

Audit Report

**Department of Transportation
Maryland Port Administration**

January 2018



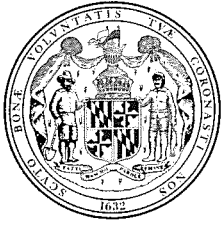
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

January 4, 2018

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 Department of Transportation – Maryland Port Administration (MPA) for the period beginning January 13, 2014 and ending February 20, 2017. MPA operates State-owned port facilities and promotes the economic well-being of Maryland's ports. Specifically, MPA is responsible for managing the State's investment in port facilities, developing trade by promoting maritime business, and coordinating the delivery of services to the maritime community.

Our audit disclosed that MPA had not established sufficient controls to ensure all collections were deposited.

The Maryland Department of Transportation's response to this audit, on behalf of MPA, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by MPA.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Maryland Port Administration (MPA) is part of the Maryland Department of Transportation. MPA operates State-owned port facilities and promotes the economic well-being of Maryland's ports. MPA is responsible for managing the State's investment in port facilities; developing trade by promoting maritime business; and coordinating the delivery of services, such as dredging and navigational aids, to the maritime community.

According to the State's records, MPA's fiscal year 2016 expenditures totaled approximately \$149.5 million. According to MPA's records, approximately 10 million tons of cargo were shipped through its port facilities during fiscal year 2016, and overall port revenues totaled approximately \$50 million, the majority of which related to terminal activity, including fees for the use of MPA's piers, wharfs, and equipment.

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 October 1, 2014. We determined that MPA satisfactorily addressed both of these findings.

Findings and Recommendations

Cash Receipts

<p>Finding 1 Controls over cash receipts were not sufficient to ensure all collections were deposited.</p>
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Analysis

The Maryland Port Administration (MPA) had not established adequate controls over cash receipts, which totaled approximately \$15.4 million during fiscal year 2016 and consisted primarily of checks received from shipping companies and other customers for the use of port facilities. Specifically, deposit verifications performed by MPA were not effective since the employee who initially recorded collections on the check log did not provide a copy of the log directly to the employee responsible for verifying that all recorded collections were deposited.

Instead, the check log and the related checks were forwarded first to the employee who prepared the deposit. As a result, unauthorized changes could be made to the check log that would not be detected by the employee responsible for verifying the recorded checks to validated bank deposit documentation.

The Comptroller of Maryland's *Accounting Procedures Manual* requires an independent verification of collections to deposit, which should be performed from the recordation of checks received.

Recommendation 1

We recommend that MPA ensure that the initial record of checks received, or a copy thereof, is given directly to the independent employee responsible for verifying that all recorded collections were deposited.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Transportation – Maryland Port Administration (MPA) for the period beginning January 13, 2014 and ending February 20, 2017. 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 MPA's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included cash receipts, procurements and disbursements, accounts receivable, equipment, payroll, and certain other transactions specifically associated with port activities, such as lease agreements for the use of port facilities. We also determined the status of the findings contained in our preceding audit report.

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 (SHA) to MPA. These support services are included within the scope of our audit of SHA. Our audit also did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of MPA's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including MPA.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MPA'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 Financial Management Information System and the Maryland Department of Transportation's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), 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 this audit.

We also extracted data from MPA's billing and reporting system for the purpose of testing billings and accounts receivable. 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.

MPA'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 a finding relating to a condition that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect MPA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This finding is also regarded as a significant instance of noncompliance with applicable laws, rules, or regulations.

The Maryland Department of Transportation's response, on behalf of MPA, to our finding and recommendation is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Department regarding the results of our review of its response.

APPENDIX



Larry Hogan
Governor
Boyd K. Rutherford
Lt. Governor
Pete K. Rahn
Secretary

Office of the Secretary

December 27, 2017

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

Dear Mr. Barnickel:

Enclosed please find the Maryland Department of Transportation's (MDOT) responses to the Legislative Auditor's current audit of the MDOT Maryland Port Administration (MDOT MPA) for the period beginning January 13, 2014 and ending February 20, 2017.

An electronic version was forwarded by email. If you have any additional questions or concerns, please contact Mr. Steven P. Watson, MDOT Deputy Chief Financial Officer, at 410-865-1037 and swatson@mdot.state.md.us. Mr. Watson will be happy to assist you.

Sincerely,

A handwritten signature in black ink, appearing to read 'James F. Ports, Jr.', is written over a large, faint, circular watermark or background graphic.

James F. Ports, Jr.
Deputy Secretary

Confidential Enclosures

cc: Mr. Bekana Edossa, Audit Manager, OLA
Mr. Pete K. Rahn, Secretary, MDOT
Mr. W. Thomas Sides, Senior Auditor, OLA
Mr. Steven P. Watson, Deputy Chief Financial Officer, MDOT TSO

Mr. Thomas J. Barnickel III
Page Two

bcc: Mr. John Arnold, Director, Office of Audits, MDOT MPA
Ms. Brenda Cachuela, Director, Office of Audits, MDOT TSO
Ms. Wonza Spann-Nicholas, Director, Office of Finance, MDOT MPA

Findings and Recommendations

Cash Receipts

Finding 1

Controls over cash receipts were not sufficient to ensure all collections were deposited.

Recommendation 1

We recommend that MPA ensure that the initial record of checks received, or a copy thereof, is given directly to the independent employee responsible for verifying that all recorded collections were deposited.

Response:

MDOT MPA concurs with the Auditors recommendation. The Office of Finance, Accounting Services Department, has implemented the following procedure effective August 9, 2017:

- The initial record of receipts (the check log) is being forwarded directly by the preparer to the independent employee who is responsible for verifying the recorded receipts to validated bank deposit documentation.

AUDIT TEAM

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