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**INDEPENDENT STATE AUDITOR'S REPORT
ON THE WORCESTER REGIONAL TRANSIT
AUTHORITY'S USE OF AMERICAN RECOVERY
AND REINVESTMENT ACT FUNDS
APRIL 1, 2009 THROUGH FEBRUARY 28, 2010**

**OFFICIAL AUDIT
REPORT
AUGUST 30, 2010**

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Worcester Regional Transit Authority (WRTA) is a public, non-profit organization established in 1974 under Chapter 161B of the Massachusetts General Laws to provide public transportation to the city of Worcester, Massachusetts and the surrounding towns. The WRTA service area includes over half a million in population and is the second largest regional transit authority in Massachusetts, serving 35 communities. The WRTA currently provides fixed-route bus service to Auburn, Brookfield, East Brookfield, Leicester, Millbury, Oxford, Shrewsbury, Spencer, Webster, West Boylston and Worcester, and paratransit service to a total of 35 communities in Central Massachusetts.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of WRTA's use of American Recovery and Reinvestment Act (ARRA) funds for the period April 1, 2009 through February 28, 2010. The objectives of our audit were to review WRTA's controls over and monitoring of ARRA funds received and expended. Also, we reviewed ARRA expenditures to determine whether these funds were expended for their intended purposes. During the audit period, WRTA received ARRA funds totaling \$220,369 and expended \$220,369.

Based on our review, we have concluded that, except for the matter discussed in the Audit Results section of this report, during the 11-month period ended February 28, 2010, the WRTA 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 ARRA REPORTING

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During our review of the WRTA's ARRA reporting, we found that its Section 1512 expenditure reporting was understated for the reporting periods September 30, 2009 and December 31, 2009 and understated for its Section 1201(c) report for the period January 31, 2010. The Federal Transit Administration (FTA) requires that all grant financial reporting be prepared using the accrual basis of accounting; that is, expenses are recorded when incurred instead of when paid. Our review of WRTA's reporting indicated that WRTA did accrue expenses for invoices it received prior to preparing the reports; however, we reviewed all expenditures during our audit period and found several invoices that were not accrued and were reported on the next report. It appeared that the WRTA did not have a system established to ensure that it received invoices within the timeframe necessary to account for the services provided in the correct period.

INTRODUCTION

Background

Worcester Regional Transit Authority (WRTA) is a public, non-profit organization established in 1974 under Chapter 161B of the Massachusetts General Laws to provide public transportation to the city of Worcester, Massachusetts and the surrounding towns. The WRTA service area includes over half a million in population and is the second largest regional transit authority in Massachusetts, serving 35 communities. The WRTA currently provides fixed-route bus service to Auburn, Brookfield, East Brookfield, Leicester, Millbury, Oxford, Shrewsbury, Spencer, Webster, West Boylston and Worcester, and paratransit service to a total of 35 communities in Central Massachusetts.

During our audit period, WRTA received an American Recovery and Reinvestment Act (ARRA) grant totaling \$12,418,571 from the Federal Transit Administration (FTA) to be used for the following: (1) the replacement of 15 transit buses, four of which will be hybrid-electric powered, 10 paratransit vans, and three minibuses; (2) a computerized communication and tracking system, including the purchase of new fare boxes; (3) the replacement of 10 office computers; (4) the replacement of four bus shelters located in the City Hall area of Worcester; (5) modifications to the garage doors at the WRTA's maintenance facility in Worcester to garage the four hybrid-electric buses; and (6) architectural and engineering design work for a new bus transfer station at Union Station in Worcester. As of February 28, 2010, the WRTA received ARRA funds totaling \$220,369 and expended \$220,369, as detailed in the table below:

Date	ARRA Funds Received	ARRA Funds Expended
August 2009	-	\$ 21,436
September 2009	\$ 11,166	29,993
October 2009	40,263	5,266
November 2009	59,909	54,643
December 2009	-	96,731
January 2010	96,918	10,405
February 2010	<u>12,113</u>	<u>1,895</u>
Total	<u>\$220,369</u>	<u>\$220,369</u>

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of WRTA's use of American Recovery and Reinvestment Act (ARRA) funds for the period April 1, 2009 through February 28, 2010. The objectives of our audit were to review WRTA's controls over and monitoring of ARRA funds received and expended. Also, we reviewed ARRA expenditures to determine if these funds were expended for their intended purposes.

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 the following:

- The ARRA Application and Grant awarded to WRTA by the Federal Transit Administration;
- Controls over the receipt and expenditures of ARRA funds;
- The receipt and expenditure of ARRA funds to ensure that they were reasonable and allowable under the terms of the grant award; and
- WRTA's ARRA reports to ensure compliance with reporting requirements.

Based on our review, we have concluded that, except for the matter discussed in the Audit Results section of this report, during the 11-month period ended February 28, 2010, the WRTA maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

IMPROVEMENTS NEEDED IN ARRA REPORTING

During our review of the WRTA's ARRA reporting, we found that its Section 1512 expenditure reporting was understated for the reporting periods September 30, 2009 and December 31, 2009 and understated for its Section 1201(c) report for the period January 31, 2010. The Federal Transit Administration (FTA) requires that all grant financial reporting be prepared using the accrual basis of accounting; that is, expenses are recorded when incurred instead of when paid. The Office of Management and Budget (OMB) Data Dictionary defines the required data reporting elements with FTA comments and FTA examples of the data element. The Data Dictionary defines the *total federal amount of ARRA expenditures* as the amount of recovery funds received that were expended to projects or activities (Federal Share of Expenditures), or the cumulative total for the amount of federal fund expenditures. OMB states that expenditures can be reported on either the cash or accrual basis; however, the FTA requires funds to be tracked on an accrual basis.

The WRTA is required to submit Section 1512 ARRA reports quarterly providing information about projects funded by the grant, including direct jobs created and maintained and cumulative expenditure. WRTA also files Section 1201(c) reports containing data for each ARRA grant received, expenditure information such as the number of procurements at various stages of implementation (out to bid, under contract, underway, completed), and ARRA dollars associated with those procurements as well as direct jobs created or maintained by all projects and activities funded by the grants. Our review of WRTA's reporting indicated that WRTA did accrue expenses for invoices it received prior to preparing the reports; however, we reviewed all the expenditures during our audit period and found several invoices that were not accrued and were reported on the next report. It appeared that the WRTA did not have a system established to ensure that it received invoices within the timeframe necessary to account for the services provided in the correct period. We reviewed the dates of service on all the invoices and calculated the amount that would have been reported if all invoices were received and reported on an accrued basis. As outlined below, we found that the WRTA underreported expenditures on its 1512 report and on its 1201(c) report.

Report Number	Period Ending	Agency Amount Reported	Auditor's Calculations	Variance Over(Under)
1201 (c)	7/31/2009	\$11,166.21	\$11,166.21	-
1201 (c)	1/31/2010	\$212,224.37	\$218,473.99	(\$6,249.62)
1512	9/30/2009	\$51,430.00	\$82,296.28	(\$30,866.28)
1512	12/31/2009	\$186,277.82	\$212,224.37	(\$25,946.55)

We discussed this matter with WRTA officials, who noted they have reviewed the 1512 report prepared for March 2010 and have made corrections to that report; however until recently, they were unable to correct reports after submitting them. The ARRA reporting function did not allow agencies to correct their initial filings unless the funding agency had comments or corrections that needed to be addressed. Agencies are now able to enter corrections to their reports 33 to 90 days after the quarter is closed. Also, the WRTA will be seeking to establish a system with its vendors to ensure the timely receipt of invoices to allow for the proper accrual of expenses.

Recommendation

The WRTA should establish a system of internal controls to ensure that its reporting complies with the FTA and ARRA reporting requirements. WRTA should work with its vendors to ensure that invoices are received timely to allow for the proper accrual of expenses.

Auditee's Response

The WRTA has developed written procedures that will ensure that invoices are received within the timeframe necessary to correctly account for services within a specific period.