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INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
CAPE COD REGIONAL TRANSIT AUTHORITY
JULY 1, 2007 TO SEPTEMBER 30, 2009

OFFICIAL AUDIT
REPORT
JUNE 21, 2010

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The Cape Cod Regional Transit Authority (CCRTA) was established on October 13, 1976 pursuant to the provisions of Chapter 161B of the Massachusetts General Laws. CCRTA's mission is to address the transportation needs of its customers by planning, financing, and overseeing the delivery of quality public transportation services on Cape Cod through privately contracted vehicle maintenance and operations providers. Local control is maintained through an Advisory Board that is made up of one member from each of the 15 communities in Barnstable County. The Advisory Board is responsible for providing policy decisions for and general oversight of CCRTA's administrative operations.

The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its operations and to evaluate its compliance with applicable laws, rules, and regulations. We also reviewed the Authority's most recent independent public accountant audit report and management letter to determine whether it was conducted in compliance with generally accepted government auditing standards and whether the Authority had taken corrective action regarding any issues identified in the management letter.

Based on our review, we have concluded that, except for the matter discussed in the Audit Results section of this report, during the 27-month period ended September 30, 2009, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

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IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER FINANCIAL AND MANAGEMENT ACTIVITIES

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Our review disclosed that CCRTA needed to improve its internal controls over its financial reporting and management activities. Specifically, CCRTA had limited documented policies and procedures for individual phases of its operations and therefore was not able to develop them into a comprehensive internal control plan. In addition, CCRTA did not complete and document a risk assessment to determine the internal control procedures needed to minimize the identified risks. Generally accepted accounting principles advocate that entities such as CCRTA should establish and implement an adequate internal control system. Without such a documented internal control system, there is inadequate assurance that agency goals and objectives are met; resources are used efficiently, effectively, and in compliance with applicable laws, regulations, and policies; assets are safeguarded against potential waste, loss, and misuse; and financial data is maintained, reported, and fairly disclosed in reports.

INTRODUCTION

Background

The Cape Cod Regional Transit Authority (CCRTA) was established on October 13, 1976 pursuant to the provisions of Chapter 161B of the Massachusetts General Laws. CCRTA's mission is to address the transportation needs of its customers by planning, financing, and overseeing the delivery of quality public transportation services on Cape Cod through privately contracted vehicle maintenance and operations providers. Local control is maintained through an Advisory Board that is made up of one member from each of the 15 communities in Barnstable County. The Advisory Board is responsible for providing policy decisions for and general oversight of CCRTA's administrative operations.

During our audit period (fiscal years 2008 and 2009), CCRTA received finding from a variety of sources, including federal, state, and local operating assistance programs. The table below summarizes CCRTA's revenues, expenses, and changes in net assets for these two fiscal years.

| | <u>2009</u> | <u>2008</u> |
|--|----------------------|----------------------|
| <u>Operating Revenues</u> | | |
| Transportation Services | \$ 5,403,000 | \$ 4,004,000 |
| <u>Operating Expenses</u> | | |
| Cost of Service, Maintenance, Administration | 11,814,000 | 10,717,000 |
| Depreciation | <u>2,248,000</u> | <u>1,772,000</u> |
| | <u>14,062,000</u> | <u>12,489,000</u> |
| <u>Operating Loss</u> | <u>\$(8,659,000)</u> | <u>\$(8,485,000)</u> |
| <u>Nonoperating Revenue and (Expenses)</u> | | |
| Operating Assistance | 6,704,000 | 7,018,000 |
| Interest Expense | (200,000) | (366,000) |
| Other Income | <u>69,000</u> | <u>61,000</u> |
| | <u>6,573,000</u> | <u>6,713,000</u> |
| <u>Loss Before Capital Contribution</u> | <u>\$(2,086,000)</u> | <u>\$(1,772,000)</u> |
| <u>Capital Contributions</u> | | |
| Federal | 851,000 | 2,479,000 |
| Commonwealth of Mass. Appropriations | 125,000 | 1,375,000 |
| Other | <u>4,000</u> | <u>-</u> |
| | <u>980,000</u> | <u>3,854,000</u> |
| <u>Increase (Decrease) in Net Assets</u> | <u>\$(1,106,000)</u> | <u>\$2,082,000</u> |
| <u>Net Assets</u> | | |
| Beginning of Year | <u>22,695,000</u> | <u>20,613,000</u> |
| End of Year | <u>\$21,589,000</u> | <u>\$22,695,000</u> |

* This information/data was extracted from CCRTA's Comparison of Statement of Revenue, Expenses and Changes in Net Assets found within the Authority's Financial Statements pursuant to Office of Management and Budget Circular A-133 (Single Audit).

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of CCRTA for the period July 1, 2007 to September 30, 2009. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its operations and to evaluate its compliance with applicable laws, rules, and regulations.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included such audit tests and procedures as we considered necessary.

To achieve our audit objectives, we reviewed CCRTA's:

- Internal controls over receipts and disbursements, including administrative costs and expenses, to determine their adequacy.
- Controls over contracts to determine whether proper bidding, awarding, and oversight procedures were in place.
- Overall compliance with applicable laws, rules, and regulations.
- Most recent independent public accountant audit report and management letter, if applicable, to determine whether that audit was conducted in compliance with generally accepted government auditing standards, and to follow up on any identified issues.

In addition, we determined the amount of American Recovery and Reinvestment Act funds that the Authority has applied for, received, and expended.

Based on our review, we have concluded that, except for the matter discussed in the Audit Results section of this report, during the 27-month period ended September 30, 2009, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER FINANCIAL AND MANAGEMENT ACTIVITIES

Our review disclosed that the Cape Cod Regional Transit Authority (CCRTA) needed to improve its internal controls over its financial reporting and management activities. Specifically, CCRTA had limited documented policies and procedures for individual phases of its operations and therefore was not able to develop them into a comprehensive internal control plan. In addition, CCRTA did not complete and document a risk assessment to determine the internal control procedures needed to minimize the identified risks. Generally accepted accounting principles (GAAP) advocate that entities such as CCRTA should establish and implement an adequate internal control system. Without such a documented internal control system, there is inadequate assurance that agency goals and objectives are met; resources are used efficiently, effectively, and in compliance with applicable laws, regulations, and policies; assets are safeguarded against potential waste, loss, and misuse; and financial data is maintained, reported, and fairly disclosed in reports.

In order to comply with GAAP, CCRTA is required to have a documented comprehensive plan of internal controls describing its goals and objectives and the means by which these goals and objectives can be achieved. An effective internal control system would establish clear lines of authorization and approval for an entity's various business functions, such as purchasing, contracting, asset management, payroll, and personnel. In addition, an entity's internal control system should be backed up with a set of detailed subsidiary policies and procedures that would communicate responsibilities and business operations, such as accounting, billings, cash receipts, accounts payable, human resources, and payroll.

Although not designed specifically for use by all public entities, CCRTA could refer to Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, for guidance in structuring its internal control plan. Chapter 647 states that "Internal control systems for the various state agencies and departments of the Commonwealth shall be developed in accordance with internal control guidelines established by the Office of the Comptroller." Subsequent to the passage of Chapter 647, the Office of the State Comptroller (OSC) issued written guidance in the form of the Internal Control Guide for Managers and Internal Control Guide for Departments. In these guides, the OSC stressed the importance of internal controls and the need for departments to develop an internal control plan, defined as follows:

[A] high-level summarization, on a department-wide basis, of the department's risks (as the result of a risk assessment) and of the controls used by the department to mitigate those risks. This high level summary must be supported by lower level detail, i.e. departmental policies and procedures. . . .

A good system of internal controls would coordinate CCRTA's policies and procedures to safeguard its assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. In addition, a risk assessment can help CCRTA to determine the most cost-effective and productive internal control system by indicating where specific controls are necessary.

Recommendation

CCRTA should review its operations and identify areas of inherent risk and vulnerability, including those activities with potential for loss from fraud, waste, unauthorized use, or misappropriation. CCRTA should then document its risk assessment and develop an internal control plan that correlates the identified risk to specific internal control procedures. Finally, CCRTA should conduct annual risk assessments and update its internal control plan based on its results.

Auditee's Response

In response to this Audit Result, CCRTA provided the following comment:

We reviewed your draft audit report for the period July 1, 2007 to September 30, 2009, and concur with your findings except that there was a risk and fraud assessment completed in conjunction with year end financial audit for the fiscal year 2009.

The Cape Cod Regional Transit Authority is in the process of implementing a new accounting system that will have the controls outlined in your report. Further, we will document these procedures and incorporate them into an internal control plan and conduct our own risk assessment per your recommendation.

Auditor's Reply

We acknowledge that CCRTA's independent public accountant (IPA) completed a risk and fraud assessment in conjunction with the financial audit for fiscal year 2009. This assessment was completed so that the IPA could effectively plan its audit testing. The risk assessment we refer to will help CCRTA to document and implement a cost-effective and productive internal control system.