

Audit Report

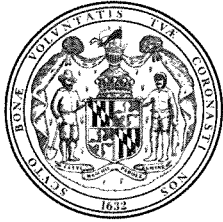
**Department of Transportation
Secretary's Office**

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 2, 2012

Bruce A. Myers, CPA
Legislative Auditor

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

Ladies and Gentlemen:

We have audited the Maryland Department of Transportation – Secretary’s Office, including the Debt Service Requirements Unit (MDOT), for the period beginning January 9, 2009 and ending July 4, 2011. MDOT provides overall direction and support to five transportation modal agencies and administers the bond issuance and debt service activities associated with the Department’s transportation bonds. MDOT also provides operating and capital grants for transit services in the Washington, D.C. metropolitan area as well as grants to other governmental agencies for transportation-related purposes.

Our audit disclosed that MDOT used contracts to obtain services outside the scope of the contracts which circumvented the procurement process. Further, supporting documentation was not always obtained for certain related contractual payments. In addition, MDOT did not establish adequate procedures to verify data recorded in the Capital Program Management System (CPMS) by MDOT’s modals, which represented expenditure and estimated cost data for projects in the Consolidated Transportation Program (CTP). CTP serves as a planning and budgeting tool to prioritize capital projects for State funding. Finally, reimbursement requests for certain grants disbursements were not adequately monitored.

MDOT’s response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by MDOT.

Respectfully submitted,

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

Thomas J. Barnickel III, CPA
Acting Legislative Auditor

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Background Information

Agency Responsibilities

The Maryland Department of Transportation – Secretary’s Office (MDOT) provides overall direction and guidance to the Department including its five modal administrations (Maryland Aviation Administration, State Highway Administration, Motor Vehicle Administration, Maryland Port Authority, and Maryland Transit Administration). The other component of Maryland’s transportation system is the Maryland Transportation Authority (MdTA). Although Maryland’s Secretary of Transportation serves as the Authority’s chairman, MdTA is not overseen by MDOT.

MDOT also administers the bond issuance and debt service activities associated with the Department’s transportation bonds. MDOT also provides operating and capital grants for transit services in the Washington, D.C. metropolitan area as well as grants to other governmental agencies (such as local transportation planning agencies) for transportation-related purposes. In addition, MDOT receives an appropriation for all debt service requirements of the Department’s consolidated transportation bonds.

MDOT is also responsible for the operation of the Office of Transportation Technology Services which provides computing resources to the various units of the Department of Transportation and operates as a computer service bureau for these units. The computer operations of the Office are addressed in a separate audit of the data center and, as such, were not included in the scope of this audit.

According to the State’s records, during fiscal year 2011, MDOT’s operating expenditures totaled approximately \$448 million, of which \$371 million related to operating and capital grants to the Washington Metropolitan Area Transit Authority and other various entities for transportation related purposes. In addition, debt service payments totaled approximately \$155.7 million.

Audit of the Department’s Financial Statements

An independent accounting firm was engaged to audit the State of Maryland’s financial statements for the fiscal years ended June 30, 2009, 2010, and 2011. In conjunction with these audits, the firm was engaged to prepare separate audit reports on the Department of Transportation’s financial statements. In the related audit reports, the firm stated that the Department’s financial statements presented fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund

information of the Department of Transportation, and respective changes in financial position, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated September 21, 2009. We determined that MDOT satisfactorily addressed these findings.

Findings and Recommendations

Contractual Payments

Finding 1

The Maryland Department of Transportation – Secretary’s Office (MDOT) used various contracts, including contracts executed by State Highway Administration (SHA), to obtain services that were outside the scope of those contracts thereby circumventing State procurement regulations.

Analysis

MDOT used various contracts, including contracts executed by SHA, to perform certain services that were outside the scope of those contracts. As a result, MDOT circumvented State procurement regulations by not bidding these services or modifying the contracts and obtaining Board of Public Works (BPW) approval of the modifications. Further, certain payments were made without adequate support.

Our test of contract payments totaling \$8.4 million identified one payment totaling \$105,303 for rail safety inspection services that was authorized by MDOT management to be performed under an SHA contract. The contractor that was paid under the SHA contract had performed rail safety inspection work under an MDOT contract that had since expired. Rather than executing a new contract procurement for the service, MDOT directed SHA to add this contractor as a subcontractor under an SHA contract for bridge engineering and design services so that the rail safety inspection work could be continued for MDOT. In addition, the SHA contract was not modified for this scope change.

We also noted that, under this arrangement, MDOT directly paid the subcontractor; however, certain invoices were paid without obtaining adequate documentation. In this regard, payments totaling approximately \$48,000 did not include support for the hours billed and travel expenses charged. In addition, the aforementioned \$48,000 included a duplicate payment of approximately \$4,600 when MDOT paid both the subcontractor and the SHA contractor for the same services performed by the subcontractor. During fiscal year 2011, MDOT paid approximately \$165,000 to the subcontractor for this task order, including the \$4,600 related to the duplicate payment.

Our test of contract procurements disclosed that MDOT used various contracts to perform services related to the development of an Environmental Management System (EMS) that were outside the scope of the related contracts. Initially, MDOT used an existing MDOT transportation policy and planning contract to

carry out the information system development. However, other unrelated MDOT and SHA contracts were subsequently used to continue this system development, but no contract modifications were prepared. Per MDOT and SHA's records, the cumulative payments made for this work totaled \$461,300 as of December 2011. The billings related to the SHA contracts were paid by SHA and were to be reimbursed by MDOT. SHA had billed MDOT approximately \$205,400 related to these tasks and received reimbursement from MDOT of \$95,411.

State procurement regulations generally require that all procurements over \$25,000 be competitively bid and that procurements of services in excess of \$200,000 be approved by BPW. Furthermore, the use of a contract to perform work outside of the contract scope instead of requesting BPW approval for change orders appears to violate State regulations which require contract modifications that materially change the scope, amount, or any cost component of a contract by more than \$50,000 to be submitted to BPW for approval.

Recommendation 1

We recommend that MDOT

- a. modify the aforementioned contracts and obtain BPW approval for the modifications as required by the State procurement regulations;**
- b. conduct competitive procurements as required by the regulations;**
- c. ensure payments are properly supported; and**
- d. review past contractor payments and obtain reimbursement for any overpayments, including the aforementioned \$4,600.**

Capital Program Management System

Background

The Consolidated Transportation Program (CTP) is a listing of Maryland's capital transportation projects that are proposed for construction, or for development and evaluation during the next six-year period. The primary purpose of CTP is to serve as a planning and budgeting tool to prioritize projects for funding. CTP includes all proposed projects for fiscal years 2011 through 2016 to be undertaken by the Maryland Department of Transportation, its five modal agencies, the Maryland Transportation Authority, and the Washington Metropolitan Area Transit Authority. Projects to be included on CTP are recommended by the various modal agencies, which are also responsible for developing cost estimates and recording them in the Capital Program Management System (CPMS). The prioritization of projects is determined by MDOT. CPMS is also used by the

modal administrations to record project expenditures and to track estimates of costs to complete projects after the projects have begun. MDOT uses CPMS data to update CTP annually.

According to MDOT records, CTP for fiscal years 2011 through 2016 included 1,478 projects at a total estimated cost of \$11.8 billion over the six-year period. During fiscal year 2011, approximately \$2.1 billion of total expenditures were recorded in CPMS for CTP projects. Also, during fiscal year 2010, MDOT issued \$140 million in bonds to supplement funding for the CTP; no CTP related bonds were issued in fiscal year 2011.

Finding 2

MDOT did not sufficiently verify the accuracy of certain data recorded in CPMS by the modals.

Analysis

MDOT had not established adequate procedures to verify the accuracy of expenditure and estimated cost data recorded in CPMS by MDOT's modals to help ensure the reliability of data used for decision making purposes.

Specifically, our review disclosed the following conditions:

- We were advised by MDOT management that reconciliations of expenditures recorded in CPMS by the modal agencies to actual expenditures in the State's Financial Management Information System (FMIS) were performed by MDOT on an individual modal basis. However, these reconciliations were not documented and we were advised they were limited to the total expenditures for each modal agency rather than reconciling project level expenditure data. Our comparison of fiscal year 2010 state capital expenditures recorded in CPMS to expenditures recorded in FMIS by modal agency disclosed differences at each modal. For example, at one modal expenditures recorded in CPMS exceeded FMIS expenditures by \$1.5 million while at another modal FMIS expenditures exceeded CPMS expenditures by \$1.9 million. Furthermore, MDOT management informed us that the reconciliation of CPMS to FMIS data for individual projects is the responsibility of the project managers at the modals. Nevertheless, our review of these reconciliation procedures at the State Highway Administration determined that the reconciliations were not being documented.

- MDOT did not compare estimated cost data recorded in CPMS by the modals to supporting documentation used by the modals when preparing the estimates. MDOT also had no policy to review these estimates entered by the modals at least on a test basis.

Recommendation 2

We recommend that MDOT

- a. perform and adequately document reconciliations between CPMS and FMIS expenditure data to ensure that total modal and project cost information is accurately recorded, and**
- b. establish procedures to perform documented reviews of estimated cost data recorded in CPMS to supporting documentation on a test basis.**

Finding 3

MDOT did not adequately document or monitor user access to CPMS.

Analysis

Access to CPMS was not adequately documented or monitored as there was no formal process for documenting user access requests and approvals. Specifically, requests for initial user access or changes to current user access capabilities were made via phone or email. Although we were advised that access required MDOT management approval, this approval was not documented.

Additionally, we noted that MDOT did not periodically review system capabilities assigned to users for appropriateness. Our test of 31 individuals from MDOT's CPMS Report of Active Users disclosed that 13 individuals had access that was not necessary to perform their job duties or the users were no longer employed by MDOT. For example, four individuals had data base administrator access to add and modify user access within CPMS; however, this level of access was inappropriate based on their job duties. In addition, four other individuals who were no longer employed with MDOT or any of its modals for three or more years continued to have assigned critical access capabilities on CPMS.

Consequently, inappropriate adjustments could be made to the data. According to MDOT records, as of October 19, 2011 there were 635 active user ids on CPMS.

Recommendation 3

We recommend that MDOT

- a. formally document user access requests and approvals for the CPMS,**
- b. periodically review the propriety of the access capabilities assigned to users of the CPMS and document this review, and**
- c. promptly remove former employees' access to CPMS.**

Grants

Finding 4

MDOT did not always require reimbursement requests for grant disbursements to be adequately supported.

Analysis

MDOT did not always require reimbursement requests for grant disbursements to be adequately supported. MDOT provides grants to various governmental entities for transportation-related purposes. Our test of 34 grant disbursements related to 14 grant agreements and totaling approximately \$13.6 million disclosed that certain reimbursement requests applicable to one grantee were not adequately supported to ensure the accuracy of payments made. Specifically, we noted the following conditions:

- Our review of four grant disbursements made to the grantee during fiscal year 2011 totaling approximately \$2.4 million disclosed that disbursements totaling \$905,000 lacked sufficient documentation (such as, vendor invoices paid by the grantee). The unsupported portion of the four grant disbursements was applicable to two reimbursable grants. Although the specific documentation was not required by the respective grant agreements, the grant agreements did require the grantee to only bill for costs incurred. MDOT did not obtain sufficient documentation from the grantee to allow it to determine the accuracy of amounts billed. Subsequent to our inquiries, MDOT requested and obtained supporting documentation for approximately \$393,000 of the aforementioned \$905,000, while the remaining \$512,000 remained unsupported.
- MDOT did not obtain a certification from the grantee indicating all costs were properly supported for the four previously mentioned grant disbursements. MDOT also did not audit the propriety of amounts requested. The related grant agreements required this certification from the grantee and permitted MDOT to audit the grantee.
- MDOT had reimbursed the grantee twice for the same \$6,000 vendor invoice.

The grant agreements for these two reimbursable grants provided for total payments of up to approximately \$7.8 million, of which approximately \$5.4 million remained undisbursed as of June 28, 2011. MDOT management advised us that it stopped making payments to the grantee pending the receipt of

additional documentation. During fiscal year 2011, MDOT made transportation-related grant payments totaling \$30.3 million (excluding grants made to the Washington Metropolitan Area Transit Authority).

Recommendation 4

We recommend that MDOT

- a. require grantees to provide adequate documentation, such as time sheets and vendor invoices, as well as the required certifications to support the propriety of amounts billed;**
- b. verify the propriety of amounts billed to supporting documentation or perform periodic audits of grantee records to verify the propriety of billed charges; and**
- c. review payments made to the above mentioned grantee to determine the extent of unsubstantiated or duplicate payments (including the aforementioned \$6,000) and recover the related funds.**

Audit Scope, Objectives, and Methodology

We have audited the Maryland Department of Transportation – Secretary’s Office, including the Debt Service Requirements Unit (MDOT), for the period beginning January 9, 2009 and ending July 4, 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 the MDOT’s financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The primary areas addressed by this audit included certain programs associated with transportation activities (such as the consolidated transportation program), grants, contract procurements and invoice processing, real estate sales, cash receipts, federal fund recoveries, and certain payroll functions. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the MDOT’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.

The State Highway Administration provides certain payroll support services to MDOT. These support services are included within the scope of our audit of the State Highway Administration. In addition, our audit did not include the computer operations of MDOT’s Office of Transportation Technology Services that are addressed in a separate audit of the data center.

Our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of MDOT’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 the components of MDOT.

MDOT'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 MDOT'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. A less significant finding was communicated to MDOT that did not warrant inclusion in this report.

MDOT's response 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 MDOT 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

October 24, 2012

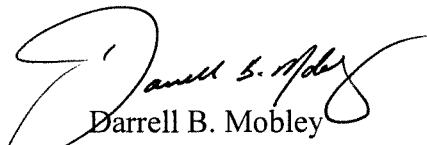
Thomas J. Barnickel III, CPA
Acting Legislative Auditor
Office of Legislative Audits
Department of Legislative Services
Room 1202
301 West Preston Street
Baltimore MD 21201

Dear Mr. Barnickel:

Enclosed please find the Department's responses to the draft Legislative Auditor's Report dated October 2012, for the Maryland Department of Transportation (MDOT) - The Secretary's Office (TSO), for the period January 9, 2009 and ending July 04, 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,


Darrell B. Mobley
Acting Secretary

Enclosure

cc: Mr. Leif Dormsjo, Acting Deputy Secretary, Maryland Department of Transportation
Mr. David L. Fleming, Chief Financial Officer, Maryland Department of Transportation
Ms. Lisa Rosenberg, Acting Director, Office of Audits, Maryland Department of
Transportation

**Maryland Department of Transportation
Office of the Secretary
January 9, 2009 to July 4, 2011**

Contractual Payments

Finding 1

The Maryland Department of Transportation – Secretary’s Office (MDOT) used various contracts, including contracts executed by State Highway Administration (SHA), to obtain services that were outside the scope of those contracts thereby circumventing State procurement regulations.

Recommendation 1

We recommend that MDOT

- a. modify the aforementioned contracts and obtain BPW approval for the modifications as required by the State procurement regulations;**
- b. conduct competitive procurements as required by the regulations;**
- c. ensure payments are properly supported, and**
- d. review past contractor payments and obtain reimbursement for any overpayments, including the aforementioned \$4,600.**

TSO Response:

- a. We concur with the auditor’s recommendation. Complying with State procurement regulations, including seeking BPW approval for all appropriate contract actions is a principle of the Department. Specifically, as a result of a separate audit, the State Highway Administration (SHA) is in the process of gathering required data in order to present various contracts to the BPW for ratification of various contract scope issues. The task orders on SHA contracts cited in the finding are on the list that SHA has developed for BPW approval.
- b. We concur with the auditor’s recommendation. It should be noted that the cited examples were for the continuation of critical projects and were time sensitive. Those responsible for continuation looked to SHA, with many more contractual resources than TSO, as a means to retain the vendor experienced with the projects. Once this inappropriate practice was brought to the attention of the Department, each of the task orders was immediately ended. TSO subsequently competitively procured and awarded a contract, which was approved by the BPW on March 7, 2012.

**Maryland Department of Transportation
Office of the Secretary
January 9, 2009 to July 4, 2011**

- c. We concur with the auditor's recommendation. Guidance and directives has been developed and training was delivered to project and contract managers within TSO in June and September of 2012. Additional sessions will be held as the need arises.
- d. We concur with the auditor's recommendation. An analysis of payments was performed and indeed an overpayment had occurred. The vendor was notified and reimbursement was made to TSO in November 2011.

Capital Program Management System

Finding 2

MDOT did not sufficiently verify the accuracy of certain data recorded in CPMS by the modals.

Recommendation 2

We recommend that MDOT

- a. **perform and adequately document reconciliations between CPMS and FMIS expenditure data to ensure that total modal and project cost information is accurately recorded, and**
- b. **establish procedures to perform documented reviews of estimated cost data recorded in CPMS to supporting documentation on a test basis.**

TSO Response:

- a. We concur with the auditor's recommendation. It should be understood that the CTP is a planning document and not a financial statement. CPMS is updated quarterly and any report generated provides a snapshot in time for that particular quarter. The only data set that CPMS and FMIS should agree is for the closeout of the just-ended fiscal year. By the time closeout data is available, that year is no longer part of the current six-year cycle.

Concerning the specific recommendation, as noted in the finding, the Office of Finance has been performing reconciliation procedures. To formalize and improve the process, the Office of Finance Financial Planning unit now performs a reconciliation that compares actual year-end expenditures to the comparable data from CPMS. Material differences are investigated and resolution requested from the affected modal administration. The reconciliation is reviewed and signed-off by the Assistant Director for Financial Planning, and retained for audit purposes.

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Additionally, instructions addressing issues such as accuracy are provided each year to the modal administrations for the Second Quarter Update. The fiscal year 2012 instructions, for example, included the following (this portion was bolded in the document and not added here):

The FY 2012 close-out numbers must be carried forward into the Second Quarter Database. Once the Database numbers have been reconciled with the Accounting closing numbers, they are considered to be “carved in stone”, and no further changes should be made to them. They become part of your master Database used to develop future quarters.

- b. We concur with the auditor’s recommendation. The Office of Planning and Capital Programming (OPCP) Capital Program Analysts meet with modal capital programming staff on a regular basis, and also attend Project Status Review Meetings. OPCP implemented a process in September 2012, whereby on a test basis, project backup cost backup information for randomly selected projects will be requested of the respective modal administration. These reviews will be documented and retained for audit purposes. This process will be performed on an ongoing basis, twice a year, at the Draft and Final CTP stages.

Consolidated Transportation Program (CTP)

Finding 3

MDOT did not adequately document or monitor access to the CPMS.

Recommendation 3

We recommend that MDOT

- a. **formally document user access requests and approvals for the CPMS,**
- b. **periodically review the propriety of access capabilities assigned to users of the CPMS and document this review, and**
- c. **promptly remove former employees’ access to CPMS.**

Maryland Department of Transportation
Office of the Secretary
January 9, 2009 to July 4, 2011

TSO Response:

- a. We concur with the auditor's recommendation. CPMS is a Microsoft Access application and resides on shared network drives. One cannot access those drives without a valid active MDOT logon. An internal access list is maintained within CPMS on which a user must exist in order to gain access to the system. The OPCP implemented in October 2012 a "CPMS Access Change Form" which was distributed to all the modal administrations and the MDTA. The form requires the requestor to indicate whether a new user is being added to CPMS, an existing user's level of access is being modified, or a user's access is being deleted from the system. The form requires an appropriate signature from the requesting entity as well as from MDOT TSO. Once a submitted form is approved and signed, it will be maintained for future audit review and the requesting entity will be notified of the approval via e-mail.

- b. We concur with the auditor's recommendation. In connection with the process described above, the modal administrations and MDTA are instructed to periodically perform a review of user accesses to CPMS, and to document the reviews. The review will document all active users, their positions, their level of CPMS access (read only, read/write, etc.) and their reason for needing access to CPMS. Those reviews are to be provided to OPCP on a schedule set by OPCP. OPCP will purge from the internal CPMS list all users who no longer warrant access.

- c. We concur with the auditor's recommendation. As mentioned previously, users require an active MDOT network user logon in order to gain access to CPMS. Once terminated, the MDOT practice is to immediately remove the employees' MDOT logon, thereby preventing access to CPMS. All of the modal administrations and MDTA have reviewed and updated their lists of existing CPMS users, including the removal of former employees from the list. Those lists of users, together with their approved levels of access, were forwarded to TSO OPCP in October 2012, and will be kept on file for future audit review. A similar update will take place on an ongoing basis at both the Draft and Final CTP stages, thereby providing an extra measure of verification.

Grants

Finding 4

**Maryland Department of Transportation
Office of the Secretary
January 9, 2009 to July 4, 2011**

MDOT did not always require reimbursement requests for grant disbursements to be adequately supported.

Recommendation 4

We recommend that MDOT

- a. **require grantees to provide adequate documentation, such as time sheets and vendor invoices, as well as the required certifications to support the propriety of amounts billed;**
- b. **verify the propriety of amounts billed to supporting documentation or perform periodic audits of grantee records to verify the propriety of billed charges; and**
- c. **review payments made to the above mentioned grantee to determine the extent of unsubstantiated or duplicate payments (including the aforementioned \$6,000) and recover the related funds.**

TSO Response:

- a. We concur with the auditor's recommendation. As noted in the analysis of the finding, this specific documentation is not required by the grant agreements. We did however contact the grantee to obtain complete documentation supporting the amounts disbursed as well as the required certifications. Additionally, our processes have been updated to ensure adequate supporting documentation is received and reviewed prior to making grant payments.

TSO will also review future grant agreements with an intention to clarify expectations of the grantee concerning supporting document to be provided with grant disbursement requests. Additionally, as mentioned in the response to recommendation 1c, TSO will develop training for project and contract managers in order to strengthen contract management practices.

- b. We concur with the auditor's recommendation. The supporting documentation received from the grantee is reviewed to verify the propriety of the billed charges. Periodic audits will be performed if deemed necessary and as provided in the Office of Audits annual audit plan.
- c. We concur with the auditor's recommendation. The review was performed in April 2012 to identify unsubstantiated or duplicate payments. Overpayments were taken into consideration and addressed in subsequent future payments to the grantee. Additionally, as mentioned in the response to recommendation 4a, we have strengthened our grant payment requests review processes to require adequate documentation.

AUDIT TEAM

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