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NO. 2010-1269-3R

INDEPENDENT STATE AUDITOR'S REPORT
ON THE
METROWEST REGIONAL TRANSIT AUTHORITY'S
USE OF AMERICAN RECOVERY AND
REINVESTMENT ACT FUNDS
JULY 1, 2009 THROUGH DECEMBER 31, 2009

OFFICIAL AUDIT
REPORT
AUGUST 30, 2010

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INTRODUCTION

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The MetroWest Regional Transit Authority (MWRTA) was established in 2006 pursuant to the provisions of Chapter 161B of the Massachusetts General Laws. MWRTA was established to provide fixed-route bus service and paratransit service to the cities and towns of Ashland, Framingham, Holliston, Hopkinton, Marlborough, Natick, Sherborn, Southborough, Sudbury, Wayland, and Weston. MWRTA contracts with a private company to operate its buses, perform maintenance services, and conduct various administrative functions. Local control is maintained through an Advisory Board that is made up of one member from each of the 11 communities served. In addition, a member representing the disabled community serves on the board. The Advisory Board is responsible for providing policy decisions for and general oversight of MWRTA's administrative operations.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of MWRTA for the period July 1, 2009 to December 31, 2009. The objectives of our audit were to review MWRTA's controls over and monitoring of American Recovery and Reinvestment Act (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 MWRTA received ARRA funds totaling \$446,237 and expended \$463,110.

Based on our review, we have concluded that, except for the matter discussed in the Audit Results section of this report, during the six-month period ended December 31, 2009, MWRTA 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 TIMELY PROCESSING OF ARRA FUNDS

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Our review of ARRA funds received and expended disclosed that the MWRTA needed to improve its internal controls over its drawdown of ARRA funds. Specifically, we found that MWRTA requested funds and, after processing payments against that request, had excess funds in its account for 14 days. The Federal Transit Authority recommends that all such funds be expended within three days.

INTRODUCTION

Background

The MetroWest Regional Transit Authority (MWRTA) was established in 2006 pursuant to the provisions of Chapter 161B of the Massachusetts General Laws. MWRTA was established to provide fixed-route bus service and paratransit service to the cities and towns of Ashland, Framingham, Holliston, Hopkinton, Marlborough, Natick, Sherborn, Southborough, Sudbury, Wayland, and Weston. MWRTA contracts with a private company to operate its buses, perform maintenance services, and conduct various administrative functions. Local control is maintained through an Advisory Board that is made up of one member from each of the 11 communities served. In addition, a member representing the disabled community serves on the board. The Advisory Board is responsible for providing policy decisions for and general oversight of MWRTA's administrative operations.

As of December 31, 2009, MWRTA was awarded an ARRA grant totaling \$750,000 from the Federal Transit Administration (FTA). During our audit period MWRTA received ARRA funds totaling \$446,237 and expended \$463,110 as detailed in the table below.

| <u>Date</u> | <u>Funds Received</u> | <u>Funds Expended</u> |
|-------------------|---------------------------|---------------------------|
| July 24, 2009 | \$300,000 | \$146,237 |
| July 28, 2009 | 146,237 | - |
| August 7, 2009 | - | 300,000 |
| October 27, 2009 | - | 15,408 |
| December 15, 2009 | - | 1,465 |
| Total | <u>\$446,237</u> | <u>\$463,110</u> |

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 MWRTA for the period July 1, 2009 to December 31, 2009. The objectives of our audit were to review MWRTA's controls over and monitoring of American Recovery and Reinvestment Act (ARRA) funds received and expended. Also, we reviewed ARRA expenditures to determine whether 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 MWRTA by the FTA;
- Controls over the receipt and expenditures of ARRA funds;
- The receipt and expenditure of ARRA funds to determine whether they were reasonable and allowable under the terms of the grant award; and
- MWRTA's ARRA reports to determine whether they were in 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 six-month period ended December 31, 2009, MWRTA maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

In addition to this report, the OSA conducted a separate audit of the MWRTA, which reviewed other non-ARRA related activities. The audit (No. 2010-1269-3A), which covered the period July 1, 2007 to June 30, 2009, disclosed that MWRTA needs to better document its internal control plan.

AUDIT RESULTS

IMPROVEMENTS NEEDED IN TIMELY PROCESSING OF ARRA FUNDS

Our review of American Recovery and Reinvestment Act (ARRA) funds received and expended disclosed that the MetroWest Regional Transit Authority (MWRTA) needed to improve its internal controls over its drawdown of ARRA funds. Specifically, we found that MWRTA requested funds and, after processing payments against that request, had excess funds in its account for 14 days. The Federal Transit Administration (FTA) recommends that all such funds be expended within three days.

MWRTA submits its drawdown data and requests ARRA funds using the FTA's Internet-based Electronic Clearing House Operation System (ECHO-Web). Once approved, ECHO-Web then transmits funds to an interest-bearing account at MWRTA's financial institution. The FTA in its ECHO system user guide, Section 3.2, Guidelines for Disbursements, states:

Disbursement guidelines are in accordance with policies established in Department of Treasury Circular 1075, Part 205, "Withdrawal of Cash From The Treasury for Advances Under Federal Grant and Other Programs," and by FTA financing agreements.

These guidelines state that the recipient organization shall commit itself to:

Initiating cash drawdowns for immediate disbursement needs. This has been defined as two to three calendar days. Excess Federal funds held more than three days must be returned to FTA along with any interest earned...

Our review of MWRTA's fiscal control manual indicated that the Administrator is responsible for drawing down funds as needed. However, as shown in the chart below, MWRTA had excess cash for more than 14 days before it processed corresponding expenditures.

| <u>Date</u> | <u>Funds Received</u> | <u>Funds Expended</u> | <u>Excess Cash Balance</u> |
|----------------|---------------------------|---------------------------|--------------------------------|
| July 24, 2009 | \$300,000 | \$146,237 | \$153,763 |
| July 28, 2009 | 146,237 | - | \$300,000 |
| August 7, 2009 | - | <u>300,000</u> | - |
| Total | <u>\$446,237</u> | <u>\$446,237</u> | |

We discussed the issue with MWRTA staff, who stated that although they had invoices to process against this drawdown request, this was the initial ARRA activity, and the failure to process invoices in a timely manner was an oversight. We reviewed all receipts and expenditures of ARRA funds through the completion of our fieldwork and found that all funds were requested and expended in compliance with FTA guidance.

Recommendation

MWRTA should continue to monitor ARRA receipts and expenditures to ensure that it is in compliance with ARRA's administrative guidelines. Also, MWRTA should contact the FTA to discuss this matter to determine the amount of excess interest earned and the proper method for returning these funds.

Auditee's Response

MWRTA has contacted FTA and under provisions in 49 CFR 18.21 and 19.22 and CFR part 205, Section (g) Requirement to Remit Interest, which govern payments to recipients for financing operations under Federal grant and other programs as well as Section 9b(1)(h) of FTA's Master Agreement, the Authority will remit to the FTA the 3% interest required by this regulation which calculates to \$247.81. Please note that this interest accrued by the Authority for the funds deposited in its account was 0.25% or \$41.30. The Authority is moving forward with the payment of the higher amount.

The FTA also had the authority to waive this payment but has declined to do so. I can assure you that the MWRTA will work diligently to comply with the Auditor's recommendation to monitor future ARRA receipts and expenditures to ensure that it is in compliance with ARRA's administrative guidelines.