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INDEPENDENT STATE AUDITOR'S REPORT ON THE MONTACHUSETT REGIONAL TRANSIT AUTHORITY'S USE OF AMERICAN RECOVERY AND REINVESTMENT ACT FUNDS MARCH 1, 2009 TO MARCH 31, 2010

OFFICIAL AUDIT REPORT

OCTOBER 19, 2010

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The Montachusett Regional Transit Authority (MRTA) is a public, nonprofit organization established under Chapter 161B of the Massachusetts General Laws to provide public transportation to the cities of Fitchburg, Leominster, and Gardner and to 18 member communities. MRTA currently provides fixed-route bus service in the cities of Fitchburg, Leominster, and Gardner and supplementary paratransit service in Fitchburg, Leominster, Gardner, and areas of Lunenburg and Lancaster. MRTA also manages the parking facilities at the Fitchburg and North Leominster commuter rail stations and has partnered with the Massachusetts Bay Transportation Authority to improve the commuter rail line between Boston and Fitchburg.

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of MRTA's use of American Recovery and Reinvestment Act (ARRA) funds for the period March 1, 2009 to March 31, 2010. The objectives of our audit were to review MRTA'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 MRTA received ARRA funds totaling $425,452 and expended $570,165.

Based on our review, we have concluded that, except for the matters discussed in the Audit Results section of this report, during the 13-month period ended March 31, 2010, MRTA maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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During our review of ARRA fund expenditures, we found that MRTA had not established the necessary internal controls to properly allocate expenditures during the initial renovation of an existing building and the construction of an addition to be used as a storage building. This project is being funded by ARRA funds and another federal grant. After incurring costs of $425,452, MRTA drew down ARRA funds during the months of November and December of 2009 to reimburse itself for construction costs. However, in March 2010, MRTA found that the initial costs that it had paid for were not strictly ARRA costs and that some of the costs should have been reimbursed using another federal grant. Only new construction costs of $303,016 could be charged to the ARRA grant, whereas all renovation costs must be charged to the other federal grant.

In March 2010, MRTA instituted a new billing review process to ensure that all costs are correctly charged to the appropriate federal grant. MRTA reviewed, with the contractor, the construction billing that details, by line item, the type of work being done on the site and determined which line items were applicable to new construction, renovation work, or both (e.g., plumbing and electrical work). After each construction invoice is reviewed, MRTA staff determines the amount to be charged to each grant. Based on this determination, funds are then requested from the appropriate grant.

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During our review of the MRTA's ARRA reporting, we found that MRTA overstated its Section 1512 expenditure report for the reporting period ending December 31, 2009 and understated its Section 1201(c) report for the period ending January 31, 2010.

Our review of the December 31, 2009 Section 1512 expenditure report found that MRTA overstated their expenditures. MRTA reported expenses of $545,389, which represented its actual accrued expenses; however, in March 2010, MRTA found that the initial costs it had paid for the renovation of an existing building and the construction of an addition to be used as a storage building were not strictly ARRA costs and that some of those costs should have been reimbursed using another federal grant. After instituting new internal controls over these construction expenditures, MRTA reviewed and reallocated its construction costs. Based on these costs, the correct amount of ARRA expenditures through December should have been reported as $400,153. Since the expenditures reported quarterly are cumulative, MRTA was able to correct its expenditure reporting on the March 31, 2010 report.

Our review of MRTA's Section 1201(c) reporting as of January 31, 2010 indicated that MRTA did not report any ARRA expenditures through that period. MRTA should have reported all accrued expenses, which totaled $570,165 through that period, as of January 31, 2010.

INTRODUCTION

Background

The Montachusett Regional Transit Authority (MRTA) is a public, nonprofit organization established under Chapter 161B of the Massachusetts General Laws to provide public transportation to the cities of Fitchburg, Leominster, and Gardner and to 18 member communities. MRTA currently provides fixed-route bus service in the cities of Fitchburg, Leominster, and Gardner and supplementary paratransit service in Fitchburg, Leominster, Gardner, and areas of Lunenburg and Lancaster. MRTA also manages the parking facilities at the Fitchburg and North Leominster commuter rail stations and has partnered with the Massachusetts Bay Transportation Authority to improve the commuter rail line between Boston and Fitchburg.

During our audit period, MRTA received an American Recovery and Reinvestment Act (ARRA) grant totaling $3,277,669 from the Federal Transit Administration (FTA) to be used for the (1) purchase of three hybrid buses, (2) construction of a storage facility, and (3) purchase of bus maintenance equipment, including a bus washer and 12 fareboxes.

The FTA's ARRA program operates on a reimbursement basis, which means an obligation must be incurred before a grantee can draw funds. However, a grantee does not have to disburse local funds before requesting reimbursement from the FTA. Grantees may request payments for immediate project disbursement needs and must make payments on these obligations no later than three days after receiving that federal assistance. As of March 31, 2010, MRTA received ARRA funds totaling $425,452 and had accrued expenditures of $609,590.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of MRTA's use of American Recovery and Reinvestment Act (ARRA) funds for the period March 1, 2009 to March 31, 2010. The objectives of our audit were to review MRTA'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.

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 MRTA by the Federal Transit Administration;
- 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
- MRTA's ARRA reports to determine whether they were in compliance with reporting requirements.

Based on our review, we have concluded that, except for the matters discussed in the Audit Results section of this report, during the 13-month period ended March 31, 2010, MRTA maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. INTERNAL CONTROLS OVER ARRA EXPENDITURES

During our review of American Recovery and Reinvestment Act (ARRA) fund expenditures, we found that the Montachusett Regional Transit Authority (MRTA) had not established the necessary internal controls to properly allocate expenditures during the initial renovation of an existing building and the construction of an addition to be used as a storage building. This project is being funded by ARRA funds and another federal grant. The total construction costs are estimated at $3.1 million, with the new addition funded by approximately $2.1 million in ARRA funds and the renovations and any remaining new construction work funded by another federal grant.

The project began in October 2009 with the construction of the new storage addition; however, contaminated soil was discovered at the site shortly after construction began. While the construction contractor waited for the contaminated soil to be removed, renovations began on the existing building that is going to be used for administrative office space. After incurring costs of $425,452, MRTA drew down ARRA funds during the months of November and December of 2009 to reimburse itself for construction costs. However, in March 2010, MRTA found that the initial costs that it had paid for were not strictly ARRA costs and that some of the costs should have been reimbursed using another federal grant. Only new construction costs of $303,016 could be charged to the ARRA grant, whereas all renovation costs must be charged to the other federal grant. MRTA financial officials stated that they were not aware that renovation work had begun and believed that work completed as of March 2010 was for new construction and was therefore reimbursable using ARRA funds. MRTA incurred additional new construction costs during January and March 2010 to fully expend the ARRA funds previously drawndown. Because MRTA reallocated the costs for the ARRA project, its December 2009 Section 1512 expenditure report incorrectly reported ARRA expenditures. MRTA reported accrued expenditures of $545,389; however, based on the reallocated costs, the correct amount of expenditures through December should have been $400,153. Since the ARRA is cumulative, MRTA was able to correctly report ARRA accrued expenditures of $609,590 as of March 31, 2010.

In March 2010, MRTA instituted a new billing review process to ensure that all costs are correctly charged to the appropriate federal grant. MRTA reviewed, with the contractor, the construction billing that details, by line item, the type of work being done on the site and determined which line items were applicable to new construction, renovation work, or both (e.g., plumbing and electrical work). After each construction invoice is reviewed, MRTA staff determines the amount to be charged to each grant. Based on this determination, funds are then requested from the appropriate grant.

Recommendation

MRTA should continue to review all project-related expenditures to ensure that only new construction costs for the storage building are charged to the ARRA grant.

Auditee's Response

In responding to this audit result, MRTA made the following comment.

> *MRTA does not disagree with the results of the audit. Initially the project federal grants were properly segregated from the new construction to the earmark funding for the existing building renovation. The general contractor at their discretion decided to start rehabilitation of the existing building (earmark funds) with the new building construction work at an earlier stage of the contract. MRTA resolved this promptly after review with the general contractor and has corrected the prior allocation and is properly allocating expenditure to the correct federal grants. The non-ARRA federal grant for the project is a federal earmark.*

2. IMPROVEMENTS NEEDED IN ARRA REPORTING

During our review of MRTA's ARRA reporting, we found that MRTA overstated its Section 1512 expenditure report for the reporting period ending December 31, 2009 and understated its Section 1201(c) report for the period ending January 31, 2010. The Federal Transit Administration (FTA) requires that all grant financial reporting be prepared using the accrual basis of accounting whereby 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 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'). The cumulative total for the amount of federal fund expenditures." Although OMB states that expenditures may be reported on either the cash or accrual basis, the FTA "requires funds to be tracked on an accrual basis."

MRTA is required to submit Section 1512 ARRA expenditure reports quarterly, with information about projects funded by the grant, including direct jobs created and maintained and cumulative expenditures. Our review of the December 31, 2009 report found that MRTA overstated its expenditures. Specifically, MRTA reported expenses of $545,389, which represented its actual accrued expenses; however, in March 2010, MRTA found that the initial costs that it had paid for the renovation of an existing building and the construction of an addition to be used as a storage building were not strictly ARRA costs and that some of those costs should have been reimbursed using another federal grant. Only new construction costs could be charged to the ARRA grant, whereas all renovation costs must be charged to another other federal grant. After instituting new internal controls over these construction expenditures, MRTA reviewed and reallocated its construction costs and, based on these costs, determined that the correct amount of ARRA expenditures through December should have been reported as $400,153. Since the expenditure amounts reported quarterly are cumulative, MRTA was able to correct its expenditure reporting on the March 31, 2010 report.

MRTA 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 (e.g., out to bid, under contract, underway, completed), and ARRA funds associated with those procurements as well as direct jobs created or maintained by all the projects and activities funded by the grants. Our review indicated that as of January 31, 2010 MRTA had not reported any ARRA expenditures, whereas MRTA should have reported all accrued expenses through that period totaling $570,165. MRTA staff responsible for the 1201(c) reporting stated that ARRA expenditures were not included based on the description of the reporting line in the report which states, "Of the amount of ARRA funds listed on Line 1, the total amount that has been expended as of the date that the grant is closed." Accordingly, it was believed that ARRA expenditures were to be reported only at the close of the grant. However, our review of the reporting instructions indicated that the Section 1201(c) report should include all expenditures through the reporting period. The instructions state the FTA grantees are required to "*Enter the total amount of the funding entered on line 1 that constitutes an expenditure by you on a contract or in-house work that carries out the project(s) or procurement(s) funded by the* *award. Expenditures are the sum of (1) cash disbursements for direct charges for property and services; (2) the amount of indirect expense incurred; and (3) the net increase or decrease in the amounts owed by the recipient for (a) goods and other property received; (b) services performed by employees, contractors, subcontractors, subawardees, and other payees; and (c) programs for which no current services or performance are required. Do not include program income expended.*"

Recommendation

MRTA should establish a system of internal controls to ensure that its reporting complies with FTA and ARRA reporting requirements. Moreover, MRTA should ensure that all accrued expenditures are reported in the correct period.

Auditee's Response

In response to this audit result, MRTA made the following comment.

> *MRTA agrees with the results that stem from the above grant allocation matter. Concerning the reporting rulings, MRTA staff kept in contact with the Federal Transit Administration Region 1 office and followed their advice on the reporting requirements because there were various reporting revisions from the Federal Government. MRTA has internal controls in place and is complying with reporting requirements.*