



Internal Audit of the Central Artery/Tunnel Project Repair & Maintenance [CARM] Trust Fund

Internal Audit Report

Prepared By:

The MassDOT Internal Audit Unit

December 11, 2017



EXECUTIVE SUMMARY

To: Betsy Taylor, Chair, Dominic Blue, Steve Poftak and Tim King
MassDOT Finance and Audit Committee
From: James Logan, Director of Audit Operations *Tim*
Date: December 11, 2017
RE: Central Artery/Tunnel Project Repair and Maintenance [CARM] Trust Fund
Internal Audit

We have completed a financial audit of the accounting, administration, and reporting of the Central Artery / Tunnel Project Repair and Maintenance [CARM] Trust Fund as performed by the MassDOT Office of the Chief Financial Officer for the time period of March 20, 2015 through March 21, 2017.

Our audit included meetings with Office of the Chief Financial Officer management and personnel and a review of the deposits, interest, disbursements and payment transactions.

The purpose of this CARM Trust Fund internal audit was to review internal controls, accounting, and administration practices and verify the accuracy of the reported CARM Trust Fund balance.

In our review of documentation supporting the CARM Trust Fund Annual Report dated March 21, 2017, we found the Trust Fund balance of \$386,665,424.28 to be accurately stated.

We also concluded that internal controls, standards, and operating procedures support the overall objectives. We identified a couple of opportunities for improvement, both concerning payment packages that we included in one audit finding. This finding is ranked as a medium risk.

- Enhance efforts to carefully review payment package supporting documentation to ensure that approvals are present on applicable documents prior to further processing.
- Monitor invoice receipt dates to ensure payments are made within the standard payment cycle of 45 days, per the Commonwealth's Bill Paying Policy.

Our audit findings and recommendations were discussed with management and corrective action plans have been included in this report for our findings.

We would like to thank representatives of MassDOT's Office of the Chief Financial Officer that supported and assisted with our audit.

Please contact me if you have any questions or concerns at 857-368-9777 or via email at James.Logan@state.ma.us.

Cc: Stephanie Pollack, MassDOT Secretary and CEO
Jamey Tesler, MassDOT Chief of Staff
John Englander, MassDOT General Counsel
Marie Breen, MassDOT Acting General Counsel
Owen Kane, MassDOT Board of Directors Legal Counsel Representative
David Pottier, MassDOT Assistant Secretary & Chief Financial Officer
Isidoro Perez, MassDOT Highway Deputy Administrator
Sue Bristol, MassDOT Controller
Patricia Leavenworth, MassDOT Chief Engineer
Beth Pellegrini, MassDOT Director of Revenue and Debt Management
Kostandin Theodhori, MassDOT Director of Federal Aid Programming and Reimbursement Office
Pamela Stephenson, FHWA Division Administrator
Daniel Sullivan, MassDOT Policy Assistant
Sally Atwell, Office of Inspector General, Director of Internal Special Audit Unit

**Internal Audit of the Central Artery/Tunnel
Project Repair and Maintenance [CARM] Trust Fund**



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I. Introduction

We have completed a performance audit of the accounting, administration and reporting of the Central Artery /Tunnel Project Repair and Maintenance [CARM] Trust Fund as performed by the MassDOT Office of the Chief Financial Officer. This audit was conducted in accordance with Generally Accepted Government Auditing Standards [GAGAS].

The purpose of this CARM Trust Fund internal audit was to review internal controls, accounting and administration practices and verify the accuracy of the reported CARM Trust Fund balance.

II. Background

On July 26, 2007, the Commonwealth's Office of the Attorney General and the United States Attorney's Office for the District of Massachusetts announced a settlement agreement for claims totaling \$54.6 million against Aggregate Industries, for services performed on the Central Artery/Tunnel project.

On January 23, 2008, a second settlement was announced against Bechtel Parsons Brinckerhoff and a few other smaller consultants. The second settlement was for \$458.2 million, for a total of \$512.8 million from the two settlements.

In compliance with the terms of the settlement agreement, Massachusetts General Law, Chapter 10 Section 63A, established the Central Artery/Tunnel (CA/T) Project Repair and Maintenance Trust Fund and will retain its status as a legal entity until January 1, 2083. \$451.8 million of the settlement was allocated to the Trust Fund for the repair and maintenance of CA/T facilities not caused by "ordinary or routine wear and tear."

A revised Memorandum of Agreement [MOA], issued in May 2013, was established between the Massachusetts Department of Transportation [MassDOT] and the Federal Highway Administration [FHWA] regarding the Central Artery/Tunnel Project Repair and Maintenance Trust Fund.

The Memorandum of Agreement details the approval and administrative responsibilities of MassDOT and the FHWA for the purpose of paying the costs of, or reimbursing MassDOT for costs incurred in connection with, repairs and maintenance of the Central Artery and the Ted Williams Tunnel if such repairs and maintenance relate to conditions not caused by ordinary or routine wear and tear.

The Secretary and CEO of MassDOT are assigned the responsibility as administrator and Trustee of the Fund.

A revised Protocol for Central Artery/Tunnel Project Repair and Maintenance Trust Fund, issued in May 2017, was established by Office of the Chief Financial Officer [OCFO].

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The Protocol indicates the OCFO's deposit, disbursement, accounting, reporting, reconciliation, records management and investment responsibilities regarding the Trust Fund.

As reported to the Federal Highway Administration, US Attorney and Massachusetts Attorney General's Office as of March 21, 2017, the balance of the Central Artery/Tunnel Project Repair and Maintenance Trust fund is \$386,665,424.28, with accounts receivable and liabilities.

III. Scope and Objectives

Our annual audit of the CARM Trust Fund includes appropriate, sufficient evidence obtained through the review of deposits, interest, disbursements, payment transactions and investment transfers for the time period of March 20, 2015 through March 21, 2017. Audit meetings were conducted with the Office of the Chief Financial Officer management and personnel.

The primary objectives of this audit were to determine whether requirements of the Memorandum of Agreement and the Protocol for Central Artery/Tunnel (CA/T) Project Repair and Maintenance Trust Fund requirements are being followed and whether MassDOT internal controls ensure that:

1. Deposits, interest earned, accounts receivable, disbursements, payment transactions, monthly account reconciliation and investment transfers are properly processed, reported and followed.
2. Payments are properly approved for eligible non-routine repair and maintenance costs and accounted for.
3. Administrative updates are made to both the Memorandum of Agreement and Trust Fund Protocol to reflect organizational changes and reports are routinely disseminated as required.
4. MassDOT Highway Division is complying with the requirements of the Annual Repair and Maintenance Program.

Risk Rating Scale

Risk Rating	Action to be Taken	Issues
H (High)	Close supervisory attention is required.	0
M (Medium)	The audited area requires increased attention.	1
L (Low)	Issues can be corrected within the normal course of business.	0

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Issue	Risk	Recommendation	Management Action Plan
1. Payments			
<p>1.1 Our review of the total population of 153 CARM expenditure payment packages for the time period of March 2015 to March 2017 identified:</p> <ul style="list-style-type: none"> • 6 Estimate of Fees and 3 Monthly Progress Estimate documents in 9 payment packages [6%] did not contain the Project Manager's signature. <p>The signature evidences the Project Manager's review of these documents.</p> <p>Approval signatures should be verified prior to further payment processing.</p> <ul style="list-style-type: none"> • 43 payment package invoices [28%] were, on average, processed for payment in 73 days exceeding the Commonwealth's Bill Paying Policy standard payment cycle of 45 days from the date of an invoice receipt. <p>These delays were due to the Project Manager and Supervisor not reviewing, authorizing, and returning the payment package for processing in a timely manner.</p>	M	<p>1.1 Carefully review payment package documentation for required approval signatures. Obtain signatures for documents without approvals before proceeding forward with payment processing.</p> <p>1.2 Monitor the number of days from the date of invoice receipt and identify invoices that exceed the 45 day limit.</p> <p>Re-emphasize to those Project Managers and Supervisors that invoice packages must be returned and paid within 45 days from the date of invoice receipt.</p> <p>1.1 issues continues on the next page</p>	<p>Responsible Party: Patricia Leavenworth, Chief Engineer</p> <p>Action: Payment packages will be directed through the Chief Engineer's office to ensure that payment packages are reviewed and contain approval signatures.</p> <p>Invoices will be reviewed for timeliness with the use of a quarterly metric report issued by the Chief Engineer's office.</p> <p>Implementation Date: December 31, 2017, or within three to six months from audit report issuance and the Chief Engineer's office will provide an update report.</p>

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Issue	Risk	Recommendation	Management Action Plan
1. Payments continued			
<p>1.1 Continued</p> <ul style="list-style-type: none">• 22 payment packages [14%] did not indicate the date in which the invoice was received. <p>The invoice date of receipt is a key indicator used to determine if the invoice was processed within the Commonwealth's 45 day Bill Paying Policy time limit.</p>		<p>1.3 Re-emphasize to personnel receiving the invoices the significance of the invoice receipt date and to routinely record the receipt date on the invoice.</p>	

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Audit Contacts

To support our conclusions, sufficient, appropriate audit evidence was obtained through examining documentation and through correspondence with the individuals listed below.

#	NAME	TITLE	SECTION/LOCATION	ROOM
1	David Pottier	MassDOT Assistant Secretary & Chief Financial Officer	Office of the CFO 10 Park Plaza Boston	5450
2	Sue Bristol	MassDOT Controller	Office of the CFO 10 Park Plaza Boston	5450
3	Beth Pellegrini	MassDOT Director of Revenue and Debt Management	Office of the CFO 10 Park Plaza Boston	5450
4	Kostandin Theodhori	MassDOT Director of Federal Aid Programming and Reimbursement Office	Office of the CFO 10 Park Plaza Boston	5450
5	Isidoro Perez	MassDOT Highway Deputy Administrator	Commissioner's Office	4160