions to improve internal controls in these areas.

Background Information

Agency Responsibilities

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, during fiscal year 2011, MAA's expenditures totaled approximately \$214 million (special funds of \$202 million and federal funds of \$12 million). Special fund revenue generated by airport operations totaled approximately \$207 million; the amount by which special fund revenues exceeded special fund expenditures was credited to the State's Transportation Trust Fund (TTF). According to MAA's records, during fiscal year 2011, approximately \$79 million of other revenue (passenger facility charges, customer facility charges, and a portion of parking revenue) was also generated and used for debt service and expenditures associated with capital projects. As needed, funding for capital projects is also provided by the TTF.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of eight findings contained in our preceding audit report dated December 29, 2009. We determined that MAA satisfactorily addressed all of these findings.

Findings and Recommendations

Architectural and Engineering (A&E) Consultant Services

Background

The Maryland Aviation Administration (MAA) entered into multi-year contracts with architectural and engineering (A&E) firms to provide consultant services for MAA capital projects. The scope of these A&E contracts included planning, design, and/or comprehensive construction management and inspection (CMI) services for current and future projects as identified by MAA. Projects are assigned to the firms by MAA, based on a firm's expertise and availability of personnel, using a task order process. Once selected, the firm is requested by MAA to submit a cost proposal to support each task order, which is to include such details as a schedule of personnel, hours, and rates (in accordance with rates agreed upon in the contract, including overhead). Through a negotiated process, a final total project cost is agreed upon by both parties.

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. In accordance with FAA regulations, the related revenues collected by the airlines are remitted by MAA to a non-State trustee account which is used to process PFC disbursements.

According to MAA records, during the period from November 2008 through June 2011, there were 42 A&E contracts with 21 firms (some had multiple contracts) with a cumulative contract value of \$235 million. According to MAA officials, during the same period it expended \$38.3 million on A&E contracts.

Finding 1

MAA did not establish adequate monitoring controls over costs incurred for individual A&E contracts.

Analysis

MAA did not establish adequate monitoring controls over A&E contract costs by maintaining records identifying disbursement details and the unspent balances for individual A&E contracts. MAA maintained records reflecting the total amount of A&E contract expenditures from each funding source (such as special funds and PFC funds); however, it did not track total contract expenditures in relation to each contract award amount. Although, using multiple sources, MAA was able to eventually compile the financial information for selected contracts we requested during the audit, the lack of readily available comprehensive records prevented MAA from effectively monitoring contract expenditures and remaining balances.

This information is critical to ensure that contracts are not overspent and to provide a means to determine when additional contracts may need to be procured.

Furthermore, MAA could not use the Financial Management Information System (FMIS) to monitor A&E contract activity because FMIS did not reflect comprehensive expenditure information. Specifically, we were advised by MAA management that all capital contract expenditures funded with PFC revenues were excluded from FMIS because these funds were maintained in a non-State trustee account in accordance with federal regulations. We were advised that the Maryland Department of Transportation, in conjunction with MAA, has been discussing this issue with the Comptroller of Maryland – General Accounting Division to determine a solution.

According to MAA officials, during the period from November 2008 through June 2011, expenditures for A&E contracts totaled approximately \$38.3 million, including approximately \$11.6 million funded by PFC revenues.

Recommendation 1

We recommend that MAA establish a mechanism to readily monitor contract costs by establishing records to track A&E contract expenditures relative to individual contract awards.

Finding 2

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

Analysis

MAA did not provide the Board of Public Works (BPW) with complete and accurate information when it requested certain approvals for two A&E contracts. In addition, MAA did not comply with a BPW Advisory relating to the use of unspent contract authorizations when contract periods were extended.

We tested MAA's procurement of four A&E contracts, totaling \$23 million, during the audit period. Our test disclosed that, when MAA presented a \$10 million contract to the BPW in March 2011 for its approval, it did not disclose to the BPW that an existing \$21.4 million contract to the same vendor for the same comprehensive construction management and inspection services had an unspent balance of approximately \$7.2 million. Although such disclosure is not required, in our opinion, such information would assist the BPW in its decision-making.

Furthermore, in July 2011, MAA requested approval to extend the ending date of the \$21.4 million contract for a two-year period—from the original ending date of August 2011 to August 2013. In its request, MAA informed the BPW that, “if the current contract is not extended ongoing tasks assigned to the current A&E consultant may have to be cancelled or reassigned to another consultant.”

However, this statement was inaccurate since MAA had awarded the aforementioned five-year \$10 million contract in March 2011, just four months previously, to the same vendor for the same comprehensive construction management and inspection services. No funds had yet been spent on the \$10 million contract. Therefore, had the contract not been extended, the consultant could have provided the same services using the new contract.

Additionally, we noted that MAA improperly used unspent contract authorizations for task orders that were not issued until after the contracts’ original expiration dates. Specifically, our test of contract extensions for two A&E contracts totaling \$31.9 million (one of which was the aforementioned \$21.4 million contract) identified 18 task orders, totaling approximately \$1.3 million, that were issued from one to five months after the contracts’ original August 2011 expiration dates. This practice was not in accordance with a BPW Advisory, dated February 18, 2009, that allows modifications to extend contracts only for work tasks issued prior to the original expiration date.

Recommendation 2

We recommend MAA

- a. provide the BPW with complete and accurate information when requesting approval for contract awards, including pertinent information regarding existing contracts for similar services; and**
- b. extend contracts only to complete work tasks that were issued prior to the corresponding contract’s original expiration date.**

Finding 3

MAA lacked adequate procedures to ensure that overhead rates billed by A&E firms were proper.

Analysis

MAA lacked adequate procedures to ensure that overhead rates billed by A&E firms were proper. A&E contracts provided for compensation consisting primarily of direct labor and overhead costs (based on direct labor costs) for prime contractors and their subcontractors. When originally awarded, the

contracts included maximum overhead rates, but required each firm to obtain an annual independent audit of its actual overhead rate, which was then to be the basis for MAA's overhead payment, not to exceed the contract maximum.

The firms were not required to obtain and submit the overhead rate audits to MAA, and MAA routinely paid overhead fees based on a firm's invoiced overhead rate. When questioned, MAA management advised us that another Maryland Department of Transportation agency, the State Highway Administration (SHA), used many of the same A&E firms as MAA and had a similar overhead contract requirement for independent audits of actual overhead rates as the basis for payment. Accordingly, MAA advised that it relied on SHA to verify the actual rates and subsequently report this to MAA. However, MAA did not have any documentation that it received this information from SHA.

Subsequently, at our request, MAA attempted to obtain the overhead rates audit results from SHA for the 21 A&E firms that were active during the audit period. MAA only obtained the overhead rate audit results from SHA for certain periods for 14 contractors and, for the remaining 7 firms with open MAA contracts (originally valued at \$29.8 million), no such audits had been received since the inception of the related MAA contracts. As of January 2012, these 7 firms had open contracts with MAA for periods ranging from four to seven years and had maximum overhead rates ranging from 161 percent to 200 percent of direct labor costs. For 2 of these contracts, MAA was billed and paid the maximum overhead rates of 175 percent and 200 percent. As a result, there was a lack of assurance that the overhead costs paid were proper.

Recommendation 3

We recommend that MAA

- a. establish a process to ensure that billed overhead rates are proper, including obtaining annual overhead audits as required;**
- b. obtain the overhead rates audits for the aforementioned 7 contracts as well as for the missing periods for the remaining 14 contracts; and**
- c. compare the audited overhead rates with the overhead rates billed during the audit period for all contracts and, in consultation with legal counsel, determine the extent to which any overpayments can be recovered.**

Finding 4

MAA did not review and approve subcontractors hired by A&E consulting firms after initial contracts were procured.

Analysis

MAA did not review and approve subcontractors hired by A&E consulting firms that were not included in the original contracts. Specifically, the contracts permitted the firms to hire additional subcontractors, but required the firms to obtain MAA approval by submitting a written justification, including the subcontractor's qualifications and costs (including direct labor rates and overhead).

Based on our review of six A&E contracts, with payments totaling approximately \$6.3 million as of June 30, 2011, we noted that approximately \$1.6 million was paid to 21 unapproved subcontractors. MAA approval had not been obtained for the use of these subcontractors nor had MAA requested the required written justification. Consequently, there was a lack of assurance that the subcontractors met the required qualifications and that labor and overhead costs paid were proper.

Recommendation 4

We recommend that MAA ensure subcontractors added by consulting firms after initial contracts are procured (including the aforementioned 21 subcontractors) are reviewed and approved to perform services, as required.

Finding 5

MAA did not ensure that comprehensive task orders were established for A&E contracts used for construction management and inspection services.

Analysis

MAA did not have a process to review construction management and inspection (CMI) services cost proposals submitted by A&E firms to ensure that the related task orders contained all contractually required information. As of June 30, 2011, MAA had four active CMI services contracts valued at \$43 million. We tested 17 task orders, totaling approximately \$10 million, from one CMI contract valued at \$21.4 million for which MAA had awarded 84 task orders. Our test disclosed that none of the 17 task orders included all required information. For example, one \$2 million task order included hourly rates and the purpose of the task; however, it did not include project goals, needs, and a list of proposed personnel, as required

by the contract. In fact, a list of proposed personnel was not included in 16 of the 17 task orders.

The A&E contracts for CMI services require that each task order include project goals, needs, criteria, and purpose, as well as detailed cost information including proposed staffing. 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 and help ensure billings are commensurate with the services needed and rendered. This is particularly important because the projects for which CMI services are used vary in complexity, size, and nature. For example, CMI services are used for projects such as airfield pavement rehabilitation, fuel storage tank repairs, computer room improvements, and baggage screening services.

Recommendation 5

We recommend that MAA ensure that detailed task orders for A&E CMI contracts are established in accordance with the contract terms.

Financial Management Information System

Finding 6

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

Analysis

MAA did not adequately restrict access and prevent unauthorized purchasing, disbursement, and adjustment transactions in the Financial Management Information System (FMIS). As a result, numerous employees could process critical transactions without independent approval. In addition, controls over vendor information within FMIS were not adequate. Our review disclosed the following conditions:

- Four employees had the capability to initiate and approve disbursement transactions without independent approvals. In addition, one of these employees could also redirect payments to an existing vendor other than the one named on the related purchase order.
- Eight employees were able to initiate purchase orders without independent approval.

- Three employees could make changes to the FMIS vendor table without independent supervisory review or approval.
- One employee processed adjustments in FMIS without supervisory review and approval. These adjustments were made, for example, to reconcile MDOT FMIS with the State's FMIS.

According to the State's accounting records, during fiscal year 2011, MAA used FMIS to process disbursements totaling approximately \$163 million.

Recommendation 6

We recommend that MAA establish independent approval requirements for all critical purchasing, disbursement, and adjustment transactions and for changes made to the vendor table to ensure propriety.

Inventories

Finding 7

Equipment purchases were not always properly recorded in the inventory records or identified as State property timely.

Analysis

MAA equipment items were not always accurately recorded in the inventory records and were not identified timely as State property. According to MAA's detail equipment records, the equipment inventory balance totaled approximately \$87 million, as of June 30, 2011. We tested 10 purchases, totaling approximately \$1 million, that were made during the period from March 2010 to July 2011, that included 71 equipment items. Our test disclosed the following conditions:

- Equipment purchases for 23 items were not properly recorded in the detailed equipment records. For example, one purchase of 6 computer equipment items costing \$102,582 was erroneously recorded at a cost of \$42,445. Another purchase for hazmat equipment of \$38,500 was not recorded in the inventory records at all.
- Equipment purchases were not identified timely as State property, as required. Specifically, our test disclosed 21 equipment items that were not tagged as State property for periods ranging from one month to one year after the dates the invoices were paid.

The Department of General Services' (DGS) *Inventory Control Manual* requires that inventory records be accurately maintained for all capital equipment items and that they be identified as State property.

Recommendation 7

We recommend that MAA comply with the provisions of the DGS *Inventory Control Manual*.

Finding 8

MAA did not maintain adequate inventory records for snow removal chemicals.

Analysis

MAA's records for snow removal chemicals did not include information necessary to effectively manage and control inventories, as required by the Department of General Services (DGS) *Inventory Control Manual*. Specifically, MAA did not maintain perpetual inventory records for snow removal chemicals, which were stored in bulk as well as in bags. Perpetual inventory records should contain the cost and quantities associated with each purchase and issuance. MAA's records only contained a cumulative total for the cost and quantity of these supplies. Consequently, MAA lacked assurance that snow removal chemicals were accounted for properly and that any errors or irregularities would be readily detected. Expenditures for snow removal chemicals totaled approximately \$1.1 million during fiscal year 2011, based on MAA's records.

According to DGS' *Inventory Control Manual*, materials and supplies records are required to include details including the cost and quantity of purchases and issuance of supplies. We were advised by appropriate personnel at the State Highway Administration that it maintains perpetual records for its snow removal chemicals.

Recommendation 8

We recommend that MAA ensure perpetual inventory records for snow removal chemicals are established in accordance the *Manual* requirements and are properly maintained.

Audit Scope, Objectives, and Methodology

We have audited the Department of Transportation – Maryland Aviation Administration (MAA) for the period beginning November 19, 2008 and ending July 31, 2011. 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 MAA's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings included 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 architectural and engineering and construction contracts and operating expenditures, as well as payroll, cash receipts, accounts receivable, and equipment and materials and supplies inventories. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MAA's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include certain payroll support services (such as, maintenance of employee leave records) provided by the State Highway Administration to MAA. These payroll support services are included within the scope of our audit of the State Highway Administration.

Our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of MAA'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 MAA.

MAA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

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

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MAA'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 MAA that did not warrant inclusion in this report.

The Department of Transportation's response, on behalf of MAA, 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 MAA 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

Darrell B. Mobley
Acting Secretary

Leif A. Dormsjo
Acting Deputy Secretary

November 14, 2012

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

Dear Mr. Barnickel:

Enclosed please find the Department's responses to the draft Legislative Auditor's Report dated October 31, 2012, for the Maryland Department of Transportation (MDOT) – Maryland Aviation Administration (MAA), for the period November 19, 2008 and ending July 31, 2011. Additionally, an electronic version of this document has been sent to your office via email at response@ola.state.md.us.

If you have any questions or need additional information, please do not hesitate to contact me or Mr. David L. Fleming, Chief Financial Officer. Mr. Fleming can be reached at 410-865-1035.

Sincerely,

A handwritten signature in black ink, appearing to read "Darrell B. Mobley".

Darrell B. Mobley
Acting Secretary

Enclosure

cc: Mr. Patrick Bradley, Director of Finance, Maryland Aviation Administration
Mr. Leif A. Dormsjo, Acting Deputy Secretary, Maryland Department of Transportation
Mr. David L. Fleming, Chief Financial Officer, Office of Finance, Maryland Department of Transportation
Mr. David Kalampnayil, Chief of Internal Audits, Maryland Aviation Administration
Ms. Lisa Rosenberg, Acting Director of Audits, MDOT
Mr. Paul J. Wiedefeld, Executive Director, Maryland Aviation Administration

**Maryland Department of Transportation
Maryland Aviation Administration
Draft Audit Report Responses
November 19, 2008 to July 31, 2011**

Finding 1

MAA did not establish adequate monitoring controls over costs incurred for individual A&E contracts.

Recommendation 1

We recommend that MAA establish a mechanism to readily monitor contract costs by establishing records to track A&E contract expenditures relative to individual contract awards.

Response:

The Administration concurs with the auditors' recommendation.

The MAA has requested MDOT to develop the necessary functionality within the Financial Management Information System (FMIS) to allow MAA to monitor contract expenditures incurred for all contracts, including A&E contracts. This issue concerns those expenditures funded by PFC revenues, a funding source maintained outside of the State Treasury. This functionality will enable MAA to reduce the overall balance of contracts in FMIS when expenditures are made outside of FMIS. This functionality will be implemented by February 1, 2013.

In the interim, the MAA will prepare a summary of contract balances that consolidates expenditures from State and non-State expenditure sources to validate available balances monthly. In addition, the MAA will continue to have contract managers and the Capital Accountant monitor contract expenditures and balances to ensure all expenditures are accounted for on each contract and that contract balances are accurate.

Finding 2

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

Recommendation 2

We recommend MAA

- a. provide the BPW with complete and accurate information when requesting approval for contract awards, including pertinent information regarding existing contracts for similar services; and**
- b. extend contracts only to complete work tasks that were issued prior to the corresponding contract's original expiration date.**

**Maryland Department of Transportation
Maryland Aviation Administration
Draft Audit Report Responses
November 19, 2008 to July 31, 2011**

Response:

The Administration concurs with the auditors' recommendation.

- a. MAA always strives to provide BPW with the most accurate and complete information possible as well as providing adequate justification for the necessity of new contracts. Additionally, prior to each BPW meeting, there are briefings with BPW staff, as well as the MDOT Secretary, to address or respond to any issues or questions. Transparency in the procurement process is important to MDOT.

MDOT has implemented a revised justification process for MDOT agency use when requesting authorization to procure new A&E contracts. This process considers, among other things, existing contract authority, expected Capital Program levels and past rates of contract usage. When the CMI services are procured, certain tasks (projects) are identified in support of the Capital Program to be awarded to the consultant during the life of the contract. To the extent possible MAA strives to maintain the projects assigned to each CMI contract.

- b. MAA will adhere to current BPW Advisory 1995-1, 6th Revisions, Section 7(b), dated December 15, 2011 which allows all agencies to extend a contract for a period no longer than one third of the contract's original term, including initiating new tasks during contract extension without going back to the BPW for approval if:
 - i. The original contract contains a provision authorizing a no cost extension;
 - ii. Approved action agenda item stated the contract contained a provision authorizing a no cost extension; and
 - iii. The scope of work under the extension is the same as under the original contract.

Finding 3

MAA lacked adequate procedures to ensure that overhead rates billed by A&E firms were proper.

Recommendation 3

We recommend that MAA

- a. **establish a process to ensure that billed overhead rates are proper, including obtaining annual overhead audits as required;**
- b. **obtain the overhead rates audits for the aforementioned 7 contracts as well as for the missing periods for the remaining 14 contracts; and**
- c. **compare the audited overhead rates with the overhead rates billed during the audit period for all contracts and, in consultation with legal counsel, determine the extent to which any overpayments can be recovered.**

Maryland Department of Transportation
Maryland Aviation Administration
Draft Audit Report Responses
November 19, 2008 to July 31, 2011

Response:

The Administration concurs with the auditors' recommendation.

- a. MAA's Audit section currently performs pre-award audits of all A&E consultants to be awarded contracts. The independent overhead audits provided from the prime and sub consultants are reviewed and verified by the MAA. Although the required annual audits were not provided to the MAA on a consistent basis, the Project Manager(s) ensured that the overhead rate invoiced did not exceed the contractual overhead limit established by the Transportation Professional Services Selection Board (TPSSB), an independent governing board tasked with ensuring that the recommendation for A&E contract award is proper. Approval by the TPSSB is part of the briefing provided to the BPW for each A&E contract.

The maximum overhead rates of 175% and 200% for the two contracts referenced were billed and paid by MAA after verification by an independent audit during the pre-award audits. As the independently audited rates were higher than the contractual overhead rates limit established by the TPSSB, MAA capped the overhead rates to 175% and 200%.

The Office of Procurement has developed standard correspondence to forward to each consultant team as a reminder to submit annual independent audits by July of every year, as required by the contract to ensure overhead rates billed by A&E firms are proper. This new procedure to request audits was implemented July 1, 2012.

- b. & c.

MAA will obtain and compare the audited overhead rates with the overhead rates billed for the above mentioned contracts to the extent legally and contractually feasible; and in consultation with legal counsel, determine the extent overpayments, if any, that can be recovered. The Office of Procurement is in the process of procuring audit services with an independent contractor to review A&E contract compliance including overhead rates billed. MAA is working with the Department of Budget and Management in obtaining the contract for audit services, which is expected to be awarded by early 2013.

Finding 4

MAA did not review and approve subcontractors hired by A&E consulting firms after initial contracts were procured.

Recommendation 4

We recommend that MAA ensure subcontractors added by consulting firms after initial contracts are procured (including the aforementioned 21 subcontractors) are reviewed and approved to perform services, as required.

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Response:

The Administration concurs with the auditors' recommendation.

The Office of Procurement implemented a new policy as of March 2012 to ensure that subcontractors that are added by prime consultants after initial contracts are procured are authorized to perform services, as required. The above mentioned 21 subcontractors will be reviewed for approval to perform services as required per the contract to the extent legally and contractually feasible. A checklist of requirements for adding new sub consultants to a contract has been written and distributed to the project managers. The procurement officer will coordinate with the project managers to make certain the appropriate contractual terms and conditions are satisfied. Upon compliance, the procurement officer will amend the contract for the inclusion of the new subcontractor.

Finding 5

MAA did not ensure that comprehensive task orders were established for A&E contracts used for construction management and inspection services.

Recommendation 5

We recommend that MAA ensure that detailed task orders for A&E CMI contracts are established in accordance with the contract terms.

Response:

The Administration concurs with the auditors' recommendation.

By December 2012, MAA will establish task orders for A&E service contracts in accordance and full compliance with the contract terms and conditions, and include all required information.

By December 2012, MAA will modify procedures to require the A&E consultant to provide comprehensive task orders which will include project goals, needs, criteria and proposed personnel as part of their price proposal for each Construction Management and Inspection (CMI) services task order assigned under the contract. The price proposal will be submitted in a format with sections that specifically address project goals, project scope, criteria and needs, and proposed personnel and staffing.

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Financial Management Information System

Finding 6

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

Recommendation 6

We recommend that MAA establish independent approval requirements for all critical purchasing, disbursement, and adjustment transactions and for changes made to the vendor table to ensure propriety.

Response:

The Administration concurs with the auditors' recommendation.

Working closely with MDOT FMIS office, MAA established independent on-line approval requirements in February 2012 for all critical purchasing and disbursement transactions. MAA deleted all on-line approval requirements for inactive departments and created one independent approval requirement for each inactive department that ensures any transaction initiated in an inactive department must be routed to a FMIS specialist who will ensure that it cannot be processed or approved.

Security for employees who were approvers of purchasing documents that also were found to have the capability to initiate purchasing transactions were modified to take away the capability to initiate purchasing transactions.

MAA has established procedures to require proper documentation for all vendor table changes and that documentation is reviewed by supervisory personnel prior to changes being made to ensure the necessity of the change and reviewed by supervisory personnel subsequent to the change being made to ensure the propriety of the change.

The MAA also established procedures in February 2012 to ensure the monthly reconciliation and adjustments are reviewed by supervisory personnel.

Inventories

Finding 7

Equipment purchases were not always properly recorded in the inventory records or identified as State property timely.

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Recommendation 7

We recommend that MAA comply with the provisions of the DGS *Inventory Control Manual*.

Response:

The Administration concurs with the auditors' recommendation.

MAA Accounting, working with operating units to more accurately code invoices for equipment purchases, established procedures in February 2012 for personnel in the Accounts Payable Section to question invoice items that appear to be equipment purchases but are not coded accordingly so that equipment purchases will be classified accurately in MAA's detail equipment records. In November 2012, additional personnel supplemented existing staff to review the invoices included in the daily transmittal sent to the General Accounting Division (GAD). These reviews search for items which should have been coded as fixed assets so that these invoices can then be given to the Fixed Asset Officer to ensure they are entered into the fixed asset system accurately.

MAA will ensure all equipment items will be tagged as state property within a reasonable timeframe. Procedures have been implemented requiring the submission of form MAA-208, Request for New Property Identification Tag to accompany all fixed asset additions, including IT purchases so that all equipment items will be tagged as state property within a reasonable timeframe. Accountable Officers will be reminded to submit form MAA-208 in a timely manner and identify any untagged fixed assets during the annual fixed asset inventory and on an ongoing basis as discovered. Accounting personnel will enter the information into FMIS in a timely manner and the Fixed Asset Officer has instituted periodic spot checks to search for untagged fixed assets.

Finding 8

MAA did not maintain adequate inventory records for snow removal chemicals.

Recommendation 8

We recommend that MAA ensure perpetual inventory records for snow removal chemicals are established in accordance the *Manual* requirements and are properly maintained.

Response:

The Administration concurs with the auditors' recommendations.

MAA will ensure perpetual inventory records are adequately maintained for snow removal chemicals and it will include all required information in accordance with the DGS Manual.

MAA Airfield Maintenance Section, working with the Purchasing & Materials Management Office, implemented procedures in June 2012 to ensure that all vendor invoices for snow chemicals purchases contain the unit cost and quantity. Airfield Maintenance will also ensure all chemicals used at the agency during snow removal operations are tracked and accounted for by the snow desk. In addition, all snow chemicals are recorded on work orders in Maximo (the Administration's inventory system) with the unit cost.

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