

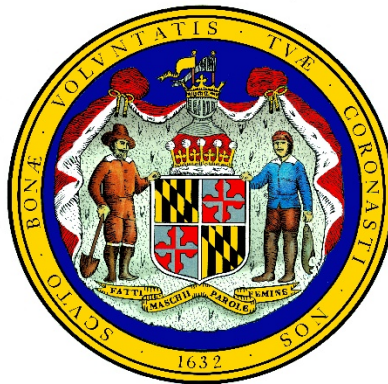
Audit Report

Maryland Department of Transportation State Highway Administration

September 2025

Public Notice

In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.



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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES

OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

September 8, 2025

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, 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) – State Highway Administration (SHA) for the period beginning November 1, 2020 and ending October 31, 2024. SHA is responsible for the planning, construction, improvement, maintenance, and operations of the State highway system.

Our audit disclosed SHA routinely charged expenses to federal fund projects not authorized by the federal granting agency, resulting in \$358.7 million in expenditures as of August 2025 that may need to be funded with Transportation Trust funds (which had a projected fiscal year 2025 closing balance of \$400 million) or State general funds. More concerning is that the amount of unauthorized spending increased by 3,523 percent including an additional \$163.5 million between June 2024 and August 2025. SHA also was unable to provide documentation to support the propriety of accrued federal fund revenue entries totaling \$449 million (which would include the aforementioned unauthorized expenses) or the subsequent recovery of the funds. To the extent that the federal funds are not available, Transportation Trust funds or State general funds, may be needed to cover any related deficits.

Our audit also disclosed that SHA did not ensure payments to Architectural and Engineering (A&E) vendors for contract management and inspection services were properly supported, and vendor personnel maintained certain required certifications. SHA uses A&E vendors to assist in the planning and design of State roads, highways, and bridges and to provide other required consulting and monitoring services (such as inspections) for various capital projects.

THE WAREHOUSE AT CAMDEN YARDS

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In addition, SHA did not ensure each district and office had written policies to address authorization, limits, and monitoring of overtime, and did not analyze this activity to identify employees with consistently high levels of overtime. Our analysis of overtime activity disclosed that 128 employees received overtime payments during calendar year 2023 that were 50 percent or more of their regular base salary, including 9 employees who received overtime payments exceeding their regular earnings.

Furthermore, our audit disclosed cybersecurity-related findings. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the findings from this audit report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term “cybersecurity” is defined in the State Finance and Procurement Article, Section 3.5-301(b), and using our professional judgment we have determined that the redacted findings fall under the referenced definition. The specifics of the cybersecurity findings were previously communicated to those parties responsible for acting on our recommendations.

MDOT’s response to this audit, on behalf of SHA, is included as an appendix to this report. Consistent with State law, we have redacted the elements of MDOT’s response related to the cybersecurity audit findings. In accordance with State law, we have reviewed the response and, while MDOT generally agrees with the recommendations in this report, we identified certain instances in which statements in the response disagree or appear to be inconsistent with a report finding and recommendations. In each instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted auditing standards, we have included “auditor’s comments” within MDOT’s response to explain our position. We will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with SHA.

We wish to acknowledge the cooperation extended to us during the audit by SHA and its agreement to implement the audit recommendations.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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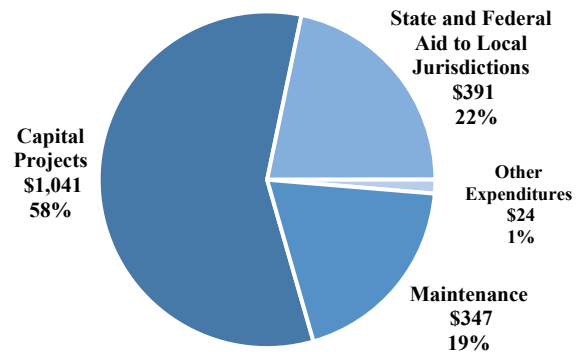
Background Information

Agency Responsibilities

The State Highway Administration (SHA), a modal administration of the Maryland Department of Transportation, is responsible for the planning, construction, improvement, maintenance, and operations of the State highway system. SHA operates numerous facilities throughout the State, including a headquarters in Baltimore City, seven district offices, and the Statewide Operations Center (including the Coordinated Highways Action Response Team - CHART).

According to the State's accounting records, SHA's expenditures totaled approximately \$1.8 billion during fiscal year 2024. The majority of SHA's expenditures related to capital projects for the construction and system preservation of State highways, roads, and bridges; related maintenance; and State and federal aid to local jurisdictions for the construction and maintenance of local roads (see Figure 1).

Figure 1
SHA Expenditures Fiscal Year 2024
(in millions)



Source: State financial records

In addition, as noted in Figure 2, expenditures were funded entirely by special (Transportation Trust Fund) and federal funds.

Figure 2
SHA Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2024	
	Positions
Filled	2,755
Vacant	202
Total	2,957
Fiscal Year 2024 Expenditures	
	Expenditures
Salaries, Wages, and Fringe Benefits	\$ 353,592,529
Technical and Special Fees	30,630,995
Operating Expenses	1,418,488,675
Total	\$1,802,712,199
Fiscal Year 2024 Funding Sources	
	Funding
Special Fund	\$1,013,410,273
Federal Fund	789,301,926
Total	\$1,802,712,199

Source: State financial and personnel records

Referral to Our Fraud, Waste, and Abuse Hotline

We received a referral to our fraud, waste, and abuse hotline that noted rapid growth in the federal funds receivable balance in recent years. We reviewed and tested the related activity and substantiated the allegation. Our review did not identify any matters that warranted referral to the Office of the Attorney General's Criminal Division, but did identify significant procedural deficiencies that require action by SHA as further discussed in Findings 1 and 2.

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 March 29, 2022. See Figure 3 for the results of our review.

Figure 3 Status of Preceding Findings		
Preceding Finding	Finding Description	Implementation Status
Finding 1	The State Highway Administration (SHA) did not comply with publication requirements for certain contract awards totaling \$333.4 million.	Not repeated
Finding 2	SHA did not have adequate safeguards in place to secure vendor proposals for architectural and engineering services submitted and stored electronically.	Not repeated
Finding 3	Certain SHA employees potentially violated State ethics laws by overseeing contracts in which a qualifying relative had a financial interest and certain of these employees did not properly disclose that financial interest as required. In addition, permissible disciplinary action was not taken when certain of these related contractors performed unsatisfactorily.	Not repeated
Finding 4	Two malware protection controls were not sufficient to provide adequate assurance that SHA computers were properly protected from security risks.	Status Redacted ¹

¹ Specific information on the current status of this cybersecurity-related finding has been redacted from this publicly available report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

Findings and Recommendations

Federal Funds

Background

The State Highway Administration (SHA) administers various federal grant programs, primarily to fund highway planning and construction projects. The federal granting agency approves each project including the work to be performed, duration, total estimated cost, and the amount of federal funding which SHA can request for reimbursement on a weekly basis. According to State records, SHA's federal grant expenditures during fiscal years 2021 through 2024 totaled approximately \$2.9 billion.

We received a referral on our fraud, waste, and abuse hotline that noted rapid increase in the federal funds receivable balance in recent years. We reviewed and tested the related activity and substantiated the allegation. Our review did not identify any matters that warranted referral to the Office of the Attorney General's Criminal Division, but did identify certain deficiencies that require action by SHA, as further described in the findings below.

Finding 1

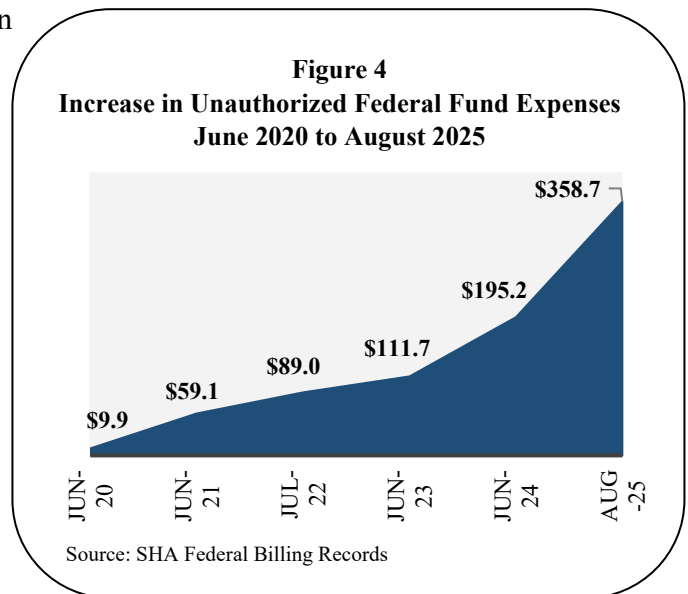
SHA routinely charged expenses to federal fund projects not authorized by the federal granting agency resulting in \$358.7 million in expenditures as of August 2025 that may need to be funded with Transportation Trust funds or State general funds.

Analysis

SHA routinely charged expenses to federal fund projects not authorized by the federal granting agency resulting in expenditures that may need to be funded with

Transportation Trust funds or State general funds. As noted in Figure 4, the cumulative amount spent on these projects without authorization increased from \$9.9 million in June 2020 to \$358.7 million as of August 2025 (an increase of 3,523 percent). According to SHA records, this amount includes 505 projects with \$50,000 or more in expenses exceeding the related amount authorized by the federal granting agency that may not be recoverable.

For example, one project was authorized for \$2.7 million in federal grants was fully expended in September 2023. However, SHA charged an additional \$3.1 million to the project as of August 2025 that may not be recoverable (more than double the grant award).



The increase in unauthorized expenses is concerning because the amount has been increasing significantly in recent years. Specifically, during fiscal years 2017 through 2020 the unauthorized expenditures ranged from \$7.7 million to \$9.9 million while from June 2024 through August 2025 the unauthorized expenditures increased by \$163.5 million (or 84 percent).

According to agency management, SHA knowingly charged these costs as federal funds on the State's accounting records to minimize the Transportation Trust Fund deficit.² Specifically, SHA management advised that they have sought additional federal funding when expenditures exceeded the federal grant and have attempted to find federal funds to cover more projects (including smaller projects that were traditionally funded through the Transportation Trust Fund). However, as noted above, the federal granting agency has not authorized additional funding for these projects which will need to be funded with Transportation Trust funds (which had a projected fiscal year 2025 balance of \$400 million³) or State general funds.

² In 2020, the Department of Legislative Services (DLS) identified that Maryland's transportation program had a structural issue with operating costs increasing faster than overall revenues.

³ Per the most recent DLS analysis.

Recommendation 1

We recommend that SHA

- a. discontinue its practice of charging project costs as federal expenditures when there are no federal funds authorized for the project, and**
- b. work in conjunction with the Department of Budget and Management (DBM) to properly report and develop a plan to cover these unrecoverable costs.**

Accrued Revenue Transactions

Finding 2

SHA could not support the propriety of accrued federal fund revenue entries totaling approximately \$449 million recorded at the end of fiscal year 2024 or the subsequent recovery of the funds.

Analysis

SHA was unable to provide documentation to support the propriety of accrued federal fund revenue entries or the subsequent recovery of the funds. At the end of fiscal year 2024, SHA recorded five accrued federal fund revenue entries totaling \$449 million. Our test of these five entries disclosed the following conditions:

- SHA recorded the accrued entries to offset negative federal fund account balances without verifying that the amounts recorded were valid and collectable from the federal government. In this regard, the amount accrued seemed questionable because SHA management advised it pursued federal reimbursement weekly, while the amount accrued made up 56.9 percent of its annual federal fund expenditures. In addition, as noted in Finding 1, SHA knowingly charged project costs as federal expenditures when there were no current federal funds authorized to cover these costs which would be included in the amount accrued. Therefore, any amounts accrued related to these charges may not be recovered.
- SHA could not readily document that it had requested and collected the amounts accrued. Specifically, SHA management advised that it did not have a process to track the recovery of its accrued revenues. Our review disclosed that \$37.6 million of the accrued revenues noted above, related to accounts with no revenue activity during fiscal year 2024. While some or all of the remaining funds may ultimately be recovered, to the extent that the federal funds are not available, Transportation Trust funds or State general funds may be needed to cover any related deficits.

The Comptroller of Maryland – General Accounting Division’s (GAD) year-end closing instructions provide that accrued revenue transactions should reflect amounts that are collectable within 60 days of the end of the fiscal year and that revenue should be recognized in the same fiscal year the expenditure is made. The closing instructions also require that detail documentation to support the transactions be maintained.

Recommendation 2

We recommend that SHA

- a. ensure that all year-end revenue transactions are properly supported,**
- b. analyze the balances in the federal fund accounts to determine the collectability of any deficit balances and proper disposition of any surplus balances, and**
- c. properly report any amounts determined to be uncollectable to GAD and work with DBM to resolve any related deficits.**

Architectural and Engineering Contracts

Background

SHA uses Architectural and Engineering (A&E) vendors to assist in the planning and design of State roads, highways, and bridges and to provide other required consulting and monitoring services (such as inspections) for various capital projects. During the period from November 1, 2020 to October 31, 2024, SHA made approximately \$1.5 billion in procurements and paid \$882.9 million for A&E services.

Finding 3

SHA did not ensure payments to A&E vendors for contract management and inspection services were properly supported, and vendor personnel maintained required certifications.

Analysis

SHA did not ensure payments to A&E vendors for contract management and inspection services were properly supported, and vendor personnel maintained certain required certifications. Our test of SHA’s monitoring of two A&E contracts totaling \$33 million⁴ disclosed the following conditions:

⁴ These A&E vendor contracts were selected for testing because the vendors were responsible for performing inspection services for construction contracts and projects tested.

- Our test of eight payments⁵ totaling approximately \$2.5 million disclosed that four payments totaling \$1.4 million were not supported by inspection daily reports (IDR) and time records required by the related contracts. IDRs are completed by inspectors to record a chronological history of daily events for a construction project, and includes hours worked, location, and activities performed by the inspector each day. Inspectors may work on multiple projects during a given day or pay period, which are reflected on the related time record used to support total hours worked and invoice payment.

Furthermore, our review of two projects included in each of the 4 payments noted above disclosed the IDRs were not prepared or sufficiently detailed, or the hours worked did not agree to time records and hours billed. For example, our review of approximately \$84,000 in expenditures relating to one project included in two payments tested, disclosed that an IDR was not prepared for eight of the twelve days reviewed. Additionally, for the one day that had an IDR, the inspector recorded 12 hours on the time record but could only support 6 hours of work on the IDR.

- SHA did not ensure that A&E personnel performing inspections had certifications required by the related contracts (for example, quality control [QC]/quality assurance [QA] testing of construction materials required one certification each for asphalt, concrete, and soil). As of March 2025, 25 of 46 inspectors tested⁶ did not have some or all of the required certifications when they performed inspections, including 9 inspectors that did not have any of the required certifications. According to the certification training material,⁷ without proper certification, inspectors may not be qualified to test construction materials or test results may not be acceptable.

Recommendation 3

We recommend that SHA

- ensure that A&E invoices are properly supported by IDRs and time records, and**
- ensure vendor personnel have all required certifications.**

⁵ These payments were selected for testing because they corresponded to inspection services rendered for construction contract and project payments tested (selected based on materiality).

⁶ These consultants were selected for review because they had hours billed in the eight payments and construction projects selected for testing.

⁷ This training material was published by the Mid-Atlantic Region Technician Certification Program. The program provides training and testing to ensure that technicians have the necessary knowledge and skills to perform QC/QA testing according to established standards. It is a collaborative effort among participating states in the Mid-Atlantic region to promote quality and consistency in construction practices related to these materials.

Overtime

Finding 4 (Policy Issue)

SHA did not ensure each district and office had written policies to address authorization, limits, and monitoring of overtime. Additionally, SHA did not analyze this activity to identify employees with consistently high levels of overtime.

Analysis

SHA did not ensure each district and office had written overtime policies to address authorization, limits, and monitoring. Additionally, SHA did not analyze overtime activity to evaluate the necessity and propriety of employees with consistently high levels of overtime. SHA management advised us that overtime is primarily for responding to emergency events (such as winter storms) and conducting inspections of active construction sites. According to State records, overtime totaled approximately \$59.4 million between calendar years 2021 and 2024.

- SHA did not have comprehensive written overtime policies and procedures to be followed by each district/office. Rather, SHA management advised us that it allowed each district/office to establish its own processes without reviewing them to ensure they were consistent and included critical requirements. As a result, overtime policies were not always established, consistent, and/or adequate. For example, our survey of 15 districts/offices⁸ with fiscal year 2024 overtime payments totaling \$13.3 million, disclosed that 7 districts/offices with \$5.6 million in overtime did not have written policies for managing overtime. In addition, the method used to document pre-approval for non-emergency overtime was not consistent and included both written and verbal (undocumented) approvals and did not include any limits on the overtime worked.
- SHA did not analyze overtime to identify employees who received significant overtime payments. Our analysis of overtime activity disclosed that 128 employees received overtime payments in calendar year 2023 that were 50 percent or more of their regular base salary, including 9 employees who received overtime payments exceeding their regular earnings.

⁸ These districts/offices were selected for survey based on either the materiality of overtime or significance of related operations. Overtime payments in fiscal year 2024 for all districts/offices totaled \$15.1 million.

- SHA could not always provide adequate documentation to support overtime paid to employees. We tested 20 pay periods with overtime totaling approximately \$81,500 relating to 15 employees, including 6 of the aforementioned 9 employees with significant overtime. Our test disclosed that SHA could not always provide support for the overtime, such as approved time records, explanations for the need of the overtime or pre-approval for the overtime. For example, SHA could not provide approved time records to support 294 hours of overtime totaling approximately \$13,300 relating to 3 employees. Consequently, there was a lack of assurance that overtime was necessary and appropriate.

Recommendation 4

We recommend that SHA

- ensure each district and office have written overtime policies that are consistent and address authorizations, limits, and monitoring;**
- routinely monitor overtime activity to identify employees with consistently high levels of overtime and investigate the necessity and propriety of high levels of overtime; and**
- ensure overtime is documented and approved in accordance with the written policies.**

Information Systems Security and Control

We determined that the Information Systems Security and Control section, including Findings 5 and 6 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with MDOT’s responses, have been redacted from this report copy.

Finding 5

Redacted cybersecurity-related finding.

Finding 6

Redacted cybersecurity-related finding.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Transportation (MDOT) – State Highway Administration (SHA) for the period beginning November 1, 2020 and ending October 31, 2024. 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 SHA'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 highway design, construction, and maintenance, as well as the work zone speed control program, federal funds (including activity related to a referral to our fraud, waste, and abuse hotline), overtime activity, corporate purchasing card, fleet, and information systems security and control. 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 – Secretary's Office to SHA. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal assistance programs and an assessment of SHA'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 SHA.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of November 1, 2020 to October 31, 2024, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspection of documents and records, tests of transactions, and to the extent practicable, observations of SHA's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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 and MDOT's Financial Management Information Systems (such as revenue and expenditure data), 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 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 audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

SHA'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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to SHA, were considered by us during the course of this audit.

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 SHA'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.

In addition, this report includes a finding which is identified as a "Policy Issue". Such findings represent significant operation or financial issues for which formal criteria may not necessarily exist, and for which management has significant discretion in addressing, but the recommendation represents prudent and or practical actions, which we believe should be implemented by the agency to improve outcomes. Other less significant findings were communicated to SHA that did not warrant inclusion in this report.

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3.5-301(b), states that cybersecurity is defined as "processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation." Based on that definition, and in our professional judgment, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to SHA and those parties responsible for acting on our recommendations in an unredacted audit report.

The response from MDOT, on behalf of SHA, to our findings and recommendations is included as an appendix to this report. Depending on the

version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. 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



Office of the Secretary

Wes Moore
Governor

Aruna Miller
Lieutenant Governor

Samantha J. Biddle
Acting Secretary

September 5, 2025

Brian S. Tanen, CPA, CFE
Legislative Auditor
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore MD 21201

Dear Mr. Tanen:

Enclosed please find responses to the audit report from the Office of Legislative Audits for the Maryland Department of Transportation (MDOT) State Highway Administration (SHA) for the period beginning November 1, 2020, and ending October 31, 2024.

If you have any additional questions or concerns, please contact Ms. Jaclyn D. Hartman, MDOT Assistant Secretary of Transportation Investments, at jhartman1@mdot.state.md.us or at 410-865-1005. You may also contact Ms. Loyda Sequeira, MDOT Chief of Audits and Rail Safety, at lsequeira@mdot.state.md.us or at 410-865-1168. Ms. Hartman and Ms. Sequeira will be happy to assist you. Of course, you may always contact me directly.

Sincerely,

A handwritten signature in black ink, appearing to read 'SJBiddle', is written above the printed name.

Samantha J. Biddle
Acting Secretary

Attachment

cc: Ms. Jaclyn D. Hartman, Assistant Secretary of Transportation Investments, MDOT
Mr. Joe McAndrew, Assistant Secretary of Planning, Project Development and Delivery, MDOT
William Pines, P.E., Administrator, SHA
Scott Pomento, P.E., Chief Financial Officer, SHA
Ms. Octavia Robinson, Chief Financial Officer, MDOT
Ms. Dianna Rosborough, Assistant Secretary of Administration, MDOT
Ms. Lisa P. Rosenberg, Director, Office of Audits, SHA
Ms. Loyda Sequeira, Chief of Audits and Rail Safety, MDOT
Ms. Nicole Wojciechowski, Chief of Staff, SHA

Maryland Department of Transportation State Highway Administration

Agency Response Form

Federal Funds

Finding 1

SHA routinely charged expenses to federal fund projects not authorized by the federal granting agency resulting in \$358.7 million in expenditures as of August 2025 that may need to be funded with Transportation Trust funds or State general funds.

We recommend that SHA

- a. discontinue its practice of charging project costs as federal expenditures when there are no federal funds authorized for the project, and**
- b. work in conjunction with the Department of Budget and Management (DBM) to properly report and develop a plan to cover these unrecoverable costs.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	It is not factually accurate to say that projects were not authorized, but it is accurate that in some cases, expenses charged exceeded the initial authorized amount. The State Highway Administration (SHA) followed federally approved accounting practices and no expenses were purposefully miscoded. SHA receives authorization for all federally funded projects in accordance with C.F.R. Title 23 prior to the start of the project and any subsequent expenditures. While projects receive an initial authorization, SHA may incur expenditures during the normal course of business in excess of the federal authorization amount or project agreement end date. In these instances, SHA uses an ordered approach to identify the expenditures and determine if a project modification or change order is needed to seek federal reimbursement. If the expenditure is deemed federally ineligible for reimbursement, it would be expensed to state funds.		
Recommendation 1a	Agree	Estimated Completion Date:	9/1/2026
Please provide details of corrective action or explain disagreement.	SHA receives authorization for all federally funded projects in accordance with C.F.R. Title 23 prior to the start of a project and any subsequent expenditures. SHA utilizes Advance Construction in accordance with C.F.R. Title 23 Section 115. Advance Construction (AC) allows a State to proceed with a project "...with the aid of federal funds previously apportioned or allocated to the State; or with the		

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obligation authority previously allocated to the State.” AC eliminates the need to set aside full obligation authority before starting projects and affording SHA significant flexibility to do more projects based on the actual projects cash flows and maximizes the obligation authority provided to the state. A project that advances in AC must meet the same requirements as a regular Federal-aid project and must be included in the Statewide Transportation Improvement Program (STIP). Funds are fully authorized and placed into AC pending full obligation based on anticipated project expenditures. The STIP covers a period of at least three years and is a financially constrained program which is not limited to the period of the authorization act. This allows SHA to mitigate inactive projects, conserve obligation authority and maintain flexibility in delivering the capital program allowing more projects to begin construction sooner. The AC approval process is an iterative process between SHA and the Federal Highway Administration (FHWA) as follows:

1. SHA identifies project(s) and requests AC designation.
2. FHWA Division Office ensures SHA meets financial preconditions for AC.
3. FHWA reviews and approves AC designation for the project, and the project agreement is executed.
4. SHA constructs project following Federal-aid requirements. **
5. SHA requests conversion to Federal-aid project (full or partial) and project agreement is modified.
6. FHWA obligates Federal-aid funds by modified project agreement.
7. SHA requests reimbursement for costs incurred full or partial as needed.
8. FHWA reimburses Federal-aid share of eligible costs of SHA. Eligibility of certain cost reimbursement is at the discretion of the FHWA Division Office, and some costs may be deemed as state costs, even if approved in AC.

**Expenditures are permissible without full obligation of the federal funds authorization. As expenditures increase, funds are converted from AC, fully obligated and submitted for reimbursement to FHWA. However, AC is used on a rolling basis, so there is always some balance of receivables.

When annual appropriations are not enacted at the beginning of the federal fiscal year, continuing resolutions are enacted by Congress to provide temporary funding to continue certain programs until actions on

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	<p>the full regular appropriations are completed. Continuing resolutions limit SHA’s available obligation authority, requiring greater utilization of AC. Reimbursement from FHWA for expenditures against AC is not possible until FHWA provides the obligation authority to SHA, resulting in a temporary balance of receivables to SHA. The unbilled receivable represents what has not been billed at the time of reporting but should not be interpreted as unrecoverable. There may be instances when expenditures exceed federal authorization. When this occurs, SHA’s Federal Aid Billing team helps identify and correct unbilled receivables prior to the Final Voucher of the project and collect the receivable. Any outstanding project inconsistencies are addressed during Final Voucher processing.</p> <p>The SHA capital program relies heavily on federal dollars for both construction and non-construction phases. This reliance increased significantly since 2020 due to the dramatic reduction in available state funds. This includes utilizing federal money for all non-construction phases (when federally eligible), which historically was charged as a state expense. This has significantly increased the number of federal projects and actions necessary to deliver capital projects, resulting in an increase in resources needed and processing time for federal reimbursements.</p>		
Recommendation 1b	Agree	Estimated Completion Date:	9/1/2026
Please provide details of corrective action or explain disagreement.	SHA will continue to properly identify and account for any costs that may be unrecoverable and develop the strategy to quantify and write off any potential unrecoverable costs. In addition, SHA will align its business practices to ensure receivables are maintained at a reasonable level (proportionate to the size of the capital program) by preserving internal controls and implementing reports and dashboards for more transparency and accountability. MDOT will report any costs that may be unrecoverable and work with DBM to account for these expenses with state funds.		

Auditor's Comment: In its response, SHA disagrees with the factual accuracy of the finding and notes that projects are authorized, federally approved accounting practices were followed, and no expenses were purposefully miscoded. Our use of the term "unauthorized" in the analysis references the approximately \$359 million in expenditures in excess of amounts authorized by the federal government. It does not reference the authorization of the related project.

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In addition, the finding focuses on violations of State accounting methods for which federal approval is not relevant. As acknowledged by SHA in its response to Finding 2, federal and State accounting practices do not always align.

Moreover, our review disclosed that SHA internally referred to these funds as “unbillable expenditures” but purposefully recorded the activity as a federal expenditure and recorded an accrued federal receivable without disclosing the unbillable nature of these funds.

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Accrued Revenue Transactions

Finding 2

SHA could not support the propriety of accrued federal fund revenue entries totaling approximately \$449 million recorded at the end of fiscal year 2024 or the subsequent recovery of the funds.

We recommend that SHA

- ensure that all year-end revenue transactions are properly supported,
- analyze the balances in the federal fund accounts to determine the collectability of any deficit balances and proper disposition of any surplus balances, and
- properly report any amounts determined to be uncollectable to GAD and work with DBM to resolve any related deficits.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	SHA follows federal processes for reimbursement of accrued expenditures in federal aid. FHWA and Maryland Schedule G reporting do not align ¹ . SHA has general ledger details for the total expenditure and revenue transactions that tie to each fiscal year as reported on Schedule G, but some federal project general ledger details contain transactions that migrated from the previous accounting system. Transactions that do not contain expense level details and may potentially be deemed uncollectable. SHA is currently working to quantify these transactions and mitigate future reporting. Reporting of subsequent receipts is based on the SHA project and grant number since that is how FHWA reimbursement is processed.		
Recommendation 2a	Agree	Estimated Completion Date:	9/1/2026
Please provide details of corrective action or explain disagreement.	Some federal project general ledger details contain transactions that migrated from the previous accounting system. SHA is currently working to identify these transactions. Once identified, a proper disposition will be identified and take place. SHA will also work to align the reporting and reimbursement elements to facilitate easier identification of subsequent receipts by requesting system modifications to the FMIS Federal Aid Billing Module. This module is responsible for		

¹ Refer to Finding 1 for comments on inconsistencies between federal and state accounting practices.

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	billing and collecting federal funds, but does not have a function to determine or close accounting periods relating to the underlying expenditure that supports the billing. This system limitation prevents SHA from reporting subsequent receipts by fiscal year.		
Recommendation 2b	Agree	Estimated Completion Date:	9/1/2026
Please provide details of corrective action or explain disagreement.	SHA is working to process collectable amounts, accurately quantify any unrecoverable amounts, and adjust account balances based on these determinations.		
Recommendation 2c	Agree	Estimated Completion Date:	9/1/2026
Please provide details of corrective action or explain disagreement.	SHA is working to process collectable amounts and create a process to accurately quantify any unrecoverable amounts and their subsequent resolution. SHA will develop a strategy to write off unrecoverable costs and align its' business practices to ensure receivables are maintained at a reasonable level by preserving internal controls and implementing reports and dashboards for more transparency and accountability. SHA will report unrecoverable amounts to GAD and work with DBM to account for these unrecoverable amounts with state funds.		

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Architectural and Engineering Contracts

Finding 3

SHA did not ensure payments to A&E vendors for contract management and inspection services were properly supported, and vendor personnel maintained required certifications.

We recommend that SHA

- a. ensure that A&E invoices are properly supported by IDRs and time records, and**
- b. ensure vendor personnel have all required certifications.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	The Analysis is factually accurate, except that Inspector's Daily Reports (IDRs) are used to track activities of the contractor and not the inspector.		
Recommendation 3a	Agree	Estimated Completion Date:	03/2026
Please provide details of corrective action or explain disagreement.	SHA recognizes that discrepancies between IDRs and A&E invoices are possible by human error. To address this concern, SHA has stressed this point to SHA Construction leadership statewide. SHA implemented in-depth IDR training for inspection staff. SHA also initiated discussions with industry (A&E firms with these contracts) to stress the importance of accurate IDRs and invoices that match. SHA will continuously highlight this at construction training sessions for state and consultant inspection staff as well as those in supervisory roles who are signing timecards. SHA's Office of Construction (OOC) will make it a specific session for the Statewide Winter Training for Winter 2025-26.		
Recommendation 3b	Agree	Estimated Completion Date:	2030
Please provide details of corrective action or explain disagreement.	Consultant construction inspectors only perform the material inspection testing for materials that they are certified to test. SHA is in compliance from a material testing perspective. Every inspector does not require every certification to comply with material inspection requirements and standards. If the inspector testing the specific material is certified for the specific material being tested, SHA is in compliance. However, SHA acknowledges that current contract language could be viewed to indicate that every inspector needs every material certification to always be		

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	<p>active and current. Because this is not actually a requirement, SHA will adjust contract language to match needs on future iterations for these construction management and inspection contracts. Since contracts are just receiving notices to proceed in SHA Districts 1, 2, 3, 5, and 7, it will be several years (estimated 2030) before the next iteration of the contract is advertised where we will adjust this contract language. Contract language will be adjusted sooner for SHA Districts 4 and 6 and OOC contracts that will be advertised this year.</p>
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Overtime

Finding 4 (Policy Issue)

SHA did not ensure each district and office had written policies to address authorization, limits, and monitoring of overtime. Additionally, SHA did not analyze this activity to identify employees with consistently high levels of overtime.

We recommend that SHA

- a. ensure each district and office have written overtime policies that are consistent and address authorizations, limits, and monitoring;
- b. routinely monitor overtime activity to identify employees with consistently high levels of overtime and investigate the necessity and propriety of high levels of overtime; and
- c. ensure overtime is documented and approved in accordance with the written policies.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	Estimated Completion Date:	11/01/2025
Please provide details of corrective action or explain disagreement.	While supervisors typically authorize overtime for essential work needs, SHA has differing practices of approving overtime across its numerous statewide offices and districts. SHA is reviewing overtime procedures across all districts and offices to ensure consistency and alignment with MDOT's TSHRS personnel policies and internal fiscal controls. A working group has been established to develop an SHA-wide directive that addresses overtime authorizations, documentation, limits, and monitoring. This directive will be distributed to all offices and districts.		
Recommendation 4b	Agree	Estimated Completion Date:	11/01/2025
Please provide details of corrective action or explain disagreement.	SHA relies on and approves employee overtime to address essential work, including emergencies, winter operations, and maintain service levels, and routinely monitors the statewide budgeted overtime. SHA will implement a routine reporting mechanism to flag employees with consistently high overtime hours. These reports will be reviewed by district and office leadership each pay period, and follow-up assessments		

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	will be conducted to determine if resource changes are appropriate to meet the operational demands. Where appropriate, workforce adjustments may be recommended. This monitoring function will also be performed on a quarterly and/or semi-annual basis to allow for a broader analysis of overtime usage across SHA.		
Recommendation 4c	Agree	Estimated Completion Date:	11/1/2025
Please provide details of corrective action or explain disagreement.	SHA is developing an SHA-wide directive that will provide consistency in overtime authorizations, documentation, limits, and monitoring. All updated timekeeping and overtime approval processes will be reinforced through training and internal memos, as necessary to support compliance.		

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Information Systems Security and Control

The Office of Legislative Audits (OLA) has determined that the Information Systems Security and Control section, including Findings 5 and 6 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Although the specifics of the following findings, including the analysis, related recommendations, along with MDOT’s responses, have been redacted from this report copy, MDOT’s responses indicated agreement with the findings and related recommendations.

Finding 5
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 6
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

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