



Commonwealth of Massachusetts  
Office of the State Auditor  
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Official Audit Report – Issued December 15, 2011

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## Cape Ann Transportation Authority

For the period March 31, 2009 through April 20, 2011



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### INTRODUCTION

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The Cape Ann Transportation Authority (CATA) is a public, nonprofit organization established in 1974 under Chapter 161B of the Massachusetts General Laws to provide public fixed route bus transportation service as well as supplementary paratransit and “Dial-A-Ride” service to the cities of Gloucester, Rockport, Essex, Ipswich, and Beverly. CATA also provides additional service to the Danvers and Peabody Malls. CATA contracts with the Cape Ann Transportation Operating Company (CATOC) to operate its buses, perform maintenance services, and conduct other various administrative functions. Control is maintained through an Advisory Board of four members that are responsible for providing policy decisions and general oversight of CATA’s administrative operations.

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of CATA’s use of American Recovery and Reinvestment Act (ARRA) funds for the period March 31, 2009 through April 20, 2011. The objectives of our audit were to review CATA’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, CATA received and expended ARRA funds totaling \$743,765.

Based on our review, we have concluded that, except for the matters discussed in the Audit Results section of this report, during the period March 31, 2009 through April 20, 2011, CATA maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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### AUDIT RESULTS

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#### 1. IMPROVEMENTS NEEDED IN TIMELY PROCESSING OF FUTURE FEDERAL FUNDS

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Our review of ARRA funds disclosed that the CATA needs to improve internal controls over its cash drawdown of federal funds to ensure that requested funds are not held more than three days before being disbursed. Specifically, we determined that CATA submitted and received a request for payment (cash drawdown) totaling \$67,615 that was held for six days before the funds were disbursed. The Federal Transit Administration (FTA) cash management procedures require that grantees disburse such funds within three days. In response to this issue, CATA agreed with the finding and recommendation as outlined in the report.

#### 2. IMPROVEMENTS NEEDED IN ARRA REPORTING

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Our review of compliance with ARRA grant reporting requirements disclosed that the CATA needs to improve internal controls over its reporting of federal assistance funds. Specifically, our review found that the CATA did not file two of the four required Section 1201(c) progress reports and three of the 12 required Section 1512 quarterly reports to the FTA. In addition, we determined that all nine of the 1512 reports filed were two to five days overdue and that six of the nine reports contained inaccurate information. As a condition for receiving ARRA funds, a grant recipient agrees to

comply with reporting requirements and deadlines as set out in sections 1201(c) and 1512 of the Recovery Act. In response to this issue, CATA agreed with the finding and recommendation as outlined in the report.

## INTRODUCTION

### *Background*

The Cape Ann Transportation Authority (CATA) is a public, nonprofit organization established in 1974 under Chapter 161B of the Massachusetts General Laws to provide public fixed route bus transportation service as well as supplementary paratransit and “Dial-A-Ride” service to the cities of Gloucester, Rockport, Essex, Ipswich, and Beverly. CATA also provides additional service to the Danvers and Peabody Malls. CATA contracts with the Cape Ann Transportation Operating Company (CATOC) to operate its buses, perform maintenance services, and conduct other various administrative functions. Control is maintained through an Advisory Board of four members that are responsible for providing policy decisions and general oversight of CATA’s administrative operations.

Our review of the American Recovery and Reinvestment Act (ARRA) funds showed that CATA received two grants for the Urbanized Area Formula Program under 49 U.S.C. 5307, MA-96-X011<sup>1</sup> (\$676,150) and MA-66-X011<sup>2</sup> (\$67,615) totaling \$743,765 from the Federal Transit Administration (FTA) within the U.S. Department of Transportation. These grants were authorized to be used for the purchase of two replacement 30-foot buses and operating assistance. As of April 20, 2011, CATA received and expended all its ARRA funds as detailed in the table below.

<u>Date</u>	<u>Received</u>	<u>Expended</u>
10/01/2009	-	\$ 30,400
01/21/2010	-	25,335
04/01/2010	-	11,880
05/27/2010	\$ 67,000	-
10/22/2010	67,615	-
10/28/2010	609,150	-
10/28/2010	-	<u>676,150</u>
Total	<u>\$743,765</u>	<u>\$743,765</u>

<sup>1</sup> Under the Supplemental Appropriation Act of 2009, recipients of Transit Capital Assistance Urbanized Area Program funds may use up to 10% of the amount appropriated under ARRA for operating assistance expenses.

<sup>2</sup> Recovery Act funds appropriated for Transit Capital Assistance from the Surface Transportation Program (STP) Urbanized Area Formula – Economic Recovery (FHWA Flex).

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

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of CATA's use of American Recovery and Reinvestment Act (ARRA) funds for the period March 31, 2009 through April 20, 2011. The objectives of our audit were to review CATA'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. Those 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. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

In performing our audit, we referred to OMB Circular A-133, the June 2010 Compliance Supplement, to determine the compliance requirements to be considered during our audit and, accordingly, to design 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 CATA by the Federal Transit Administration (FTA)
- Controls over the receipt and expenditure of ARRA funds
- The receipt and expenditure of ARRA funds to determine whether they were reasonable and allowable under the terms of the grant awards
- CATA's ARRA reports to determine whether they were in compliance with reporting requirements
- Report on jobs created or sustained utilizing ARRA funds that were filed with the FTA to ensure compliance with the FTA 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 period March 31, 2009 through April 20, 2011, CATA maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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## AUDIT RESULTS

### 1. IMPROVEMENTS NEEDED IN TIMELY PROCESSING OF FUTURE FEDERAL FUNDS

Our review of ARRA funds disclosed that the Cape Ann Transportation Authority (CATA) needs to improve internal controls over its cash drawdown of federal funds to ensure that requested funds are not held more than three days before being disbursed. Specifically, we determined that CATA submitted and received a request for payment (cash drawdown) totaling \$67,615 that was held for six days before the funds were disbursed. The Federal Transit Administration (FTA) cash management procedures require that grantees disburse such funds within three days. Further, unless waived by the FTA, a grantee organization is required to remit any interest earned on federal funds drawn down and held greater than three calendar days.

Department of Treasury regulations, 31 Code of Federal Regulations (CFR) Part 205, govern payments to recipients for financing operations under Federal assistance and other programs. These regulations require that a payment to a recipient be limited to the minimum amounts needed and timed so as to be in accord only with the actual, immediate cash requirements of the recipient in carrying out the approved project. Toward that end, CATA submitted its drawdown data and requested ARRA funds using the FTA's Web-based Electronic Clearing House Operation System (ECHO-Web). Once approved, ECHO-Web then transmits funds to a non-interest-bearing account at CATA's financial institution through the Treasury's Automated Clearing House (ACH) process. With regard to cash management procedures, the FTA ECHO-Web System User Guide for Recipients, Section 3.2: Guidelines for Disbursements, states, in part:

*Disbursement guidelines are in accordance with policies established in the Department of Treasury Circular 1075, Part 205, "Withdrawal of Cash from The Treasury for Advances Under Federal Grant and Other Programs", and by FTA financing agreements.*

*These Guidelines state that the recipient organization shall commit itself to:*

*Initiating cash draw downs for immediate disbursement needs. This has been defined as two to three calendar days. Excess Federal funds held more than three days must be returned to the FTA along with any interest earned.*

Our interviews with CATA management and review of its internal control policies disclosed that the Assistant Administrator was responsible for the request for ARRA funds as needed. As

shown in the following chart, CATA had excess federal cash on hand a total of six days before it processed corresponding expenditures.

<u>Date Funds Deposited</u>	<u>Total Funds Received</u>	<u>Total Funds Expended</u>	<u>Total Excess Cash Balance</u>
10/22/2010	\$ 67,615	-	\$67,615
10/28/2010	<u>609,150</u>	<u>\$676,765</u>	<u>-</u>
Total	<u>\$676,765</u>	<u>\$676,765</u>	<u>\$67,615</u>

We discussed the issue with the Assistant Administrator who commented that an inadvertent coding error made on CATA's October 20, 2010 request for funds resulted in the partial receipt of funds deposited on October 22, 2010 totaling \$67,615. Given that the total request for funds was not received, CATA lacked the funds to complete the purchase of two buses. After discussing the issue with its FTA regional office, CATA processed a second request for funds on October 27, 2010 for the remaining amount of \$609,150. On October 28, 2010 the funds were disbursed.

Because CATA did not adhere to the above-mentioned provisions or establish procedures to minimize the time elapsed between cash advances and disbursements, the FTA could revoke or temporarily suspend grantee access to the ECHO-Web system.

### ***Recommendation***

Even though the CATA has received and expended all ARRA grant funds, the CATA should reexamine existing internal controls to ensure that cash management procedures, for current non-ARRA and/or future federal assistance funds, minimize the time elapsing between the transfer of funds and the disbursement. Payments received from the FTA must be disbursed within three calendar days. If not disbursed within three days, funds become excess funds and must be returned to the FTA with interest. For this reason, CATA should also contact the FTA to discuss and determine the excess interest earned on the \$67,615 and the proper method for returning the interest amount to the FTA.

### ***Auditee's Response***

In response to this issue, CATA commented that they agreed with the finding and the recommendation as outlined in the report.

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## 2. IMPROVEMENTS NEEDED IN ARRA REPORTING

Our review of compliance with ARRA grant reporting requirements disclosed that the CATA needs to improve internal controls over its reporting of the use of federal assistance funds. Specifically, our review found that CATA did not file two of the four required Section 1201(c) progress reports and three of the 12 required Section 1512 progress reports to the FTA. In addition, we determined that all nine of the 1512 reports filed were submitted two to five days late and that six of the nine reports contained inaccurate information. As a condition for receiving ARRA funds, a grant recipient agreed to comply with reporting requirements and deadlines as set out in sections 1201(c) and 1512 of the Recovery Act.

There are two reporting requirements for ARRA funds. Specifically, Section 1201(c) of the Recovery Act requires a U.S. Department of Transportation (DOT) grant recipient to report on the progress they are making in implementing their ARRA grants. Accordingly, any FTA grant recipient that had executed an ARRA grant through July 31, 2009 was required to submit a 1201(c) report to FTA by August 16, 2009 and was further required to submit subsequent reports on February 17, 2010, February 17, 2011, and February 17, 2012. In addition, pursuant to the requirements of Section 1512 of the Recovery Act, all recipients of ARRA grant funds were also required to submit quarterly reports with information about projects funded by the grant, including direct jobs created and maintained and cumulative expenditures, no later than the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009). The first grantee report was due on October 10, 2009 for recipients that were awarded an ARRA grant by September 30, 2009. Further, each grant recipient was required to submit one Section 1512 report for each grant that it had been awarded by the end of the reporting period. Any grantee that was awarded one or more ARRA grants by December 31, 2009 was required to submit a report(s) in January 2010. Once a grantee has disbursed 100% of its Recovery Act funds and has completed work on the project, and does not plan any amendments to the grant from which funds have been disbursed, it was required to note in the next Section 1512 report that this was the grantee's final report.

However, as shown in the chart below, CATA did not always file required ARRA reports. Moreover, we determined that of the 11 ARRA reports filed, nine were overdue while six had data elements that were not reported accurately.

<u>Federal Award Number</u>	<u>Report</u>	<u>Report Deadline Date</u>	<u>Date Report Filed</u>	<u>Days Overdue</u>	<u>Report Discrepancies Yes/No</u>
MA-96-X011	1512	10/10/09	10/15/09	5 Days	Yes
MA-96-X011	1512	01/10/10	01/15/10	5 Days	Yes
MA-96-X011	1512	04/10/10	04/15/10	5 Days	Yes
MA-96-X011	1512	07/10/10	07/15/10	5 Days	Yes
MA-96-X011	1512	10/10/10	10/12/10	2 Days	No
MA-96-X011	1512	01/10/11	01/14/11	4 Days	No
MA-66-X011	1512	10/10/09	Not Filed	N/A	N/A
MA-66-X011	1512	01/10/10	Not Filed	N/A	N/A
MA-66-X011	1512	04/10/10	Not Filed	N/A	N/A
MA-66-X011	1512	07/10/10	07/15/10	5 Days	Yes
MA-66-X011	1512	10/10/10	10/12/10	2 Days	No
MA-66-X011	1512	01/10/11	01/14/11	4 Days	Yes
MA-96-X011	1201(c)	08/16/09	08/16/09	N/A	No
MA-96-X011	1201(c)	02/17/10	02/17/10	N/A	No
MA-66-X011	1201(c)	08/16/09	Not Filed	N/A	N/A
MA-66-X011	1201(c)	02/17/10	Not Filed	N/A	N/A

Specific report deficiencies included: the Award Dates not being properly reported as March 31, 2009; incorrect Project Status noted that buses were on order when the project was actually complete; and one report disclosing that no funds had been requested when partial funding had been received.

With regard to the above-mentioned ARRA reporting shortcomings, CATA management explained that they were not aware of the ARRA reporting requirements and deadlines until they were alerted by the FTA regional office about the delinquent reports. As for the late filings and information discrepancies noted, management attributed difficulties with the FTA Transportation Electronic Award and Management (TEAM) Web-based system and not routinely examining all report data elements before submission.

Without adequate controls in place, the CATA will continue to be at risk that federal reports could be submitted inaccurately and untimely. Furthermore, the FTA considers an ARRA grant

recipient deficient if it has not submitted all required reports on time and if submissions do not include accurate and required information. Based on the severity and circumstances surrounding the reporting deficiencies, the FTA can pursue enforcement action as it deems appropriate. This action can result in the termination of Federal funding.

***Recommendation***

The CATA should reexamine existing internal controls to ensure that reporting requirements for current non-ARRA and/or future federal assistance are complied with. At a minimum, these controls should ensure that reports are filed on time and that data quality and completeness are validated before submission.

***Auditee's Response***

In response to this issue, CATA commented that they agreed with the finding and the recommendation as outlined in the report.