



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2007-1275-3A

INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF THE FRANKLIN REGIONAL TRANSIT AUTHORITY

JULY 1, 2004 TO DECEMBER 31, 2006

**OFFICIAL AUDIT
REPORT
APRIL 12, 2007**

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In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Franklin Regional Transit Authority (FRTA) for the period July 1, 2004 to December 31, 2006. The objectives of our audit were to (1) review and analyze FRTA's internal controls over receipts and expenditures, including administrative costs and expenses, to determine their adequacy; (2) review FRTA's controls over contracts to determine if proper bidding, awarding, and oversight procedures are in place; (3) determine FRTA's compliance with applicable laws, rules, and regulations; and (4) review FRTA's most recent independent public accountant (IPA) audit reports and management letters to determine if the audit was conducted in compliance with generally accepted government auditing standards, and to follow up on any identified issues.

Based on our review, we have concluded that, except for the matters discussed in the Audit Results section of this report, during the 30-month period ended December 31, 2006, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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Our audit found that the FRTA's former Administrator received a questionable severance bonus totaling \$14,000 during fiscal year 2006. This payment, made on June 30, 2006, was provided to the Administrator following her resignation from the Authority. Although the FRTA's Finance Committee met and approved the payment, the full Advisory Board did not vote on this payment until four months after the former Administrator received her compensation. We noted that this payment was contrary to the FRTA's own personnel policies. In response to our audit, the FRTA's Chairman stated that unless specified in an employment contract, bonus payments will not be awarded to employees who resign from their positions at the FRTA and that the personnel policy will be adhered to.

INTRODUCTION

Background

The Franklin Regional Transit Authority (FRTA) is a not-for-profit entity established in 1978 under Chapter 161B of the Massachusetts General Laws as a body politic and a corporate political subdivision of the Commonwealth of Massachusetts. Its members consist of the 40 towns in Franklin, Hampshire, Hampden, and Worcester counties. The FRTA is authorized to improve, modify, or extend existing facilities and enter into agreements with other parties, including government agencies, municipalities, authorities, private transportation companies, railroads, corporations, and other entities, providing for construction, operation, and use by such other party of any mass transportation facility or equipment of the Authority.

The FRTA is managed by an Administrator who is appointed by an Advisory Board, which is made up of representatives of member communities. The Authority's operations are primarily funded through passenger fares, contractual reimbursements, and operating subsidies from the federal and state governments and member municipalities. In addition, the Authority receives capital grants from the federal and state governments to finance acquisitions and improvements of facilities and equipment.

On August 1, 2006, the FRTA, at the request of the Executive Office of Transportation and the Mayor of Greenfield, consolidated the fixed route and demand response services of the Greenfield-Montague Transportation Area into its current operations, and has assumed the cost of providing these services to the public.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Franklin Regional Transit Authority (FRTA) for the period July 1, 2004 to December 31, 2006. The objectives of our audit were to (1) review and analyze FRTA's internal controls over receipts and expenditures, including administrative costs and expenses, to determine their adequacy; (2) review FRTA's controls over contracts to determine if proper bidding, awarding, and oversight procedures are in place; (3) determine FRTA's compliance with applicable laws, rules, and regulations; and (4)

review FRTA's most recent independent public accountant (IPA) audit reports and management letters to determine if the audit was conducted in compliance with generally accepted government auditing standards (GAGAS), and to follow up on any identified issues.

To achieve our audit objectives, we reviewed the Authority's:

- Procedures for advertising, awarding, and monitoring transportation contracts;
- Administrative costs and transportation contract expenditures; and
- System of controls over revenues and expenditures.

We also reviewed applicable laws, rules, and regulations and the most recent IPA audit reports to determine if they were prepared in compliance with GAGAS.

Based on our review, we have concluded that, except for the matter discussed in the Audit Results section of this report, during the 30-month period ended December 31, 2006, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

QUESTIONABLE SEVERANCE BONUS TOTALING \$14,000

Our audit found that the Franklin Regional Transit Authority's (FRTA's) former Administrator received a questionable severance bonus totaling \$14,000 during fiscal year 2006. This payment, made on June 30, 2006, was provided to the Administrator following her resignation from the Authority. Although the FRTA's Finance Committee met and approved the payment, the full Advisory Board did not vote on this payment until four months after the former Administrator received her compensation.

According to FRTA payroll records, the former Administrator resigned her position from the Authority effective June 30, 2006. The Chairman and Vice-Chairman of the Advisory Board stated that the former Administrator requested that she be allowed to cash out some of her unused sick time accumulated during her employment with the FRTA. However, according to the Vice-Chairman, she was told that the FRTA personnel policy did not permit employees to be reimbursed for unused sick time when leaving the employment of the Authority. We noted the Authority's Personnel Policy states in Section IV, "*Sick time is not compensable upon resignation, termination, or retirement.*" We also noted that the former Administrator did not have an employment contract with the Authority and therefore was considered an employee at will.

Our review of the FRTA's Advisory Board meeting minutes indicated that on June 1, 2006 the Chairman called a meeting of the Finance Committee to discuss a severance package for the Administrator that would be equal to half her accumulated sick time, or \$13,986. However, according to the Chairman and Vice-Chairman, since the FRTA's personnel policies did not allow for the reimbursement of unused sick time upon resignation, it was decided to grant the former Administrator a severance bonus totaling \$14,000. During the meeting, one Committee member stated that the payment could be justified because of the exemplary work she had done during her 14 years as an employee of the FRTA. A motion was passed to pay the former Administrator \$14,000 upon her leaving the Authority. It was not until October 24, 2006, approximately four months after the Administrator resigned her position and received her compensation, that a meeting of the full Advisory Board was called to address the issue. At this meeting, the full Advisory Board unanimously voted,

contrary to its own personnel policies, to pay the former Administrator \$14,000. The Vice-Chairman stated that in the past, holiday bonuses were given to employees, and the granting of bonuses was within the history and the power of the FRTA Advisory Board. However, he further stated that the FRTA had never previously granted severance bonuses to employees who resigned their position. According to the Vice-Chairman, the Finance Committee decided that a bonus of \$14,000 would be appropriate for rewarding the former Administrator for her work performance at the FRTA. The Vice-Chairman also stated that from the Board's perspective, there were a number of factors as to why the former Administrator should be granted the bonus, including her excellent attendance and her exemplary performance during her tenure as Administrator.

Since the former Administrator did not have an employment contract that provides for such payment, we believe that the Authority should have adhered to its own personnel policies, which do not provide for severance bonuses to employees who choose to leave the employment of the Authority. Such variations from its own written policies could set a precedent and thus affect any of its own employees when they eventually end their employment with FRTA, or possibly affect any employees from other Regional Transit Authorities.

RECOMMENDATION

Since the FRTA's personnel policies do not allow for the payment of severance bonuses upon resignation, the Board should refrain from granting such bonus payments to employees who resign from their employment positions with the Authority.

AUDITEE'S RESPONSE

The Advisory Board of the FRTA has formed a committee to update our By-Laws, which will address the need to have regular Advisory Board meetings and tighten the systems we have in place for our Finance and Executive Committees. Unless specified in an employment contract, "bonus payments" will not be awarded to employees who resign from their positions at the FRTA and the personnel policy will be adhered to.

It is also understood that decisions made by the Finance Committee will be brought to the full Advisory Board for a vote.