



Commonwealth of Massachusetts
Office of the State Auditor
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Making government work better

Official Audit Report – Issued March 28, 2013

Martha's Vineyard Regional Transit Authority

For the period July 1, 2010 through September 30, 2011



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INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Martha's Vineyard Regional Transit Authority (VTA) was established in accordance with the provisions of Chapter 161B, Section 3, of the Massachusetts General Laws. The VTA is a quasi-state agency that receives administrative oversight from its advisory board, whose members represent the six towns on Martha's Vineyard serviced by the VTA: Aquinnah, Chilmark, Edgartown, Oak Bluffs, Tisbury, and West Tisbury. During fiscal years 2010 and 2011, the VTA received an appropriation of approximately \$1.125 million per year in state funds and \$741,002 and \$759,527 in fiscal year 2010 and 2011, respectively, from local aid funds from the six towns that it serves. In addition, the VTA's operating revenues from its transportation services totaled \$1.386 million for fiscal year 2010 and \$1.462 million for fiscal year 2011.

Highlight of Audit Findings

- Our audit revealed that the VTA had an outstanding local aid assessment accounts receivable balance of \$283,385 as of September 30, 2011. We also found that the outstanding balance dates back to fiscal year 2000. As a result, the VTA has been forced to increase its debt by issuing additional revenue anticipation notes each year to cover its revenue shortfall. The impact of the additional debt incurred since 2000 has resulted in an additional interest expense to the VTA of \$37,700. Our audit also revealed an apparent lack of communication and documentation between the Department of Revenue (DOR), the Office of the State Treasurer (OST), and the Massachusetts Department of Transportation (MassDOT) in coordinating the billing, collection, and dissemination of local aid assessments, which are needed to fund a portion of the VTA's operations.

Recommendations of the State Auditor

- We recommend that the VTA, in conjunction with OST, DOR, and MassDOT, perform an immediate reconciliation of all outstanding receivables due the VTA. Further, we recommend that the OST and DOR, in conjunction with MassDOT, develop and implement a tracking system by which local transit authorities such as the VTA have the capability to monitor the status of all existing local assessment accounts receivable. This system would allow the VTA to more efficiently identify unpaid receivables and expedite the process of receiving payment, which would mitigate the need to incur unnecessary interest expenses.

Agency Progress

VTA management informed us that it will collaborate with DOR, OST, and MassDOT to resolve this issue.

OVERVIEW OF AUDITED AGENCY

The Martha's Vineyard Regional Transit Authority (VTA) was established in accordance with the provisions of Chapter 161B, Section 3, of the Massachusetts General Laws. The VTA provides a public transportation system servicing the towns of Aquinnah, Chilmark, Edgartown, Oak Bluffs, Tisbury, and West Tisbury. The VTA services over 1.1 million passengers per year, utilizing 36 buses with connecting routes throughout the island. In addition, the VTA provides year-round paratransit services for citizens requiring medical, nutritional, social, and other types of assistance.

The VTA is a quasi-state agency that receives administrative oversight from its advisory board, whose members represent the six towns utilizing its transportation services. During fiscal years 2010 and 2011, the VTA received an appropriation of approximately \$1.125 million per year in state funds and \$741,002 and \$759,527, respectively, from local aid funds from the six towns that it serves. In addition, the VTA's operating revenues from its transportation services totaled \$1.386 million for fiscal year 2010 and \$1.462 million for fiscal year 2011.

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor performed an audit of the Martha's Vineyard Regional Transit Authority (VTA) for the period July 1, 2010 through September 30, 2011. The scope of our audit included a review of the VTA's Independent Public Auditor's (IPA) fiscal year 2011 report and associated workpapers, and a review of the VTA's actions to address the issue identified in the IPA's report. Further, we examined the internal controls the VTA had established over certain financial-related activities, including: fare box cash receipts, accounts receivable for local assessments, bulk fuel disbursements, and the inventory of property and equipment. We conducted this audit in accordance with generally accepted government auditing standards (GAGAS). These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The electronic data sources used for our analysis of the VTA's local assessment accounts receivable constitute the official procurement and accounting records of the Commonwealth, are widely accepted as accurate, and form the basis for the Commonwealth's audited annual financial statements. Accordingly, our audit did not involve a comprehensive assessment of the reliability of source Commonwealth data. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were to determine whether: (1) the IPA's report and workpapers were completed in accordance with GAGAS; (2) the VTA had implemented corrective actions to address issues identified in the IPA's report; (3) the internal controls established by the VTA were adequate and functioning as intended; (4) the VTA's assets were being properly safeguarded against loss, theft, and misuse; (5) there were adequate controls over the recording and distribution of bulk fuel purchases and disbursements; (6) controls over the safeguarding of cash collections were in place and in effect; (7) the VTA's accounting records were being properly maintained and its financial activities were being properly reported; and (8) the VTA was complying with applicable laws, rules, and regulations.

To achieve our audit objectives, we performed the following audit tests and examinations:

- Reviewed and analyzed the fiscal year 2011 audit work papers prepared by the VTA's private accounting firm.

- Gained an understanding of the procedures for local assessments of VTA towns by conducting interviews with VTA management and representatives from the Department of Revenue, the Office of the State Treasurer, and the Massachusetts Department of Transportation.
- Obtained and analyzed supporting documentation for the reconciliation of local assessments to the VTA's accounts receivable.
- Reviewed and assessed the internal controls of the IPA.
- Obtained and reviewed the IPA's assessment of the VTA's internal controls over financial activities.
- Performed a sample test comparison of original hard copy data to the data contained in the VTA's information system to assess the reliability of the information system data.
- Reviewed controls in place over fare box revenue receipts for fiscal year 2011 and tested the cash receipts against the electronic fare box collection system.
- Selected and tested property and equipment listed in the inventory system of record by (1) utilizing ACL software to generate a sample of 60 items, based on a high internal control risk, and (2) testing whether the items were located at the correct sites as documented in the inventory list to assess the accuracy of the inventory system.
- Obtained, reviewed, and observed security policies and procedures relating to bulk fuel distribution.

Based on our audit we determined that, except as reported in the Audit Findings section of this report, for the period July 1, 2010 through September 30, 2011, the VTA maintained adequate internal controls and complied with applicable laws, rules, and regulations in the areas reviewed.

AUDIT FINDINGS

IMPROVEMENTS NEEDED IN THE COLLECTION AND ACCOUNTING OF REVENUES

Our audit revealed that the Martha's Vineyard Regional Transportation Authority (VTA) had an outstanding local aid assessment accounts receivable balance of \$283,385 as of September 30, 2011. We also found that the outstanding balance dates back to fiscal year 2000. As a result, the VTA has been forced to increase its borrowing by issuing additional revenue anticipation notes each year to cover its revenue shortfall. The impact of the additional debt incurred since 2000 has resulted in additional interest expenses to the Commonwealth of \$37,700.

Our audit found systematic flaws in the collection and dissemination of local aid payments due the VTA, which are required to partially fund VTA operations. Further, we found an apparent lack of communication and documentation between the Department of Revenue (DOR), the Office of the State Treasurer (OST), and the Massachusetts Department of Transportation (MassDOT), which are the agencies responsible for the timely billing, collection, and disbursement of local aid assessments to the VTA. Additionally, the VTA does not receive any verification from DOR regarding either its local aid assessments or any funding that is available from these assessments and is not notified as to whether the participating towns have sufficient state local aid funds available to cover their portions of the assessment or whether additional billing by DOR is required. As a result, the VTA cannot ensure that local aid assessments are received or properly accounted for during each fiscal year.

The VTA receives some of its funding from an assessment of local aid funds from each of the communities it serves. Regarding these assessments, the VTA's enabling legislation, Chapter 161B of the Massachusetts General Laws, requires that an audit of the VTA's financial operations be performed annually to assess the net cost of service to the towns within its territory. The VTA then submits the audit report from the independent auditor to DOR, which assesses the appropriate allocation of funds from the towns' state local aid funds to support the VTA's activities and operating losses. Each town is required to pay its assessed amount to OST, which then forwards these funds to MassDOT to distribute to the VTA. DOR also prepares any additional billing of the towns in the event that a town's state local aid account does not meet the town's obligation as identified in the VTA's audit report.

Prudent business practices advocate that the VTA collect local aid assessments in a timely manner in order to maintain its business operations at an acceptable level and avoid unnecessary interest

expenses through the use of alternative methods of funding. However, our audit identified that a lack of communication and documentation between DOR, OST, and MassDOT has resulted in the VTA's either not properly collecting or not accounting for local aid assessments. This issue has been ongoing since fiscal year 2000. Specifically, the VTA does not receive any verification from DOR that the assessments have been received by the individual towns and is not informed when an allocation for payment from local aid funds has been authorized by DOR. Furthermore, the VTA is not notified by DOR whether the participating towns have sufficient state local aid funds available to cover their portions of the assessment or whether additional billing by DOR is required.

We also found payment inconsistencies among the VTA's participating towns. Specifically, some towns paid all of their assessments, whereas others only paid a portion. No mechanisms exist to compel towns to comply with their financial obligations. Further, although the Massachusetts Management Accounting and Reporting System (MMARS) records the funds that are available for use by the Commonwealth's regional transit authorities, DOR is responsible for disbursing these funds to the regional transit authorities. However, there are currently no systems in place for regional transit authorities such as the VTA to track the status of any outstanding receivables or to determine the current status of a submitted assessment. As a result, the VTA can only wait for a payment notification from MMARS that funds have been deposited into its operating account. However, due to a lack of supporting documentation from the collaborating agencies, the VTA is unable to identify and apply the funds to the appropriate fiscal year balances.

The inability of the VTA to track and expedite the collection of assessments from the towns it serves and insufficient communication among the VTA, OST, DOR, and MassDOT have contributed to the VTA's outstanding accounts receivable balance which, as of June 30, 2011, totaled \$283,385.

Recommendation

The VTA, in conjunction with OST, DOR, and MassDOT, should perform an immediate reconciliation of all outstanding receivables due the VTA. Further, the VTA should work with OST, DOR, and MassDOT to resolve this problem, which may include developing a tracking system by which local transit authorities such as the VTA have the capability to monitor the status of all existing local assessment accounts receivable. Such a system would allow the VTA to more

efficiently identify unpaid receivables and expedite the process of receiving payment, mitigating the need to incur unnecessary interest expenses.

Auditee's Response

In response to this issue, the VTA Administrator stated, in part:

The audit has brought forward an ongoing issue in the collection of local assessments that the VTA has not been successful in resolving. It is a relief to finally get the attention of State agencies involved in this convoluted process so we can alter this cash flow issue. I feel that because of the audit staff investigation, the agencies involved have now been put on notice to come up with a system that will allow RTAs [Regional Transit Authorities] across the Commonwealth to track local assessment collection and payments. This recommendation is welcomed by the VTA and I believe the other RTAs because we have been wrestling with the collection and payments of local assessments for a number of years. . . .

I appreciate the time that [OSA] spent researching and working on recommendations to resolve this. I look forward to working with DOR, DOT & OST on resolving this issue.