

Audit Report

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**Maryland Department of Transportation  
Maryland Aviation Administration**

December 2019

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**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

Gregory A. Hook, CPA  
Legislative Auditor

December 12, 2019

Senator Craig J. Zucker, Senate Chair, Joint Audit and Evaluation Committee  
Delegate Shelly L. Hettleman, House Chair, Joint Audit and Evaluation Committee  
Members of Joint Audit and Evaluation Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Transportation (MDOT) – Maryland Aviation Administration (MAA) for the period beginning July 1, 2015 and ending December 16, 2018. 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 that MAA circumvented State procurement regulations by using a revenue contract with its parking facilities management vendor to make \$1.7 million in procurements, which included construction work for valet services and six mobile customer service robots. Specifically, this practice of having the vendor directly contract for the work bypassed the advertising and competitive bidding requirements of State procurement regulations. The regulations require public solicitation for competitive bids for all procurements exceeding \$15,000 and Board of Public Works approval for contracts exceeding \$200,000.

MAA did not review marketing fund expenses made by its concessions management vendor to ensure the fund was used for its intended purpose. Our review of the vendor's reported marketing fund expenses totaling \$2.1 million over a three-year period disclosed payments from the fund totaling \$552,000 that did not meet the stated purpose of the fund or that appeared to be of a questionable nature. For example, the vendor used the marketing fund to make contributions to local and State politicians and campaign fundraising events totaling \$111,000, as well as to make payments to a lobbyist totaling \$50,000.

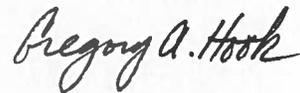
In addition, MAA did not always comply with State procurement regulations in regards to bid openings and posting of contract awards, and did not have adequate procedures to ensure that proper deposit verifications were performed of certain receipts that totaled \$33.9 million during fiscal year 2018.

Finally, our audit included a review to determine the status of the four findings contained in our preceding audit report. We determined that MAA satisfactorily addressed these findings.

MDOT's response to this audit, on behalf of MAA, is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and related recommendations, and we will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with MDOT.

We wish to acknowledge the cooperation extended to us during the audit by MAA. We also wish to acknowledge MDOT's and MAA's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,



Gregory A. Hook, CPA  
Legislative Auditor

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## **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, MAA's expenditures totaled approximately \$314.1 million (special funds of \$305.6 million and federal funds of \$8.5 million) during fiscal year 2018. Special fund revenue generated by airport operations (such as customer facility charges, airport concessions, and a portion of parking revenue) totaled approximately \$341 million, of which \$257 million related to operating revenue and \$84 million related to capital financing revenue. The State's Transportation Trust Fund (TTF) funds the amount by which operating expenditures exceed special fund operating revenue, and funds capital projects as needed.

### **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 October 7, 2016. We determined that MAA satisfactorily addressed these findings.

# Findings and Recommendations

## Parking Service Vendor Contract

### **Finding 1**

**The Maryland Aviation Administration (MAA) circumvented State procurement regulations by directing its parking services vendor to procure, at a total cost of \$1.7 million, construction work for valet services and six customer service robots.**

### **Analysis**

MAA circumvented State procurement regulations by directing its parking services vendor to procure certain construction services and to purchase six customer service robots, at a total cost of \$1.7 million. MAA owns various parking facilities, and contracts with a vendor to operate the parking services at the Baltimore/Washington International (BWI) Thurgood Marshall Airport. The vendor collects payments from customers and remits the parking revenue to MAA, which totaled \$64.8 million during calendar year 2018. To reimburse the vendor for the cost of these MAA-directed construction services procurements and robot purchases, MAA allowed the vendor to reduce the revenue it remitted to MAA. This practice bypassed the advertising and competitive bidding requirements of State procurement regulations that would have applied to MAA if it had procured the work. The regulations require public solicitation for competitive bids for all procurements exceeding \$15,000, and Board of Public Works (BPW) approval for contracts exceeding \$200,000.

### Valet Services - Parking Garage Construction

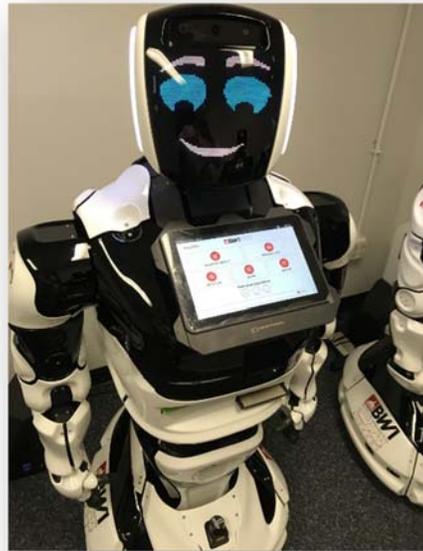
MAA directed its parking services vendor to procure construction services (including architectural and engineering services) related to MAA-owned facilities, at a total cost of \$1.1 million, rather than procure these services itself through a competitive process. Specifically, MAA processed a modification in October 2017 to its parking services contract that allowed the vendor to provide valet parking services; however, the contract modification did not address the costs of the related garage renovations to facilitate these services. Rather, the parking services vendor separately provided MAA with a \$1.1 million proposal for the renovations, which primarily included construction of a 480 square foot valet lobby within the parking facilities.

While BPW approval for the contract modification allowing valet parking services was obtained, MAA did not disclose the costs needed for renovating the existing garage for these services. Rather, MAA informed the BPW that

the contract modification would not change the financial consideration that the vendor was required to remit to MAA.

### Customer Service Robots

MAA directed its parking services vendor to purchase six customer service mobile robots at a cost of \$588,000 from a specified vendor. Instead of competitively bidding for the robots, MAA directly requested two vendors to provide technical and cost proposals, and selected the specified vendor in consultation with its parking services vendor. Further, MAA did not obtain BPW approval for this purchase. The robots were intended to roam the terminal and enhance the customer experience by providing services such as terminal directions and travel information, as well as to process parking payments.



MAA received the robots in November 2018, but, as of June 2019, the robots were stored in a room at BWI because they were not functional due to network issues and integration issues with other MAA systems. MAA management advised us that an unknown amount of additional cost would be incurred in order for the robots

to function, and it did not consider if the robot vendor would be liable for the additional costs.

MAA management advised us that that it did not believe competitive bids were required since these construction services and customer service robots were obtained through its revenue generating parking services contract. While MAA has an exclusion from State procurement regulations for revenue generating

contracts, this exclusion would not apply to these particular capital improvements and capital equipment purchases, which should be competitively procured.

### **Recommendation 1**

**We recommend that MAA**

- a. discontinue the use of revenue contracts to circumvent State procurement regulations;**
- b. disclose all pertinent information to the BPW, and seek retroactive approval from BPW for the aforementioned purchases; and**
- c. determine the liability for costs to be incurred in order for the robots to be functional, and obtain reimbursement from the robot vendor as deemed appropriate.**

### **Concessions Management Vendor Contract**

#### **Finding 2**

**MAA did not review its concessions management vendor's marketing fund expenses to ensure the fund was used for its intended purpose. Our review of the vendor's reported marketing fund expenses totaling \$2.1 million during calendar years 2016 to 2018 disclosed payments of \$552,000 that did not meet the stated purpose of the fund or were questionable, including political-related contributions.**

#### **Analysis**

MAA did not review marketing fund expenses made by its concessions management vendor to ensure the fund was used for its intended purpose. The vendor is responsible for obtaining airport terminal tenants (primarily food and retail concessioners), establishing leases, collecting rent and other fees, and, after deducting certain costs, submitting revenue to MAA, which totaled \$18.4 million for calendar 2018. As provided for in MAA's contract with the vendor, the source of the marketing fund revenue is a fee the vendor collects through the rents assessed to the tenants. According to the contract with the vendor, the purpose of the marketing fund is to allow the vendor to cover the cost of marketing and promotional activities (such as customer service and satisfaction training, advertising, and special event promotions) that benefit all the tenants.

Although the vendor provided MAA with an annual marketing fund report detailing the fund's financial activity, MAA did not obtain and review supporting documentation to ensure the fund was used for its intended purpose. We reviewed the vendor's reported marketing fund expenses totaling \$2.1 million during calendar years 2016 to 2018 and obtained documentation from the vendor

to support selected expenses. Our review disclosed payments totaling \$552,000 of a questionable nature that did not appear to meet the stated contractual purpose of the fund, which was for marketing and promotional activities to benefit all tenants. Specifically, our review of payments disclosed contributions to local and State politicians and campaign fundraising events totaling \$111,000, as well as payments to the vendor's registered lobbyist totaling \$50,000. In addition, we questioned payments totaling \$391,000 that were categorized as community relations, which included sponsorships for golf tournaments and donations to charities or nonprofits. MAA could not provide an explanation justifying the propriety of these payments under the contract.

## **Recommendation 2**

**We recommend that MAA**

- a. review the annual marketing fund report and obtain supporting documentation to ensure the fund was used as intended; and**
- b. immediately pursue recovery of fund expenses that are inconsistent with the stated purpose of the fund, including the identified payments to politicians and a lobbyist.**

## **Contract Awards**

### **Finding 3**

**MAA did not always document that bid openings were proper, and did not ensure contract awards were published on *eMaryland Marketplace (eMM)*, as required.**

### **Analysis**

MAA did not always document that bid openings were proper, and did not ensure contract awards were published on *eMM*, as required. Our test of 10 MAA contract procurements for construction and maintenance services totaling \$265.9 million disclosed that MAA did not document that bids were opened in the presence of two employees as required for 4 contract awards totaling \$125.6 million. In addition, MAA did not publish 4 contract awards totaling \$140 million on *eMM*, including one sole source contract award totaling \$9.5 million. According to agency records, MAA awarded 194 contracts totaling approximately \$650 million during the period from July 2015 through December 2018.

State procurement regulations require that bids be opened in the presence of at least two employees and generally provide that *eMM* is to be used by State agencies to publish awards greater than \$50,000 within 30 days of the contract award. Publishing awards on *eMM* provides transparency over State

procurements including information about winning bidders and the amount of the related awards. *eMM* is an Internet-based, interactive procurement system managed by the Department of General Services (DGS). Effective July 2019, DGS replaced *eMM* with *eMaryland Marketplace Advantage (eMMA)*.

### **Recommendation 3**

**We recommend that MAA**

- a. ensure that two employees witness bid openings and maintain documentation of the employees present; and**
- b. publish future contract awards on *eMMA*, as required.**

## **Cash Receipts**

### **Finding 4**

**MAA did not have adequate procedures and controls to ensure that proper deposit verifications were performed.**

### **Analysis**

The initial record of collections (copy of the checks) was not forwarded directly to the employee responsible for independently verifying that all collections had been deposited. Instead, the initial record and related collections were first forwarded to at least two employees responsible for preparing the bank deposit and recording the deposit in the State's accounting records. Consequently, the initial record of collections could be altered to conceal misappropriations. According to MAA records, check collections totaled approximately \$33.9 million during fiscal year 2018.

The Comptroller of Maryland's *Accounting Procedures Manual* requires that receipts as recorded on initial records of collection be reconciled to amounts deposited by an employee independent of the cash receipts functions.

### **Recommendation 4**

**We recommend MAA ensure that the initial record of collections is forwarded directly to an independent employee to perform the deposit verification function.**

## **Audit Scope, Objectives, and Methodology**

We have conducted a fiscal compliance audit of the Maryland Department of Transportation (MDOT) – Maryland Aviation Administration (MAA) for the period beginning July 1, 2015 and ending December 16, 2018. 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.

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 architectural and engineering and construction contracts, maintenance contracts, revenue contracts, and operating expenditures, as well as cash receipts. 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 MDOT – The Secretary's Office to MAA. These payroll support services are included within the scope of our audit of MDOT. 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 MAA'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 MAA.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MAA'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 MDOT's Financial Management Information System (such as revenue and expenditure 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 sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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 response from MDOT, 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 MDOT 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 9, 2019

Gregory A. Hook, CPA  
Legislative Auditor  
Office of Legislative Audits  
Department of Legislative Services  
301 West Preston Street, Room 1202  
Baltimore MD 21201

Dear Mr. Hook:

Enclosed please find the Maryland Department of Transportation Maryland Aviation Administration's (MDOT MAA) responses to the Office of Legislative Audit's audit report for the period beginning July 1, 2015 and ending December 16, 2018. Additionally, an electronic version of this document has been sent to your office via email.

If you have any additional questions or concerns, please contact Ms. Jaclyn D. Hartman, MDOT Chief Financial Officer, at 410-865-1035 or [jhartman1@mdot.state.md.us](mailto:jhartman1@mdot.state.md.us). Of course, you may always contact me directly.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Pete Rahn', is written over a horizontal line.

Pete K. Rahn  
Secretary

Confidential Enclosures

cc: Patrick B. Bradley, Director, Office of Finance, MDOT MAA  
Ms. Brenda I. Cachuela, Director, Office of Audits, MDOT  
Ms. Jaclyn D. Hartman, Chief Financial Officer, MDOT  
Mr. R. Earl Lewis, Jr., Deputy Secretary of Policy, Planning, and Enterprise Services,  
MDOT  
Mr. Sean P. Powell, Deputy Secretary of Operations, MDOT  
Mr. Ricky D. Smith, Sr., Executive Director, MDOT MAA

**Maryland Department of Transportation  
Maryland Aviation Administration**

**Agency Response Form**

**Parking Service Vendor Contract**

**Finding 1**  
The Maryland Aviation Administration (MAA) circumvented State procurement regulations by directing its parking services vendor to procure, at a total cost of \$1.7 million, construction work for valet services and six customer service robots.

We recommend that MAA

- a. **discontinue the use of revenue contracts to circumvent State procurement regulations;**
- b. **disclose all pertinent information to the BPW, and seek retroactive approval from BPW for the aforementioned purchases; and**
- c. **determine the liability for costs to be incurred in order for the robots to be functional, and obtain reimbursement from the robot vendor as deemed appropriate.**

Agency Response			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>			
<b>Recommendation 1a</b>	Agree	<b>Estimated Completion Date:</b>	Jun 2019
<b>Please provide details of corrective action or explain disagreement.</b>	Effective June 2019, the MDOT MAA has discontinued the use of revenue contracts for capital expenditures and/or equipment purchases and related expenses.		
<b>Recommendation 1b</b>	Agree	<b>Estimated Completion Date:</b>	Mar 2020
<b>Please provide details of corrective action or explain disagreement.</b>	The MDOT MAA disclosed to the Maryland Board of Public Works (BPW) the fact that it purchased capital improvements of the valet parking but did not disclose the fiscal impact of \$1.1 million for construction and related operating expenses under Supplement No. 2 that was approved by BPW. MDOT MAA will present agenda items to the BPW about the purchase of the six customer service robots under the public parking (revenue) concession contract and the fiscal impact of \$588,000 for the six robots and initial software, with an ongoing yearly maintenance fee of \$141,120. MDOT MAA will also disclose that it authorized reimbursements totaling \$1.69 million (for valet and robots) and related expenses. MDOT MAA has begun preparing the BPW documents. MDOT MAA will place the valet parking supplement ratification and explanation on BPW agenda by March 2020. The robot item will be presented later for ratification on the DoIT and DGS agenda.		
<b>Recommendation 1c</b>	Agree	<b>Estimated Completion Date:</b>	Jun 2020

**Maryland Department of Transportation  
Maryland Aviation Administration**

**Agency Response Form**

<b>Please provide details of corrective action or explain disagreement.</b>	The MDOT MAA is reviewing the full scope of robot services and functions prior to full deployment. In isolating the specific services and functions of the robots and the multi-phased plan of their implementation, MDOT MAA will determine the complete and comprehensive applicable liability costs, if any, preceding full deployment.
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**Maryland Department of Transportation  
Maryland Aviation Administration**

**Agency Response Form**

**Concessions Management Vendor Contract**

**Finding 2**  
**MAA did not review its concessions management vendor’s marketing fund expenses to ensure the fund was used for its intended purpose. Our review of the vendor’s reported marketing fund expenses totaling \$2.1 million during calendar years 2016 to 2018 disclosed payments of \$552,000 that did not meet the stated purpose of the fund or were questionable, including political-related contributions.**

**We recommend that MAA**

- a. review the annual marketing fund report and obtain supporting documentation to ensure the fund was used as intended; and**
- b. immediately pursue recovery of fund expenses that are inconsistent with the stated purpose of the fund, including the identified payments to politicians and a lobbyist.**

Agency Response			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>			
<b>Recommendation 2a</b>	Agree	<b>Estimated Completion Date:</b>	Dec 2019
<b>Please provide details of corrective action or explain disagreement.</b>	<p>The MDOT MAA will require the vendor to provide all of the annual marketing fund reports and supporting documentation for the reports for the term of the Contract. After receiving and reviewing the supporting documentation for the expenditures from the fund, MDOT MAA will direct the vendor to reimburse the marketing fund for any other expenditures that are not consistent with the stated purpose of the fund. Going forward, MDOT MAA will require monthly reports and closely monitor this fund and any expenditures from it. A letter has already been sent to the vendor to initiate this action.</p>		
<b>Recommendation 2b</b>	Agree	<b>Estimated Completion Date:</b>	Dec 2019
<b>Please provide details of corrective action or explain disagreement.</b>	<p>MDOT MAA has directed the vendor to reimburse the marketing fund for any expenditures that are inconsistent with the stated purpose of the fund. A letter was sent to the vendor to initiate this action and the vendor provided response and replenished the marketing fund from its corporate operating account for any unauthorized expenditures and provided a statement that no future unauthorized expenditures will be charged to the marketing fund.</p>		

**Maryland Department of Transportation  
Maryland Aviation Administration**

**Agency Response Form**

**Contract Awards**

**Finding 3**  
**MAA did not always document that bid openings were proper, and did not ensure contract awards were published on *eMaryland Marketplace (eMM)*, as required.**

**We recommend that MAA**

- a. ensure that two employees witness bid openings and maintain documentation of the employees present; and**
- b. publish future contract awards on *eMMA*, as required.**

<b>Agency Response</b>			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	The MDOT MAA always documents bid openings; however, MDOT MAA did not always document bid proposal openings.		
<b>Recommendation 3a</b>	Agree	<b>Estimated Completion Date:</b>	Aug 2019
<b>Please provide details of corrective action or explain disagreement.</b>	The MDOT MAA has created a proposal opening sheet for the State employees to sign when opening proposals. The proposal sheet will be placed in the contract file after each employee signs the document.		
<b>Recommendation 3b</b>	Agree	<b>Estimated Completion Date:</b>	Jul 2019
<b>Please provide details of corrective action or explain disagreement.</b>	The MDOT MAA now requires the Procurement Officers to place a check-off on the procurement contract spread sheet to remind the Procurement Officers to publish contract awards in eMMA, as required by COMAR.		

**Maryland Department of Transportation  
Maryland Aviation Administration**

**Agency Response Form**

**Cash Receipts**

**Finding 4**  
**MAA did not have adequate procedures and controls to ensure that proper deposit verifications were performed.**

**We recommend MAA ensure that the initial record of collections is forwarded directly to an independent employee to perform the deposit verification function.**

<b>Agency Response</b>			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>			
<b>Recommendation 4</b>	Agree	<b>Estimated Completion Date:</b>	Sept 2019
<b>Please provide details of corrective action or explain disagreement.</b>	The MDOT MAA Cashier's Office has started making an additional copy of the incoming checks and provides that copy directly to the employee responsible for verifying the deposits.		

AUDIT TEAM

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