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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES
OF THE
CAPE COD REGIONAL TRANSIT AUTHORITY
JULY 1, 2002 TO JUNE 30, 2004**

**OFFICIAL AUDIT
REPORT
APRIL 29, 2005**

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The Cape Cod Regional Transit Authority (CCRTA) was established on October 13, 1976 pursuant to the provisions of Chapter 161B of the Massachusetts General Laws. The mission of the CCRTA is to address the transportation needs of its customers by planning, financing, and overseeing the delivery of quality public transportation services on Cape Cod through privately contracted vehicle maintenance and operations providers. Local control is maintained through an Advisory Board system whereby the Board is made up of one member from each of the 15 communities in Barnstable County. The Advisory Board is responsible for providing policy decisions for and general oversight of the CCRTA'S administrative operations.

Our audit included an examination of the accounts and certain activities of the CCRTA under its state and federal contracts. Specifically, our objectives were to (1) review and analyze the CCRTA's internal controls over its financial operations to determine their adequacy; (2) examine the CCRTA's administrative costs and expenditures to determine whether these costs were appropriate, reasonable, allowable, and in compliance with applicable laws, rules, and regulations; and (3) review the CCRTA's controls over its contracts to determine whether proper bidding, awarding, and oversight procedures were in place.

Based on our review of the aforementioned audit areas, we have concluded that, with one significant exception, the CCRTA maintained adequate management controls and complied with applicable laws, rules, and regulations. The exception disclosed serious internal control deficiencies over the collection of and accounting for certain fare box revenues that amounted to and were recorded at \$178,877 in fiscal year 2004.

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Internal controls consist of policies and procedures used to provide reasonable assurance that (1) goals and objectives are met; (2) resources are adequately safeguarded, efficiently utilized, and reliably accounted for; and (3) financial operations are in compliance with all applicable laws, rules, and regulations. Our review disclosed that the CCRTA had not developed and implemented an adequate system of internal controls over its fare box revenues.

Our audit disclosed serious internal control deficiencies over the collection of and accounting for bus fare-box revenues in its fixed-route bus service, (which totaled \$178,877 in fiscal year 2004), since no system exists at the CCRTA to reconcile the amount of fare box revenues that are actually collected from the riders and the amount of money that is deposited in the bank and recorded on the CCRTA's books.

INTRODUCTION

Background

Under the Secretary of the Executive Office of Transportation and Construction (EOTC), there are 15 Regional Transit Authorities (RTAs) in Massachusetts, including the Cape Cod Regional Transit Authority (CCRTA). The CCRTA was established pursuant to the provisions of Chapter 161B of the Massachusetts General Laws to provide transportation services to communities outside the MBTA district on Cape Cod while utilizing private contractors to provide these services. Local control over the Authority is maintained through an Advisory Board system whereby the Board is made up of one member from each of the 15 communities in Barnstable County. The Advisory Board is responsible for providing policy decisions for and general oversight of the CCRTA's administrative operations.

The CCRTA's mission is to address the transportation needs of its customers by planning, financing, and overseeing the delivery of quality public transportation services on Cape Cod. The CCRTA's Administrator, who is responsible for managing the affairs of the Authority, is also directed to act as its Chief Executive Officer, and has the power to borrow funds to meet current operating expenses of the Authority in anticipation of receipt of reimbursements from local, state, and federal sources.

Although responsible for establishing routes and setting fares, the CCRTA is prohibited by statute from directly operating any mass transportation service. The CCRTA, therefore, relies on contracting these services out to one or more private or non-profit public operators. For example, currently under a cost reimbursement contract with a private carrier (Cape Area Transportation Systems, or "CATS"), demand-response para transit service is provided to all member towns of the CCRTA. This demand response program is called the "B-Bus", and includes door-to-door service for shopping, health care, work, and other purposes, as well as transportation to and from congregate meal sites. Scheduling and dispatching of such services are performed at the CATS operations center. Other transportation services include various fixed-route services from one Cape Cod town to another, as well as bus transportation off Cape Cod from the larger vendors, such as the Peter Pan and Plymouth & Brockton (P&B) bus lines.

In addition to recently completing the construction of a new inter-modal Transportation Center in downtown Hyannis, the CCRTA has recently purchased land in South Dennis for the construction of a new vehicle operations and maintenance facility to better accommodate the CATS and its growing fleet of buses and vans. This new facility, which is currently in the design phase, will primarily be funded through federal grants associated with the new Transportation Center.

Under the United States Department of Transportation, the Federal Transit Administration (FTA) conducts a triennial assessment of the CCRTA's compliance with federal requirements determined by the examination of grant management practices and program implementation. In this regard, the Triennial Review includes an assessment of the grantee's compliance in 23 different areas, including those associated with legal, financial, technical, vehicle maintenance, safety, and security matters. The most recent FTA review, dated March of 2003, disclosed only one deficiency regarding a lack of sufficient maintenance for vans donated to and operated by various neighboring Councils for Aging. The CCRTA was subsequently able to satisfy the FTA's concerns and the matter is currently considered resolved.

During our audit period (fiscal years 2003 and 2004), the CCRTA received funding from a variety of sources, including human service agencies, state contract assistance, fare box revenues, local assessments, and federal operating assistance, as indicated in the following table:

Cape Cod Regional Transit Authority
 Summary of Revenues*
 July 1, 2002 through June 30, 2004

	Fiscal Year 2003	Fiscal Year 2004
Federal Operating Assistance		
FTA Operating and Administrative	\$978,049	\$1,141,831
Other Federal	0	119,082
Operating Revenues		
Fare Box Revenue	399,043	471,437
Brokerage Service Reimbursement/Contracts (i.e. DMA, DMR, DPH)	2,534,882	2,278,784
MBTA / and Other 3 rd Parties (i.e. DTA / DMH / EOEA)	690,473	423,097
Parking and Rental	5,392	55,672
Sale of Capital Assets	7,328	0
Interest Income	15,856	10,834
Miscellaneous	10,060	6,603
Access to Jobs	17,499	0
Net Cost of Service Funding		
Local Assessments	884,786	940,829
Balance Requested from the State of Massachusetts	<u>2,227,787</u>	<u>2,300,091</u>
Annual Totals	<u>\$7,771,155</u>	<u>\$7,748,260</u>

*This information/data was extracted from CCRTA's Statements of Net Cost of Services found within the Authority's Financial Statements pursuant to OMB Circular A-133 (Single Audit).

Ongoing Concerns Regarding Legal Matters Associated with the Newly Constructed Hyannis Transportation Center (HTC)

Groundbreaking for the new HTC took place in January of 2001 with an expected completion date of June 2002. Substantial completion of the facility was not completed, however, until later in October of 2002, with significant legal issues remaining unresolved through January 2005.

The HTC is Cape Cod's regional transportation hub for year-round residents and visitors, and home to CCRTA buses and trolleys, P&B and Bonanza intercity buses, rail passenger facilities, taxis, airport and ferry shuttles, as well as visitor information booths. The 1,700 square foot

cape-style building, which was designed by HNTB Architects of Boston, has a parking area for 220 cars on a landscaped, eight-acre lot in downtown Hyannis, and was built by Palladium Construction Corporation of Wakefield, Massachusetts. The Transportation Center's cost of approximately \$6 million was underwritten by FTA grants, state-owned land and road improvement funds, and by the CCRTA reserves.

Our audit disclosed that the construction project has resulted in lawsuits by the general contractor against the CCRTA for approximately \$1 million for various construction and architectural related problems experienced by the general contractor. The CCRTA has in turn filed a counterclaim against the general contractor and joined the architect as a third-party defendant. The CCRTA has also initiated a lawsuit directly against the architect who, according to the CCRTA's Administrator and Legal Counsel, is responsible for the majority of the contractor's complaints. In addition, various subcontractors (e.g., roofing, concrete forms) have brought suit against the CCRTA and the general contractor for nonpayment of certain billings.

According to the CCRTA's Administrator, the primary litigation between the CCRTA and the general contractor is currently in the discovery stage, with the parties involved sharing information. The goal, according to CCRTA's Administrator, is to resolve the matters outside the courtroom so that the CCRTA experiences minimal, if any, financial liability. The claims filed by the subcontractors against the CCRTA appear to be relatively small and, according to the CCRTA's Legal Counsel, "should not exceed the retainage."

Audit Scope, Objectives, and Methodology

The scope of our audit consisted of the examination of the CCRTA's various administrative and operational activities during the period July 1, 2002 to June 30, 2004. However, in some instances it was necessary for us to extend the period covered by our audit in order to adequately examine certain transactions that were selected for testing during our review.

The objectives of our audit were to assess the adequacy of the CCRTA's management control system to ensure that resources are safeguarded and being used efficiently and effectively, and to

determine whether the CCRTA is complying with all laws, rules, and regulations applicable to its programs and financial activities.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States and, accordingly, included such audit procedures and tests as we considered necessary to meet those standards.

To achieve our audit objectives, we reviewed the following:

- Internal control procedures over fare box revenues to determine whether the CCRTA properly controlled cash collections.
- Administrative costs and expenditures to determine whether these costs were appropriate, reasonable, allowable, and in compliance with applicable laws, rules, and regulations.
- Contract management procedures and practices to assess compliance with public bidding laws for the solicitation and awarding of contracts.
- State transportation provider contracts to assess compliance with the terms of the contracts, including proper authorization and documentation for contract billings.
- Procedures for making payments to employees for salaries, travel, fringe benefits, and other administrative expenditures to assess compliance with established laws, rules, and regulations.
- The Single Audit of the CCRTA for the fiscal year ended June 30, 2004, dated October 18, 2004, conducted by the Authority's Certified Public Accountant.
- We further held discussions with the CCRTA's administrative and accounting personnel and reviewed minutes of board meetings, organizational charts, internal policies and procedures, and all applicable laws, rules, and regulations.

Our audit was not made for the purposes of forming an opinion on the CCRTA's financial statements. We also did not assess the quality and appropriateness of the CCRTA's program services. Rather, our audit was intended to identify the extent to which the CCRTA has complied with applicable laws, rules, regulations, and contractual agreements; and to identify services, processes, methods, and internal controls that could be made more efficient and effective.

Based on our audit, for the areas reviewed, except as noted in the Audit Results section of this report, we determined that the CCRTA maintained controls and records in accordance with established criteria, utilized an internal control structure that is suitably designed and implemented to achieve the desired control objectives, and complied with all applicable laws, rules, and regulations.

AUDIT RESULTS

INADEQUATE INTERNAL CONTROLS OVER FARE BOX REVENUES

Internal controls consist of policies and procedures used to provide reasonable assurance that (1) goals and objectives are met; (2) resources are adequately safeguarded, efficiently utilized, and reliably accounted for; and (3) financial operations are in compliance with all applicable laws, rules, and regulations. Our review disclosed that the Cape Cod Regional Transit Authority (CCRTA) had not developed and implemented an adequate system of internal controls over all of its fare box revenues.

Our audit disclosed serious internal control deficiencies over the collection of and accounting for bus fare-box revenues in its fixed-route bus service (which totaled \$178,877 in fiscal year 2004), since no system exists at the CCRTA to reconcile the amount of fare box revenues on its fixed-route buses that are actually collected from the riders to the amount of money that is deposited in the bank and recorded on the CCRTA's books.

The CCRTA generally operates two different types of transportation service systems – Demand Response services and Fixed Route services – with two distinct methods for processing transportation fare collections. The issues we noted pertain to the latter service type. For purposes of background information, however, we will briefly explain how the former (Demand Response) system functions.

The Demand Response system acts as a scheduled low-cost public transportation system, similar to a taxi, whereby Cape Cod residents can, by reservation, obtain transportation for various purposes, including work, shopping, recreation, medical appointments, school/college, and visits with friends. The CCRTA's "B-Bus" is the primary vehicle (mini-bus/van) that is utilized for these purposes. The B-Buses, maintained and operated by Cape Area Transportation Systems (CATS), have lifts for people with wheelchairs and others who cannot climb stairs. Unlike regular taxicab services, the B-Bus is a shared ride bus service with schedules that vary and are available to each town on Cape Cod, as well as for medical transportation to Boston-area hospitals.

Demand Response services are either paid for by Medicaid/the Department of Mental Retardation (for eligible clients) or are paid for directly by the rider if the rider is not eligible. In the latter case, when a person calls and schedules a ride, pre-payment arrangements are made. Thus, riders submit checks in advance to pay for their scheduled ride(s). As previously indicated, based on our review, we found no deficiencies in how the CCRTA controlled the collection of and accounting for the bus fares associated with the Demand Response service system.

The other transportation system that is offered by the CCRTA through its contract with CATS is the Fixed Route “Breeze“ service provided in various regional locations throughout Cape Cod. Fixed Route vehicles include the Sealine, the H2O Line, and the Barnstable Villager, and run on a fixed schedule with marked stops along the bus routes. Riders pay on an “as you ride basis,” with bus fares on the regional routes starting at \$1.00 and increasing depending on the length of the ride. Riders step onto the bus and place their money into a collection box located adjacent to the driver. According to the CATS’s Assistant General Manager, although the collection boxes register the type of fare collected (i.e., full fare, half fare), they do not keep track of the amount of money collected.

The collection boxes contain small metal vaults with a labeled bus number on each and are routinely emptied into a larger safe located at the CATS facility by the CATS Assistant General Manager. Then, either once or twice a week, depending on the season, the CATS Assistant General Manager, along with one of his aides, transfers the larger vault’s contents into separately marked bags with the number of the bus that collected the cash. At this time, the amount of money collected has still not been calculated. Each Friday morning these bags of cash are taken to Bank North in Hyannis where the CCRTA’s Finance Assistant and Administrative Assistant will count the cash to be deposited.

The weekly cash count takes place in what the CCRTA’s staff calls the “counting room,” which is actually an open area situated on the second floor of the bank. The Administrative Assistant counts the bills, while the Finance Assistant counts the coins. A simple control sheet identifies the total number of quarters, dimes, nickels, and bills by bus number. After

the cash count is completed, the Finance Assistant prepares a bank deposit slip, attaches it to the entire package of cash that she provides to the bank staff downstairs, and awaits a cash receipt that is provided by the bank the following week. That receipt is used by the Finance Assistant to record the revenue on an excel spreadsheet, and entered into the accounting system (Peachtree) at the end of each month. The Finance Assistant then reconciles the bank statement.

Based on our review of how bus rider-ship cash fare collections are handled and processed through the system, we determined the following:

- A serious internal control weakness exists over the collection of and accounting for cash bus fares, since there is no reconciliation between the amount of bus fares that are actually collected from the riders, and the amount of money that is deposited in the bank and recorded on the CCRTA's books.
- Approximately 20% - 25% of all farebox vaults are not working on the buses at any given time. In these cases, bus drivers simply collect the money by hand and put it in a bag by their seat. According to the CATS' Assistant General Manager, 21 collection boxes presently exist in all the Fixed-Route vehicles, which contain approximately five to six collection boxes that are "broken at any given time."
- In Fiscal Year 2004, CCRTA reportedly deposited \$178,877 in revenues from its Fixed Route Service System.

Since there is no reconciliation between the amount of bus fares that are actually collected from the riders and the amount of money that is deposited in the bank and recorded on the CCRTA's books, there is inadequate assurance that the \$178,877 reported by the CCRTA represents the total amount actually collected.

Later in our review, other issues came to our attention that were equally disconcerting. Specifically, the CATS Operations Center at 222 Old Chatham Road in Dennis, Massachusetts which was verbally considered to be "wholly inadequate" by Federal Transit Authority Officials, had two burglaries over the last two years that resulted in fare revenue boxes being stolen and a breach of the larger safe-holding fare revenues. On August 7, 2003, the CATS facility in Dennis was burglarized, certain items were stolen, and others were damaged. The value of this loss amounted to \$24,363, and was reimbursed through an

insurance claim. Of this total, \$20,356 was set aside by the insurance company for the CCRTA to replace the damaged safe (Cubic Transportation Systems Wall Vault) that had been originally utilized by CATS to count and store fixed route service revenues. Our review disclosed that a new safe was never purchased. Instead, the old safe continued to be utilized, despite the fact that the damage done to it prevented the safe from generating a "Bus Revenue Report" that identified revenues collected and deposited into the safe by bus number on a given date. This report could have been utilized to reconcile the amount of cash deposited in the bank with the amount initially collected.

CCRTA and CATS officials indicated that they understood our concerns, but explained that the bus fare collection boxes and cash vaults were obtained second hand approximately eight years ago from the Merrimack Valley Transit Authority, and are simply used to "hold" the collected money. Although Merrimack Valley Transit Authority was able to abstract printouts identifying daily receipts from the fare box computer, the computer system is not compatible with any of the CATS' equipment, and thus is simply used to hold the money that is collected and is not able to formally account for the amounts being collected.

The CCRTA's Assistant Administrator explained that the agency could possibly program the Mobile Data Computers (MDC) that are currently on the buses and that are simply utilized to track ridership statistics to also track fare amounts collected. According to MDC, this programming task may cost about \$3,000. Otherwise, to purchase "Smart Fareboxes", the Assistant Administrator indicated the cost would be approximately \$10,000 to \$12,000 each, since there is only one company that manufactures and sells the machinery.

Recommendation

The CCRTA should implement new collection system controls similar to those utilized by other RTAs throughout the state of Massachusetts that would better ensure that all fare revenues collected are properly accounted for and safeguarded against theft. Specifically, the CCRTA should either purchase "Smart Fareboxes" that would register the amount of money collected for its fixed route service system, or program the MDCs that are currently on the buses to also track fare amounts collected. Thereafter, a periodic reconciliation should be

performed between the amounts of bus fares that are actually collected from the riders with the amount of money that is deposited in the bank and recorded on the CCRTA's books. In addition, physical controls (i.e. lockboxes, safes) should be in place at the CATS Operations Center to properly safeguard funds against theft prior to their deposit. Lastly, to further safeguard funds, the CCTRA should discontinue the practice of having bus drivers directly collecting fares by hand and placing those funds in a bag by their seats.

Auditee's Response

In response to this audit result, CCRTA's Administrator stated, in part:

We agree with the audit recommendation concerning the farebox collection system. We feel that programming the mobile data computers will improve and strengthen our fare collection system. We have made this a priority item and have prepared a request for a federal capital grant for the cost of this improvement.