



# The Commonwealth of Massachusetts

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INDEPENDENT STATE AUDITOR'S REPORT ON  
CERTAIN ACTIVITIES OF THE  
WOODS HOLE, MARTHA'S VINEYARD AND  
NANTUCKET STEAMSHIP AUTHORITY  
JULY 1, 2006 TO DECEMBER 31, 2007

OFFICIAL AUDIT  
REPORT  
JULY 29, 2008

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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 shall serve for a term of three years and until a successor has been appointed and qualified. As of December 31, 2007, the Steamship Authority operated and maintained a fleet of ten vessels, including two high-speed passenger-only ferries, and employs up to 750 people during its summer peak season.

Our audit, which covered the period July 1, 2006 through December 31, 2007, was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States. The primary objective of our audit was to review and determine the adequacy of the Steamship Authority's internal control system governing financial and management activities associated with the collection, accounting, depositing and reporting of various operating revenues, including passenger and vehicle transportation fares and terminal parking fees. Based on our review, we have determined that, except for the issue presented in the Audit Results section of this report, the Steamship Authority's financial records regarding its waterline operating revenues were complete, accurate, and up-to-date.

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Our review disclosed that the Steamship Authority needed to improve its internal controls over its financial and management activities associated with the collection, depositing, accounting, and reporting of 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. Without a documented internal control plan and a department-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.

## 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 has 35% of the members' combined vote, whereas each of the mainland board members has 10% of the members' combined vote. The board members serve for a term of three years and until a successor has been appointed and qualified. 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 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, 2007, Steamship Authority bonds issued and outstanding totaled \$60,010,000. 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 from Hyannis to and from Nantucket.

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, 2007, the Steamship Authority operated and maintained a fleet of ten vessels, including two high-speed passenger only ferries, and the Authority employs 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 to provide passenger service between New Bedford and Oak Bluffs, Martha's Vineyard.

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, 2003 through December 31, 2007:

**Comparative Traffic Statistics and Revenue Figures  
Waterline Operations  
2003 – 2007**

<b>Statistical Data:</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Number of Trips	24,174	23,406	22,397	22,042	21,991
Number of Miles	377,294	356,100	333,264	329,544	336,528
Number of Passengers	2,842,317	2,673,159	2,609,835	2,620,565	2,692,366
Number of Automobiles	493,986	461,895	455,657	449,902	452,757
Number of Trucks	104,875	126,823	141,620	153,486	146,444
<b>Revenue:</b>					
Passengers	\$20,889,980	\$19,600,149	\$19,815,414	\$21,147,769	\$23,642,777
Freight	12,989,750	15,221,699	16,819,037	19,807,857	21,246,667
Automobile	22,479,759	22,877,770	22,598,952	23,885,565	25,962,517
Bicycle	219,497	197,662	185,892	173,861	192,498
Mail	271,715	271,698	272,081	342,096	375,932
Concession	439,178	584,066	607,572	628,275	712,210
Parking	4,474,285	4,062,532	4,508,585	4,471,153	4,773,358
Other	<u>2,928,198</u>	<u>3,348,852</u>	<u>3,375,776</u>	<u>3,517,220</u>	<u>3,665,428</u>
<b>Total Revenue</b>	<u>\$64,692,362</u>	<u>\$66,164,428</u>	<u>\$68,183,309</u>	<u>\$73,973,796</u>	<u>\$80,571,387</u>

***Audit Scope, Objectives, and Methodology***

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have completed a review of certain activities of the Steamship Authority for the period July 1, 2006 through December 31, 2007. Our review was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States, and included such audit procedures and tests as we considered necessary to meet those standards.

The primary objective of our audit was to review and assess the adequacy of the Steamship Authority's internal control system over financial and management activities associated with the

collection, depositing, accounting and reporting of its various operating revenues, including passenger and vehicle transportation fares and terminal parking fees. In doing so, we sought to determine whether the Steamship Authority's financial records regarding revenues were complete; accurate; up-to-date; and in compliance with applicable laws, rules, and regulations.

In order to achieve our objectives, we first assessed the management 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, and internal written policies and procedures, as well as all applicable laws, rules, and regulations. We also examined the Steamship Authority's financial statements and annual reports. Lastly, we reviewed the Steamship Authority's accounts receivable balances to determine whether these accounts reflected valid claims in amounts deemed collectable.

Our audit was not made for the purposes of forming an opinion on the Steamship Authority's financial statements. We also did not assess the overall performance or quality of the transportation services being provided by the Steamship Authority to its customers. Rather, our audit was 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.

Our recommendations are intended to assist the Steamship Authority in developing, implementing, and improving its internal controls and overall financial and administrative operations to ensure that the Steamship Authority's cash management systems operate in an economical, efficient, and effective manner, and in compliance with applicable rules, regulations, and laws.

Based on our review, we have determined that, except for the issue presented in the Audit Results section of this report, the Steamship Authority's financial records regarding its waterline operating revenues were complete, accurate, and up-to-date.

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## AUDIT RESULTS

### IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER FINANCIAL AND MANAGEMENT ACTIVITIES

Our review disclosed that the Steamship Authority needed to improve its internal controls over its financial and management activities associated with the collection, 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 a 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.

While not designed specifically for use by all public entities, the Steamship Authority could refer to Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, for guidance in structuring its internal control plan.. Chapter 647 states, in part: “Internal control systems for the various state agencies and departments of the commonwealth shall be developed in accordance with internal control guidelines established by the Office of the Comptroller.” Subsequent to the passage of Chapter 647, the Office of the State Comptroller (OSC) issued written guidance in the form of the Internal Control Guide for Managers and the Internal Control Guide for Departments. In these guides, the OSC stressed the importance of internal controls and the need for departments to develop an internal control plan, defined as follows:

*[A] high-level summarization, on a department-wide basis, of the department's risks (as the result of a risk assessment) and of the controls used by the department to mitigate those risks. This high level summary must be supported by lower level detail, i.e. departmental policies and procedures. We would expect this summary to be from ten to fifty pages depending on the size and complexity of the department. . . .*

A good system of internal controls would coordinate the Steamship Authority's policies and procedures to safeguard its assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. In addition, a

risk assessment can help the Authority determine the most cost-effective and productive internal control system by indicating where specific controls are necessary.

***Recommendation***

The Steamship Authority should review its operations and identify areas of inherent risk and vulnerability, including those activities with potential for loss from fraud, waste, unauthorized use, or misappropriation. The Steamship Authority should then document its risk assessment and develop an internal control plan that correlates the identified risks to specific internal control procedures. The Steamship Authority should then conduct annual risk assessments and update its internal control plan based on their results.

***Auditee's Response***

*The results of the audit performed by the Office of the State Auditor concluded that the Steamship Authority needed to "improve its internal controls over its financial and management activities ..." and that "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."*

*We agree with the importance of a comprehensive internal control plan, including the need for an ongoing assessment of the risks we face from both internal and external sources. The Steamship Authority is working to formally document all of its current internal control procedures into a comprehensive internal control plan as recommended by the Office of the State Auditor.*