



Maryland Transportation Authority

FINANCE COMMITTEE

TUESDAY, OCTOBER 11, 2022

MARYLAND TRANSPORTATION AUTHORITY
2310 BROENING HWY
BALTIMORE, MD 21224

**FINANCE COMMITTEE MEETING AGENDA
OCTOBER 11, 2022 – 9:00 a.m.**

This meeting will be livestreamed on the [MDTA Finance Committee Page](#)

NOTE: This is an Open Meeting being conducted via livestreaming. The public is welcomed to watch the meeting at the link listed above. *If you wish to comment on an agenda item please email your name, affiliation, and agenda item to cdickinson@mdta.state.md.us no later than noon on Friday, October 7, 2022. You **MUST** pre-register in order to comment.* Once you have pre-registered you will receive an email with all pertinent information.

AGENDA

OPEN SESSION

Call to Order

- | | | | |
|----|--|---------------------------------------|---------|
| 1. | <u>Approval</u> – Open Meeting Minutes from September 6, 2022 | Chairman von Paris | 5 min. |
| 2. | <u>Update</u> – Update on the Canton Development Company | Deb Sharpless
John Magness, Canton | 15 min. |
| 3. | <u>Update</u> – FY 2022 Independent Auditor’s SOC 1 and SOC 2 Reports | Deb Sharpless
William Seymour, SB | 20 min. |
| 4. | <u>Update</u> – FY 2023 Cost-of-Living Adjustment | Jeffrey Brown | 5 min. |
| 5. | <u>Update</u> – FY 2021 Single Audit Report | Deb Sharpless | 5 min. |
| 6. | <u>Update</u> – Wages and Fringe Benefits Burden Rate | Jeffrey Brown
Christina Thompson | 10 min. |

Vote to Adjourn

ITEM

1

FINANCE COMMITTEE MONTHLY MEETING
TUESDAY, SEPTEMBER 6, 2022
OPEN MEETING VIA CONFERENCE CALL

OPEN SESSION

MEMBERS ATTENDING: Cynthia Penny-Ardinger
Dontae Carroll
Jeffrey Rosen
John von Paris

STAFF ATTENDING: Jeffrey Brown
Jeffrey Davis
Donna DiCerbo
Cheryl Dickinson
Chantelle Green
Natalie Henson
Jeanne Marriott
Selena McKissick
Kimberly Millender, Esquire
Mary O’Keeffe
Cheryl Lewis-Orr
Will Pines
Timothy Sheets
Christina Thompson

At 9:00 a.m., Member John von Paris, Chair of the Finance Committee, called the Finance Committee Meeting to order.

APPROVAL – OPEN MEETING MINUTES FROM AUGUST 9, 2022, MEETING

Member John von Paris called for the approval of the meeting minutes from the open meeting held on August 9, 2022. Member Jeffrey Rosen made the motion, and Member Dontae Carroll seconded the motion, which was unanimously approved.

UPDATE – FY 2022 OPERATING BUDGET VERSUS ACTUAL SPENDING

Mr. Jeffrey Brown briefed the Finance Committee on the status of actual year-to-date spending compared to the FY 2022 Operating Budget. As of June 30, 2022, 90% of the budget was spent compared to a target of 100%. All final operating budget object codes were at or below the targeted spending levels except for Object 13 (Fixed Charges). The primary drivers for the reduced spending were personnel vacancies and order delays. Object 13 was over the targeted spending level at 103%, mostly due to an increase in excess property liability insurance costs.

UPDATE – FY 2022 CAPITAL BUDGET VERSUS ACTUAL SPENDING

Ms. Jeanne Marriott updated the Finance Committee on actual year-to-date spending for the year ended June 30, 2022, compared to projected spending as shown in the FY 2022-2027 Draft Consolidated Transportation Program. As of June 30, 2022, 82.3% of the FY 2022 budget was spent as compared to the targeted spending level of 100%. The total budget for FY 2022 is \$602.9 million. Actual spending through the fourth quarter was \$496.2 million.

Nine of the 95 projects budgeted in FY 2022 were within the acceptable spending limits of 90% to 110% (plus or minus 10% of the 100% target). The variation declined from the 25% reported for the first, second, and third quarters because all allocations, accruals, and FY 2022 invoices were posted. Actual spending through the fourth quarter for eight projects budgeted for more than \$10 million each in FY 2022 was \$330.2 million.

UPDATE – QUARTERLY AND YEAR-TO-DATE TRAFFIC AND REVENUE REPORT

Ms. Cheryl Lewis-Orr provided an update to the Finance Committee on the MDTA's quarterly and year-to-date traffic and revenue performance for FY 2022. As of June 30, 2022, systemwide transactions totaled 169.3 million and corresponding collected revenue totaled \$803.7 million. This represents an increase of 80.0 million transactions, or 91.3 percent, over the fiscal year ended June 30, 2021. Revenue increased by \$366.2 million, or 83.7 percent, compared to the same period last year. Actual transactions were below forecast by 7.6 million, or 4.3 percent, and revenue was below forecast by \$19.2 million, or 2.3 percent, for the fiscal year ended June 30, 2022. Overall, the MDTA's revenue performance aligned with expectations. The deviation in actual performance compared to the forecast was due to several factors, including the timing of the processing of the Notice of Toll Due backlog. Key contributors to the underperformance are not expected to impact the MDTA's future traffic and revenue forecasts, except known reductions from the Customer Assistance Plan.

There being no further business, the meeting of the Finance Committee adjourned at 9:34 a.m., following a motion by Member Carroll, and seconded by Member Penny-Ardinger.

John von Paris, Chairman

ITEM

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CANTON DEVELOPMENT COMPANY

PRESENTATION TO MDTA FINANCE COMMITTEE





BACKGROUND

Canton Development Company

Canton Railroad Company

Freestate Logistic Services



CANTON DEVELOPMENT COMPANY

- **IS THE HOLDING COMPANY OWNED BY MDTA (100% STOCK)**
- **ACQUIRED IN 1987 DUE TO SEAGIRT DEVELOPMENT**
- **OWNS CANTON RAILROAD COMPANY**
- **OWNS FREESTATE LOGISTIC SERVICES**

CDC FINANCIAL RESULTS FOR 2021

- **REVENUE: \$4.4 MILLION**
- **OTHER INCOME: \$500K**
- **TAX PROVISION: \$22.8K**
- **NET INCOME: \$272K**



CANTON RAILROAD COMPANY





ABOUT CANTON

SINCE 1906



- **4 LOCOMOTIVES**
- **22 EMPLOYEES**
- **16 MILES OF RAIL**
- **25 TOTAL CUSTOMERS**
- **AVERAGE 7,000 RAILCARS PER YEAR**
- **REVENUE: \$3.5 MILLION IN 2021**



KEY CANTON ISSUES



Acquire	remainder of Penn-Mary Yard from CSX (Estimated \$1.75 Million)
Implement	Penn-Mary Track Improvements for Howard Street Tunnel Project
Complete	Trackage Rights Agreement with CSX to handle traffic between TPA and SMT
Acquire	Kane Street Property from MDTA for new customer development

GRANTS



We are applying for a CRISI Grant of up to \$7,000,000 to replace 28 Switches and trackage on our line with Canton to match up to \$1,507,000



We have received a VW Grant to replace 2 of our locomotives with Tier 4+ units (these replace Tier 0 units that are as old as 60 years) \$4,000,000.



CASH & INVESTMENT POSITION

Cash: Canton Development	\$ 712,800
Canton railroad	\$ 2,195,723
Freestate Logistics	\$ <u>623,527</u>
Total Cash	\$ 3,532,050

Investments: Brown Advisory	\$ 3,259,668
t Rowe Price	\$ <u>266,203</u>
	\$ 3,525,871

Total Cash and investments:	<u>\$ 7,057,921</u>
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FREESTATE LOGISTIC SERVICES, INC
PERRYVILLE, MARYLAND





ABOUT FREESTATE

**SINCE 2006
PRINCIPIO BUSINESS PARK**



- **SERVES GENERAL ELECTRIC APPLIANCE DC**
- **AMERICOLD (COLD STORAGE WAREHOUSE)**
- **3 FULL TIME EMPLOYEES**
- **2 LOCOMOTIVES**
- **AVERAGE 4,500 CARLOADS PER YEAR**
- **REVENUE: \$964,657 IN 2021**

KEY FREESTATE ISSUES

Looking to expand
switching operation for
Industrial Sand

Looking for a viable site
to open a transload
Facility

Recommended to
Norfolk Southern that
another intermodal
facility could work in
Cecil County



AREAS WHERE MDTA CAN ASSIST

**Assist with acquiring
Penn-Mary Yard from
CSX**

**Acquire Kane Street
Property from MdTA**

**After I-895
construction
acquire/lease MdTA
properties around our
building**



**Maryland
Transportation
Authority**

ITEM

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SB & Company, LLC
Knowledge · Quality · Client Service

SOC 1/SOC 2 Communications with Governance

October 11, 2022



ACTIVATE RESULTS



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Contact Information



SOC 1 Type 2 Results – Overview

- Audit period from July 1, 2021 through June 30, 2022
- First full year of Transcore and Kapsch after change from Conduent
 - Review of 11 Control Objectives described and asserted by Transcore
 - Review of 5 Control Objectives described and asserted by Kapsch
- Unmodified opinions issued



SOC 2 Type 2 Results – Overview

- Audit period from July 1, 2021 through June 30, 2022
- First full year of Transcore
- No findings
- Unmodified opinion



SOC 1 vs. SOC 2– Overview

- SOC 1 audit is focused on specific internal controls related to financial reporting. Each audit is unique to the controls tested for that entity.
- SOC 2 audit is focused on information and IT security identified by any of 5 trust services categories: security, confidentiality, information privacy, processing integrity and availability.
- SOC 1 audits ensure that a service organization has done its due diligence when it comes to the effects their service has on their customer's financial reporting.
- SOC 2 audits ensure that a service organization's people, infrastructure, software, data-handling, and procedures are prepared to handle their customer's information and data and protect it accordingly.
- Type 1 reports are as of a specific date; Type 2 reports are for a period of time



SOC 1 Type 2 – Summary of Results-2022 (Transcore & Kapsch)

Control Objective & Type	Result of Test(s)
Physical Access	
Physical Access/Environmental Controls	Exceptions identified.
IT Controls	
Application and System Software Changes	No issues identified.
Logical Access	Exceptions identified.
Data and Program Backup	No issues identified.
Job Scheduling	No issues identified.
Accounting & Processing	
Video Toll Processing	No issues identified.
Toll Transaction Processing	No issues identified.
Cash Receipt Processing	No issues identified.
Refund/Adjustment Processing	No issues identified.
Customer Account Creation Processing	No issues identified.
Operations	
Customer Account Maintenance Processing	No issues identified.
Transponder Inventory Management	Exceptions identified.
Account Replenishment	No issues identified.



SOC 1 Type 2 Results – 2022

Overview

- Findings summary- Transcore:
 - Inventory management- For 2 of the 4 monthly inventory counts for all transponder types, the number of transponders selected and counted was not clear and the count was not reconciled to Integrity
 - Physical access- The access was reviewed but were not printed for evidence. Going forward, TransCore will save the reviews with the date, keep them on file and send the results to MDTA.
 - Security awareness training- For 4 of the 10 users tested, the Security Awareness Training Acknowledgment Form was not signed.
 - Access to Integrity application- For 3 of the 8 new hires reviewed, a supervisor/ manager was not specified, and manager approval was not provided.



SOC 1 Type 2 Results – 2022

Overview

- Findings summary- Kapsch:
 - Access- One of the accounts tested was the default administrator account provided by the vendor. This account was disabled during the audit by Kapsch.
 - Passwords- The minimum password length and the failed log in attempts did not meet the minimum requirements established in the Kapsch IT Security Policy.
 - Change management- developers had access and deployed changes to the production environment (developers should not have access to production environment).



Questions & Answers





Engagement Team Contact Information



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K n o w l e d g e · Q u a l i t y · C l i e n t S e r v i c e

ITEM

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Maryland
Transportation
Authority

Larry Hogan, Governor
Boyd K. Rutherford, Lt. Governor
James F. Ports, Jr., Chairman

Board Members:

Dontae Carroll	Mario J. Gangemi, P.E.
William H. Cox, Jr.	Cynthia D. Penny-Ardinger
William C. Ensor, III	Jeffrey S. Rosen
W. Lee Gaines, Jr.	John F. von Paris

William Pines, PE, Executive Director

MEMORANDUM

TO: MDTA Finance Committee
FROM: Jeffrey Brown
SUBJECT: Cost-of-Living Update
DATE: October 11, 2022

PURPOSE

To advise the Finance Committee of the estimated fiscal impact of the FY 2023 cost-of-living adjustment (COLA).

ANALYSIS

On September 29, 2022, Governor Hogan announced a 4.5% COLA for all permanent and contractual State employees effective November 1, 2022. The estimated fiscal impact of the COLA for FY 2023 is \$4.9 million. Presently, the MDTA expects to cover the increase within the current year budget. As such, no budget amendment will be presented to the Maryland Transportation Authority Board at this time. The annualized cost of the 4.5% COLA will be included in the FY 2024 budget that is presented to the MDTA Board for approval in November.

ITEM

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Maryland
Transportation
Authority

Larry Hogan, Governor
Boyd K. Rutherford, Lt. Governor
James F. Ports, Jr., Chairman

Board Members:

Dontae Carroll	Mario J. Gangemi, P.E.
William H. Cox, Jr.	Cynthia D. Penny-Ardinger
William C. Ensor, III	Jeffrey S. Rosen
W. Lee Gaines, Jr.	John F. von Paris

William Pines, PE, Executive Director

MEMORANDUM

TO: MDTA Finance Committee
FROM: Deborah Sharpless, Chief Financial Officer
SUBJECT: Independent Auditors' Report on Compliance for Major Federal Awards (Single Audit)
DATE: October 11, 2022

PURPOSE

To advise the Finance Committee of the results of the Independent Auditors' Report on Compliance for Major Federal Awards (Single Audit).

ANALYSIS

On September 25, 2022, CliftonLarsonAllen (CLA) issued its report on the Maryland Transportation Authority's (MDTA) compliance with the types of compliance requirements required for federal awards. The report indicated that in the auditors' opinion, the MDTA complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on the major federal program for the fiscal year ended June 30, 2021. However, the audit disclosed a deficiency as it relates to the tracking equipment purchased and disposed of with federal funds. The results of the audit, including the MDTA's response are attached.

ATTACHMENT

Summary of Single Audit Finding

Summary of Single Audit Finding

CLA Audit Finding	
Condition:	MDTA management was unable to provide an equipment rollforward that identified previously purchased equipment using Equitable Sharing Program (ESP) funds, nor any related disposals, since the inception of the program. As a result, we were unable to obtain a complete and accurate listing of equipment purchased with ESP funds and therefore, could not perform the required inventory observations.
Cause:	Management does not have a process in place to separately track equipment purchased or disposed of that were purchased with federal funds or to ensure compliance with the requirements for tangible property as outlined in the <i>Equitable Sharing Guide (Guide)</i> , Section VI.
Effect:	MDTA is not in compliance with the requirements for tangible property as outlined in the <i>Guide</i> , Section VI.
Recommendation:	<p>MDTA management develop and implement a process to separately track equipment purchased or disposed of that were purchased with federal funds and to ensure compliance with the requirements for tangible property as outlined in the <i>Guide</i>, Section VI.</p> <p>Additionally, it is recommended that MDTA management review prior year records and other necessary supporting documentation in order to create a complete and accurate listing of equipment purchased and disposed of using ESP funds.</p>

MDTA Response
The MDTA concurs with the finding. In accordance with the Maryland Department of General Services' <i>Inventory Control Manual</i> , the MDTA maintains records of all equipment purchased on a consolidated basis regardless of the funding source. Going forward, the MDTA will separately identify and track equipment purchased with federal funds as required under the Equitable Sharing Program. The MDTA will develop procedures to address the finding by June 30, 2023.

ITEM

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Board Members:

Dontae Carroll	Mario J. Gangemi, P.E.
William H. Cox, Jr.	Cynthia D. Penny-Ardinger
William C. Ensor, III	Jeffrey S. Rosen
W. Lee Gaines, Jr.	John F. von Paris

William Pines, PE, Executive Director

MEMORANDUM

TO: MDTA Finance Committee
FROM: Jeffrey Brown, Budget Director
Christina Thompson, Deputy Director of Finance
SUBJECT: Wages and Fringe Benefits Overview
DATE: October 11, 2022

PURPOSE

To provide information requested by the Finance Committee Members regarding the Maryland Transportation Authority's (MDTA) use of a fringe benefits overhead rate (aka burden rate). Additional information is provided regarding the use of average wage rates.

KEY TAKEAWAYS

- The MDTA must have a fair and equitable process for apportioning employee wages and fringe benefits between the operating and capital budget for purposes of determining whether the MDTA has met its financial standards (*i.e.*, legal rate covenant and debt service coverage).
- MDTA's burden rate methodology provides a fair and equitable process for apportioning fringe benefits and wages between the operating and capital budget.
- The State required budgeting process and posting actual expenses creates a manageable misalignment at the sub-object level.

ANALYSIS

Why does the MDTA use a fringe benefit burden rate and average wage rate when recognizing personnel related expenses?

The MDTA has adopted the use of a burden rate when recognizing fringe benefit expenses and average wage rates to separate personnel related expenses between the operating and capital budgets. The expenses are posted against the budget based on actual hours worked according to the employee's timesheet. MDTA's trust agreement and financial policies require a fair and equitable method to recognize personnel related expenses between the capital and operating. More specifically, operating expenses is an input when calculating MDTA's rate covenant and debt service coverage. The methodology is also consistent with other Transportation Business Units practices and has been approved by the Federal Highway Administration when allocating federal funds.

The methodology provides a fair and equitable process when accounting for overtime and leave usage for scenarios such as:

- *Example 1: An employee worked 96 hours in a pay period (Week 1 – 48 hours; week 2 – 48 hours), resulting in wages totaling \$2,080 ((80 hours*\$20) + (16 hours * \$30)). He earns \$20.00 an hour and time and a half for any hours worked over 40 hours in each work week. The employee's timesheet recorded 75% of the hours worked as operating related and the remainder capital.*
- *Example 2: An employee worked 40 hours in a pay period (Week 1 – on leave/vacation; week 2 – 40 hours), resulting in wages totaling \$1,600. He earns \$20.00 an hour and time and a half for any hours worked over 40 hours in each work week. The employee's timesheet recorded 80% of the hours worked as operating related and the remainder capital.*
- *Example 3: An employee worked 96 hours in a pay period (Week 1 – 48 hours; week 2 – 48 hours), resulting in wages totaling \$2,400 (80 hours*\$30). He earns \$30.00 an hour and compensatory time for any hours worked over 40 hours in each work week. The employee's timesheet recorded 75% of the hours worked as operating related and the remainder capital.*

How are the personnel related operating budget line items developed?

Personnel related expenses are budgeted in objects 01 (Salaries & Wages) and 02 (Technical & Special Fees) on a sub-object level (e.g., regular earnings, overtime earnings, social security contributions, health insurance, retirement/pension contributions, workers compensation, etc.) in accordance with the Department of Budget and Management (DBM) guidelines. MDTA's budget is further broken down by Responsibility Centers (RC) (aka Divisions, Facilities, and/or Detachments).

The process begins by estimating wages by accounting for all filled and vacant positions, annual salaries, shift differential, overtime, and percentage of working hours devoted to capital projects and operating activities. Collectively, these expenses are budgeted in sub-objects (0101 – 0112). The budget is reduced to account for anticipated vacancies (aka turnover) in sub-object 0189.

Fringe benefit expenses are estimated based on variable and fixed rates and assumptions provided by DBM. The fringe benefit lines items based on variable rates are calculated by multiplying the rate provided against object 0101 (Regular Earnings).

How is the burden rate calculated?

The burden rates are calculated as a percentage of salaries. Civilian and sworn-personnel rates are calculated. Once the operating budget is approved, burden rates are determined by dividing the budgeted value of fringe benefits by the budgeted regular earnings (sub-object 0101) less estimated paid employee leave (fringe benefits/(regular earnings – paid employee leave) = labor burden expense percentage).

How are personnel expenses charged to the operating and capital budgets?

Personnel expenses for examples 1 – 3 above, would be charged as follows:

Example	1		2		3	
Budget	Operating	Capital	Operating	Capital	Operating	Capital
Earnings Expense ¹	\$1,560	\$520	\$640	\$160	\$1,800	\$600
Burden Expense ²	\$1,548	\$516	\$635	\$159	\$1,786	\$595

Calculations	1	2	3
Wages	\$2,080	\$1,600	\$2,400
Hours Worked	96	40	96
Hours worked + Leave Taken	96	80	96
Average Wages ³	\$21.67	\$20.00	\$25.00
Operating/Capital Split	75%/25% (Ex. 1 and 3) and 80%/20% (Ex. 2)		
Civilian Burden Rate	99.2%		

State police services and workers compensation are invoiced and charged to the corresponding sub-object.

Burden expenses incurred/actual and applied are monitored through a clearing account. At year-end, a true-up entry is recorded to adjust for the burden expense being under or over applied. The clearing account is monitored throughout the year, and should it become materially under or over applied, the burden rate is revised and applied moving forward.

Why does the fringe benefit budget sub-objects and burden expense not offset?

Leave usage is the primary reason fringe benefit budget sub-objects in total and burden expense do not offset. On a budget basis leave usage is captured in wages. Whereas, when recognizing actual expenses leave usage is captured in the burden expense. That is, when the burden rate is calculated wages are reduced by estimated leave usage, resulting in a higher burden rate (*i.e.*, the lower denominator produces a higher quotient). When comparing the budget to actual expenses, the comparison should occur in total.

Operating Budget as of June 30, 2022

	Budget Total	Actual Total	Difference
Object 01 Salaries & Wages	\$189,519,362	\$176,030,514	\$13,488,848
Object 02 Technical & Special Fees	773,893	105,000	668,893
Total	\$190,293,255	\$176,135,514	\$14,157,741

¹ Earnings Expense = Average Wages * Hours Worked * Operating % or Capital %

² Burden Expense = Earnings Expense * Burden Rate

³ Average Wages = Total Earnings/(# of hours worked + Leave Taken)