

Audit Report

Maryland Transportation Authority

January 2017



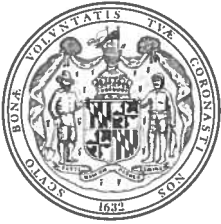
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

For further information concerning this report contact:

Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201
Phone: 410-946-5900 · 301-970-5900
Toll Free in Maryland: 1-877-486-9964
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

January 12, 2017

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, 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 Transportation Authority (MDTA) for the period beginning March 27, 2013 and ending May 9, 2016. MDTA is responsible for the supervision, financing, construction, operation, maintenance, and repair of the State's toll facilities.

Our audit did not disclose any findings that warrant mention in this report.

We wish to acknowledge the cooperation extended to us during the course of this audit by MDTA.

Respectfully submitted,

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

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

Title 4 of the Transportation Article, Annotated Code of Maryland, establishes the Maryland Transportation Authority (MDTA) as an agency of the State, to act on behalf of the Maryland Department of Transportation with regard to the supervision, financing, construction, operation, maintenance, and repair of the State's toll facilities.

The governing board of MDTA consists of eight members who are appointed by the Governor with the advice and consent of the Senate. The Secretary of Transportation serves as the Chairman. MDTA's operating activities are primarily funded through the collection of toll revenues. According to its audited financial statements, MDTA's operating revenues and expenses totaled \$836 million and \$423 million, respectively, during fiscal year 2016, and its net position totaled \$3.9 billion as of June 30, 2016. The majority of MDTA's net position represents a net investment in capital assets; the unrestricted portion of this net position is approximately \$500 million.

Financial Statement Audits

MDTA engaged an independent accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2014, 2015, and 2016. In the related audit reports, the firm stated that MDTA's financial statements presented fairly, in all material respects, the respective financial position of the business type activities of the MDTA as of June 30, 2014, 2015 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance 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 two findings contained in our preceding audit report dated March 27, 2014. We determined that MDTA satisfactorily addressed those findings.

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of MDTA's internal control. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MDTA that did not warrant inclusion in this report.

A draft copy of this report was provided to MDTA. Since there are no recommendations in this report, a written response was not necessary.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Transportation Authority (MDTA) for the period beginning March 27, 2013 and ending May 9, 2016. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine MDTA's financial transactions, records and internal 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 procurements and disbursements for construction, architecture and engineering contracts, as well as MDTA's operating expenses, cash receipts, and payroll. We also determined the status of the findings contained in our preceding audit report.

MDTA engages an independent accounting firm to audit its annual financial statements. In the related audit reports for the fiscal years ended June 30, 2014, 2015, and 2016 the firm stated that MDTA's financial statements presented fairly, in all material respects, the respective financial position of the business-type activities of the MDTA as of June 30, 2014, 2015 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of

America. We have relied on the work of the independent accounting firm to provide audit coverage pertaining to bank and investment accounts, debt issuances and related debt covenants, and certain payroll and cash receipts activity. Our audit procedures in those areas were generally limited, therefore, to obtaining a sufficient basis for that reliance.

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

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MDTA's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). 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 the audit. We also extracted data from MDTA's general ledger and purchasing and disbursement systems for the purpose of testing purchases and disbursements. 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 audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MDTA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including 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.

AUDIT TEAM

William R. Smith, CPA
Audit Manager

Richard L. Carter, CISA
Information Systems Audit Manager

Marissa L. Eby, CPA
Nicholas J. Caronna, CPA
Senior Auditors

Matthew D. Walbert, CISA
Information Systems Senior Auditor

Walter L. Horan, IV
Alice Z. Liu
Susan C. Skinner
Staff Auditors