



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued December 15, 2011

Woods Hole, Martha's Vineyard, and Nantucket Steamship Authority

For the period January 1, 2010 through December 31, 2010



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The Woods Hole, Martha’s Vineyard, and Nantucket Steamship Authority (Steamship Authority) was created by Chapter 701 of the Acts of 1960, as amended, to provide “adequate transportation of persons and necessities of life for the islands of Nantucket and Martha’s Vineyard.” The Steamship Authority is governed by a five-member board, which includes a Nantucket resident appointed by the Nantucket County Commissioners; a Dukes County (Martha’s Vineyard) resident appointed by the Dukes County Commissioners; a Falmouth resident appointed by the Falmouth Selectmen; a Barnstable resident appointed by the Barnstable Town Council; and a New Bedford resident appointed by the Mayor of New Bedford, with the approval of the New Bedford City Council. Each member serves for a term of three years and until a qualified successor has been appointed. As of December 31, 2010, the Steamship Authority operated and maintained a fleet of nine vessels, including auto ferries, freight ferries, and a passenger-only ferry, and employed up to 750 people during its summer peak season.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted an audit of certain activities of the Steamship Authority for the period January 1, 2010 through December 31, 2010. The scope of the audit included a review and examination of certain aspects of the Steamship Authority’s fiscal operations and management controls. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit objectives consisted of a determination of whether the Steamship Authority implemented effective internal controls over all aspects of its operations and an assessment of the Steamship Authority’s business practices and its compliance with applicable laws, rules, and regulations.

Based on our review we have determined that, for the period January 1, 2010 through December 31, 2010, the Steamship Authority’s financial records and internal controls regarding its waterline operating revenues, purchasing practices, and awarding of contracts were complete, accurate, and up-to-date and the Authority complied with applicable laws, rules, and regulations.

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Our prior review disclosed that the Steamship Authority needed to improve its internal controls over its financial and management activities associated with collecting, depositing, accounting, and reporting its various operating revenues, including passenger and vehicle transportation fares and terminal parking fees. Specifically, contrary to sound business

practices, the Steamship Authority had not formalized an internal control plan or completed and documented a risk assessment.

Our current review determined that the Steamship Authority has formalized an internal control plan and completed a risk assessment that covers all of its operations. Management of the Steamship Authority stated that the internal controls and risk assessment will continually be updated to meet the changing needs of the Steamship Authority.

INTRODUCTION

Background

The Woods Hole, Martha's Vineyard, and Nantucket Steamship Authority (Steamship Authority) was created by Chapter 701 of the Acts of 1960, as amended, to provide "adequate transportation of persons and necessities of life for the islands of Nantucket and Martha's Vineyard." In order to achieve its mission, the Steamship Authority is empowered to acquire, maintain, and operate all vessels and port terminals necessary to provide water transportation services for passengers and vehicles, including private automobiles and freight-carrying commercial trucks.

The Steamship Authority is governed by a five-member board that includes a Nantucket resident appointed by the Nantucket County Commissioners; a Dukes County (Martha's Vineyard) resident appointed by the Dukes County Commissioners; a Falmouth resident appointed by the Falmouth Selectmen; a Barnstable resident appointed by the Barnstable Town Council; and a New Bedford resident appointed by the Mayor of New Bedford, with the approval of the New Bedford City Council. Each of the island board members (Nantucket and Martha's Vineyard) has 35% of the members' combined vote, whereas each of the mainland board members has 10% of the members' combined vote. Each member serves for a term of three years and until a qualified successor has been appointed. In addition, the Steamship Authority has a seven-member advisory board known as the Port Council, which has the power to review the Steamship Authority's annual budget and advise the Steamship Authority's Board members concerning all pertinent issues arising from the surrounding port communities. Port Council members are appointed by the governing body of the community they represent and serve a two-year term.

The Steamship Authority is authorized to issue bonds totaling \$75 million for the purposes of financing vessel and terminal facility replacements, new construction, and acquisitions that are necessary to provide all essential services. As of December 31, 2010, the Steamship Authority bonds issued and outstanding totaled \$62,040,000. The 2004 Series B Steamship bond proceeds were utilized for the design, construction, and delivery of a new 255-foot passenger/vehicle vessel, the M/V Island Home, with a capacity of 1,200 passengers and approximately 76 cars, which was placed into active commission during the spring of 2007 at a cost of approximately \$34 million. In addition, the 2005 Series A Steamship Bond proceeds were used for the design, construction, and delivery of a new high-speed passenger-only vessel, the M/V Iyanough, with a capacity of 393

passengers at a cost of nearly \$10 million to replace the aging M/V Flying Cloud to transport passengers to and from Hyannis and Nantucket. The 2009 Series B Steamship Bonds totaling \$10 million were used to acquire four parcels of land in Falmouth for parking and the reconstruction of berthing slips in Hyannis that included dolphins, wharves, a transfer bridge, and gangways.

The Steamship Authority's enabling legislation provides that in any year in which the Steamship Authority does not have sufficient funds to pay the annual principal and interest portion of its bond indebtedness, it shall certify, to the State Treasurer, the amount required to meet the bond obligation, and the Commonwealth shall pay that amount to the Steamship Authority. Additionally, the enabling legislation provides that in any year in which the Steamship Authority has insufficient income and reserves to offset a deficiency from operations, the Commonwealth shall pay the amount of the deficiency to the Steamship Authority. In turn, the Commonwealth shall assess the amount of the deficiency to the involved towns and county in the following manner: 10% each to the Town of Falmouth, the Town of Barnstable, and the City of New Bedford; 35% to the Town of Nantucket; and 35% to Dukes County. The last year in which a deficit assessment occurred was the fiscal year ended December 31, 1962.

As of December 31, 2010, the Steamship Authority operated and maintained a fleet of nine vessels and employed up to 750 people during its summer peak season. In addition to running its waterline operations, the Steamship Authority is responsible for regulating various other commercial aspects of ferry services to and from the islands. For example, the Steamship Authority currently licenses private ferry operators that pay licensing fees. These fees are collected from Hyline, Freedom Cruise, and Falmouth Ferry & N.E. Fast Ferry. The Authority also receives dockage fees from an out-of-state carrier, Sea Streak of NY.

The following schedules provide comparative data for the Steamship Authority's annual traffic statistics and waterline operating revenue for the five-year period January 1, 2006 through December 31, 2010:

Comparative Traffic Statistics and Revenue Figures

Waterline Operations

2006 – 2010

Statistical Data:	2010	2009	2008	2007	2006
Number of Trips	21,260	21,445	21,796	21,991	22,042
Number of Cars Parked	163,418	160,675	158,337	162,031	148,529
Number of Passengers	2,736,147	2,693,178	2,692,031	2,692,366	2,620,565
Number of Automobiles	438,515	433,042	451,820	452,757	449,902
Number of Trucks	156,636	156,611	142,930	146,444	153,486
Revenue:					
Passengers	\$25,072,976	\$24,781,222	\$24,384,223	\$23,642,776	\$21,147,769
Freight	19,847,701	18,815,046	20,809,534	21,246,667	19,807,857
Automobile	26,263,879	27,020,797	26,472,416	25,962,517	23,885,565
Bicycle	195,045	194,674	197,197	192,498	173,861
Mail	286,038	366,270	366,775	375,933	342,096
Concession	619,716	614,222	658,051	712,210	628,275
Parking	5,232,501	5,204,454	5,126,622	4,773,358	4,471,153
Other	<u>2,801,382</u>	<u>2,783,795</u>	<u>3,281,010</u>	<u>3,665,428</u>	<u>3,517,220</u>
Total Revenue	<u>\$80,319,238</u>	<u>\$79,780,480</u>	<u>\$81,295,828</u>	<u>\$80,571,387</u>	<u>\$73,973,796</u>

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State (OSA) has conducted an audit of certain activities of the Steamship Authority for the period January 1, 2010 through December 31, 2010. The scope of the audit included a review and examination of certain aspects of the Steamship Authority's fiscal operations and management controls. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit objectives consisted of the following:

- Assessing the Steamship Authority's policies, procedures, and controls for collecting, accounting, and recording all revenues.
- Assessing the Steamship Authority's policies, procedures, and controls over purchasing practices, including inventory controls over equipment, materials, and supplies.
- Assessing the Steamship Authority's policies, procedures, and controls over the bidding and awarding of contracts, including consultant contracts.
- Reviewing the Steamship Authority's response and corrective actions pertaining to the theft of funds involving credit card transactions.
- Reviewing the Steamship Authority's progress in addressing the issue noted in our prior audit report (No. 2008-0587-3A).

In order to achieve our objectives, we first assessed the internal controls established and implemented by the Steamship Authority over its revenue-related fiscal and programmatic operations. The purpose of this assessment was to obtain an understanding of management's attitude, the control environment, and the flow of certain revenue streams through the Steamship Authority's accounting system. We then held discussions with certain Steamship Authority administrative, finance, and auditing personnel and reviewed minutes of board meetings, organization charts, internal written policies and procedures, risk analysis, and all applicable laws, rules, and regulations. We also examined the Steamship Authority's financial statements and annual reports, purchasing controls over materials, supplies and equipment, contract award controls, and the Authority's response and corrective action pertaining to the theft of funds involving credit card transactions.

The audit was not made for the purposes of forming an opinion on the Steamship Authority's financial statements. The audit also did not assess the overall performance or quality of the transportation services being provided by the Steamship Authority to its customers. Rather, the report is intended to identify the extent to which the Steamship Authority has complied with applicable laws, rules, and regulations as they pertain to management's responsibility in establishing an effective internal control system over its revenue-generating activities and purchasing procedures.

Based on our review we have determined that, for the period January 1, 2010 through December 31, 2010, the Steamship Authority's financial records and internal controls regarding its waterline

operating revenues, purchasing practices, and awarding of contracts were complete, accurate, and up-to-date and the Authority complied with applicable laws, rules, and regulations. Our review also determined the Steamship Authority took corrective action pertaining to the employee theft of credit card refunds and implemented controls to prevent this from occurring in the future.

AUDIT RESULTS

PRIOR AUDIT RESULT RESOLVED: IMPROVEMENTS MADE IN INTERNAL CONTROLS OVER FINANCIAL AND MANAGEMENT ACTIVITIES

Our prior audit disclosed that the Woods Hole, Martha's Vineyard, and Nantucket Steamship Authority (Steamship Authority) needed to improve its internal controls over its financial and management activities associated with collecting, depositing, accounting, and reporting of its various operating revenues, including passenger and vehicle transportation fares and terminal parking fees. Specifically, although the Steamship Authority had documented policies and procedures for individual phases of its operations, it had not developed them into a comprehensive internal control plan. In addition, the Steamship Authority did not complete and document a risk assessment to determine what internal control procedures are needed to minimize the identified risks. Without a documented internal control plan and an agency-wide risk assessment, there is inadequate assurance that the Steamship Authority will achieve its goals and objectives efficiently, effectively, and in compliance with applicable laws, rules, and regulations, and will properly safeguard its assets against potential loss, theft, or misuse.

Subsequent to our prior audit being issued, the Steamship Authority discovered an ongoing employee theft of credit card refunds. This theft occurred due to internal control weaknesses in the processing and oversight of credit card refund transactions. The employee was terminated, prosecuted, and incarcerated as of the end of our audit period. As a result of these thefts, the Steamship Authority immediately implemented new internal controls and procedures for the processing, reporting, and oversight of these transactions.

Our current review determined that the Steamship Authority has formalized an internal control plan and completed a risk assessment that covers all of its operations. In addition, management of the Steamship Authority stated that the internal controls and risk assessment will continually be updated to meet the changing needs of the Steamship Authority.