



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued November 22, 2016

**Massachusetts Bay Transportation Authority—
Accounts Receivable**

For the period July 1, 2012 through June 30, 2015





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Suzanne M. Bump

Making government work better

November 22, 2016

Ms. Stephanie Pollack, Secretary and Chief Executive Officer
Massachusetts Department of Transportation
State Transportation Building
10 Park Plaza, Suite 4160
Boston, MA 02116

Dear Ms. Pollack:

I am pleased to provide this performance audit of the Massachusetts Bay Transportation Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2012 through June 30, 2015. My audit staff discussed the contents of this report with management of the Authority, whose comments are reflected in this report.

I would also like to express my appreciation to the Massachusetts Bay Transportation Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "Suzanne M. Bump".

Suzanne M. Bump
Auditor of the Commonwealth

cc: Brian Shortsleeve, Chief Administrator and Acting General Manager, Massachusetts Bay Transportation Authority

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LIST OF ABBREVIATIONS

ARG	Accounts Receivable Group
ARGLEF	Accounts Receivable General Ledger Entry Form
FMCB	Fiscal and Management Control Board
FMIS	Financial Management Information System
MassDOT	Massachusetts Department of Transportation
MBTA	Massachusetts Bay Transportation Authority
RDN	Receivable Document Number
TCD	Treasurer-Controller's Department

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Massachusetts Bay Transportation Authority (MBTA) for the period July 1, 2012 through June 30, 2015.

The objective of our audit was to determine whether the MBTA has effectively managed its trade accounts receivable (amounts owed by customers for goods and services) in accordance with its established policies and procedures for customer accounts, billings, payments, overdue accounts, and uncollectible accounts.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 <u>Page 7</u>	The MBTA did not properly administer its trade accounts receivable.
Recommendation <u>Page 9</u>	The MBTA should implement monitoring controls to ensure that all trade accounts receivable are administered in accordance with its established policies and procedures. The MBTA should make reasonable efforts, including collection and legal action, to collect all outstanding balances. However, when those efforts are exhausted and/or a balance remains outstanding for a long period of time, MBTA management should review it and determine whether it should be written off as uncollectible.
Finding 2 <u>Page 10</u>	The MBTA did not ensure that all of its departments properly processed transactions for trade accounts receivable.
Recommendations <u>Page 12</u>	<ol style="list-style-type: none">1. The MBTA should immediately implement controls to ensure that all of its departments that conduct transactions for trade accounts receivable comply with its Accounts Receivable Group's (ARG's) policies and procedures.2. The MBTA should verify that all amounts owed to each of its departments have been properly billed, collected, and forwarded to its Cashier's Office and that all transactions have been properly entered in ARG's financial records.3. The MBTA should determine all uncollected amounts owed to all of its departments as of the end of our audit period, review these accounts to determine the validity and collectability of the unpaid amounts, and ensure that the amounts are properly recorded in ARG's financial records.

OVERVIEW OF AUDITED ENTITY

The Massachusetts Bay Transportation Authority (MBTA) was created in 1964 pursuant to Chapter 161A of the Massachusetts General Laws and provides transit to almost 4.8 million people over an area of 3,200 square miles. It is the fifth-largest mass transit system in the United States as measured by ridership, serving approximately 1.3 million passengers each day. The MBTA provides service via rapid transit, commuter rail, buses, light-rail streetcars, trackless trolleys, ferries, and paratransit vehicles.

Chapter 25 of the Acts of 2009, An Act Modernizing the Transportation Systems of the Commonwealth of Massachusetts, as amended by Chapter 26 of the Acts of 2009, required the integration of various state transportation agencies, including the MBTA, into a newly created Massachusetts Department of Transportation (MassDOT). MassDOT is administered by the Secretary of Transportation, who is appointed by the Governor to serve as its chief executive officer. During our audit period, a seven-member board of directors (including the Secretary) with expertise in transportation, finance, and engineering, appointed by the Governor, oversaw MassDOT.¹ The Secretary appoints an administrator for each division. The MBTA General Manager, appointed by the MassDOT board, directs the daily operations and oversees all administrative functions and management policies and practices.

Section 200 of the Commonwealth's fiscal year 2016 budget authorized the establishment of a five-member Fiscal and Management Control Board (FMCB) at the MBTA consisting of one member with experience in transportation finance, one member with experience in mass-transit operations, and three members of the MassDOT board. Members of the FMCB are appointed by the Governor, and the chair is chosen by the Secretary of Transportation. As stated in the fiscal year 2016 budget, the FMCB is charged with "the implementation of appropriate measures to secure the fiscal, operational, and managerial stability of the [MBTA]." It is supposed to exist only until June 30, 2018, but may exist for two years longer, with the Governor's approval, if the board decides that it is in the best interests of the public.

MBTA Accounts Receivable

MBTA accounts receivable include trade accounts receivable and amounts owed under approved federal grants and under contracts for financial assistance with the Commonwealth. Balances for the audit period are shown below.

1. During fiscal year 2016, the Legislature expanded the board to 11 members.

	As of June 30, 2013	As of June 30, 2014	As of June 30, 2015
Accounts Receivable Due From	Dollar Amount (in Millions)		
Commonwealth of Massachusetts	\$ 79.5	\$ 87.4	\$ 104.8
Federal Grants	31.1	32.2	17.9
Other—Trade	32.7	46.2	35.1
Total	<u>\$143.3</u>	<u>\$165.8</u>	<u>\$ 157.8</u>

The MBTA's Treasurer-Controller's Department (TCD) oversees the MBTA financial activities for its accounts receivable. The Accounts Receivable Group within TCD is responsible for establishing customer accounts, assigning contract work orders, accounting for invoices billed, collecting outstanding invoices for services, preparing reports on accounts-receivable activity, and maintaining the overall accounts-receivable records.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Massachusetts Bay Transportation Authority (MBTA) for the period July 1, 2012 through June 30, 2015.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 findings and conclusions based on our audit objectives.

The scope of our audit focused on the MBTA's management of its trade accounts receivable (which represent amounts owed from normal business activities, whereas receivable amounts derived from federal grants and from financial-assistance contracts with the Commonwealth are the result of timing in the receipt of annual operating subsidies).

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Is the MBTA effectively managing its trade accounts receivable in accordance with its established policies and procedures for collection and write-offs/adjustments of uncollectible accounts?	No; see Finding 1
2. Is the MBTA ensuring proper adherence to its established policies and procedures regarding establishment of customer accounts, invoicing, cash receipts, and collection of overdue accounts for its trade accounts receivable?	No; see Finding 2

To achieve our audit objectives, we gained an understanding of the MBTA internal controls we deemed significant to our audit objectives and evaluated the design and effectiveness of those controls. In addition, we performed the following procedures:

- We reviewed the MBTA Accounting Policies and Procedures Manual for the management of accounts receivable.

- We conducted interviews with personnel from the MBTA's General Accounting Group and its Accounts Receivable Group (ARG), accounts-receivable specialists from the MBTA Police Department and Engineering and Maintenance Department, and employees from the MBTA Financial Systems Department to identify, evaluate, and document the accounts-receivable practices followed by the MBTA.
- We performed an analysis of the data in the MBTA's Financial Management Information System (FMIS) for all recorded transactions for trade accounts receivable for the audit period. From these data, we identified accounts-receivable billings, payments, and adjustments and traced them to relevant source documents. We determined that these data were sufficiently reliable for the purposes of this report.
- We performed the following tests of the MBTA's accounts-receivable functions:
 - Establishing customer accounts, invoicing, and cash receipts: We examined 40 of the 3,004 billing transactions recorded by ARG in FMIS during fiscal year 2013; 40 of the 2,707 billing transactions recorded during fiscal year 2014; and 40 of the 2,320 billing transactions recorded during fiscal year 2015. We traced each transaction through the accounts-receivable process to determine whether the accounts had been established, invoices generated, and cash receipts properly applied to the appropriate invoices in accordance with established ARG policies and procedures.
 - Collection efforts: We obtained and examined the MBTA's PeopleSoft Receivables Aging Detail by Business Unit Reports as of June 30, 2013; June 30, 2014; and June 30, 2015. For fiscal years 2013, 2014, and 2015, we tested 100% of the accounts that were more than 90 days overdue. We inspected supporting documentation for each account to determine whether collection efforts had been made in accordance with MBTA policies and procedures.
 - Write-offs/adjustments to accounts receivable: We examined 12 of the 50 adjustments completed during fiscal year 2013; 10 of the 55 adjustments completed during fiscal year 2014; and all 7 of the adjustments completed during fiscal year 2015. We obtained and reviewed the supporting documentation for each transaction to determine whether write-offs/adjustments were made in accordance with MBTA policies and procedures.
- We performed site inspections at the MBTA's Engineering and Maintenance Department and Police Department. We selected these departments because we determined that they performed accounts-receivable functions for billing and receiving payments, independent of ARG, for services that they rendered themselves. We obtained from each department's accounts-receivable specialist a list of all billing transactions recorded for fiscal years 2013, 2014, and 2015. We then selected a random sample of billings for testing. The sample and population sizes were as follows:
 - Engineering and Maintenance Department: 20 of 120 for fiscal year 2013, 20 of 141 for fiscal year 2014, and 20 of 188 for fiscal year 2015

- Police Department: 30 of 697 for fiscal year 2013, 25 of 429 for fiscal year 2014, and 30 of 568 for fiscal year 2015
- For each item tested, we attempted to trace each transaction through ARG accounts-receivable records and MBTA Cashier's Office bank deposits to determine whether the transaction complied with the MBTA's established policies and procedures for accounts receivable.

Whenever sampling was used, we applied a nonstatistical approach, and as a result, we were not able to project our results to the population. We compared the information we had obtained for our testing to source documents and conducted information-security testing to determine the reliability of the data. We determined that the data were sufficiently reliable for the purposes of our audit work.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Massachusetts Bay Transportation Authority did not properly administer its trade accounts receivable.

The Massachusetts Bay Transportation Authority (MBTA) did not administer its trade accounts receivable in accordance with its policies and procedures. Specifically, regarding trade accounts receivable that were 90 days or more past due, it did not always follow its own relevant notification, collection, classification, documentation, and recording policies and procedures; pursue collection or legal action as necessary; and/or write off the accounts as uncollectible in a timely manner. Additionally, for individual write-offs/adjustments of \$5,000 or more, the MBTA did not ensure that proper approval was obtained before the amounts were written off in its accounting records.

Without following its established policies and procedures in this area, the MBTA cannot be certain that it is effectively collecting all the money it is due. Further, without ensuring that all individual write-offs/adjustments of \$5,000 or more in its trade accounts receivable are properly authorized, the MBTA risks improper write-offs/adjustments, which could result in theft or loss of funds that might have been collectible.

Balances for Trade Accounts Receivable More Than 90 Days Past Due

For the fiscal year ended June 30, 2015, the MBTA's \$35.1 million balance for trade accounts receivable included 11 accounts (many of which were the results of nonpayment for construction, maintenance-related, or intergovernmental-agency activity), totaling approximately \$1.8 million, that were more than 90 days past due, as shown below.

Account	Original Invoice Date	Amount	Years/Months Past Due
City of Boston	August 31, 2003	\$ 911,085	11 years, 10 months
Boston Public Schools*	February 15, 2010	197,949	5 years, 3.5 months
Massachusetts Department of Transportation, Highway Division	July 21, 2010	334,911	4 years, 11 months
National Railroad Co.	February 1, 2013	112,526	2 years, 5 months
Simpson Housing, LLP	August 21, 2013	77,076	1 year, 10.5 months
Neponset Valley Construction	December 24, 2013	10,838	1 year, 6 months
Claremont Brookline Suites†	June 10, 2014	22,644	12 months
Newport Construction	October 9, 2014	10,044	9 months

Account	Original Invoice Date	Amount	Years/Months Past Due
Pine Ride Technologies	December 5, 2014	17,518	6.5 months
Amtrak—Boston	January 15, 2015	168,200	5.5 months
Roxbury Community College	January 15, 2015	312	5.5 months
Total		\$1,863,103	

* This was related to a dispute regarding the balance of charges for monthly MBTA passes for students. The issue was referred to the MBTA Law Department for resolution.

† This was the result of work done by the MBTA on hotel power lines that crossed an MBTA right-of-way area.

Our review of the records related to these balances revealed the following:

- For 9 of the 11 accounts, the MBTA did not take legal action or other action to collect the funds.
- For all 11 accounts, no 60-day past-due notices had been sent.
- For 9 of the 11 accounts, no 90-day past-due notices had been sent.
- Only 1 of the 11 accounts had documentation of the approved recommended action (such as referral to a collection agency) to be taken, even though there had been no response or effort by the customer to make payment.
- Only 3 of the 11 accounts had logs documenting all contact and conversations with customers regarding payment of outstanding balances that were 60 or more days past due.
- None of the accounts were included in the MBTA's calculation of doubtful accounts or written off in its financial records, even those that were more than a year old.

Unauthorized Write-offs/Adjustments of Trade Accounts Receivable

During our audit period, the MBTA made 37 write-offs/adjustments to its trade accounts receivable for amounts that exceeded \$5,000 each (totaling approximately \$5.5 million). In our review of 21 of these write-offs/adjustments (totaling \$3,638,604), we found that 19, or 90%, lacked evidence of proper approval. These 19 transactions totaled \$3,570,499 and included one write-off/adjustment that exceeded \$1.2 million.

Authoritative Guidance

Section 1.3 of the MBTA's Accounting Policies and Procedures Manual states,

The Accounts Receivable Group (ARG) of the Treasurer-Controller's Department has the responsibility of . . . instituting collection procedures for all overdue or delinquent accounts.

Section 1.5 outlines specific procedures:

All accounts are due and payable within thirty (30) days of the date of the billing. . . .

- *At 60 days past due a 60 day letter signed by the Manager of General Accounting is sent out requesting payment.*
- *At 90 days past due a 90 day letter signed by the Treasurer-Controller is sent out requesting payment and is sent out thereafter on a monthly basis demanding payment. . . .*

A log is maintained of all contact and conversation with customers regarding payment of outstanding balances.

When an account is 90 days past due and there has been no response or effort by the customer to make payment the Accounts Receivable Supervisor recommends [to the Senior Manager of General Accounting and the Treasurer-Controller] that the account be sent to a collection agency for payment.

The collection agency attempts to collect the outstanding balance for up to one year. . . . After all collection measures have been exhausted, the material uncollectible accounts are reviewed by the Supervisor of Accounts Receivable with the Senior Manager of General Accounting.

- *Based on a review of the circumstances the Senior Manager of General Accounting and the Supervisor of Accounts Receivable determine whether an account should be written-off or referred to the Law Department for court action. . . .*

If legal action or the collection agency has not been successful . . . then the account will be written off. The Supervisor of Accounts Receivable is responsible for the preparation of a recommended list of doubtful accounts. . . .

All amounts to be written off greater than \$5,000 require the Treasurer-Controller's approval.

Reason for Noncompliance

The MBTA did not implement the necessary monitoring controls to ensure that all of its policies and procedures for trade accounts receivable were properly adhered to.

Recommendation

The MBTA should implement monitoring controls to ensure that all trade accounts receivable are administered in accordance with its established policies and procedures. The MBTA should make reasonable efforts, including collection and legal action, to collect all outstanding balances. However, when those efforts are exhausted and/or a balance remains outstanding for a long period of time, MBTA management should review it and determine whether it should be written off as uncollectible.

Auditee's Response

Balance for Trade Receivable More Than 90 Days Past Due

The majority of the accounts referenced in this area were related parties or contractual partners on existing construction and infrastructure projects with the Authority. One is the result of a dispute amongst three parties on responsibility for joint project which required environmental remediation, paid for by the MBTA. A second balance is the result of a partial interception of payment from the City of Boston which has been handled by the Law Department of the Authority. These matters are protracted in resolution, well beyond the standard collection procedures and dunning letters and ultimately are resolved at a senior level.

The standard practice is for all dunning letters are printed on the 1st night of the month. One copy is printed and mailed out to each customer with either a 30, 60 or 90 day statement of fact on their outstanding balance. It was found that historical data is not saved electronically for dunning letters to be reprinted. What can be shown is a screen shot of the account with the past due balance, what letter was printed out along with the date it was processed. Content of the said letter is not in the historical data due to changing on a monthly basis. . . .

The Policies and Procedures manual was last updated in June of 2014. The lack of update to the approval level amount within the Accounts Receivable was missed as part of an update effort. The Authority has worked to update the levels of signatory on three different occasions since January of 2013. The Accounting Policies and Procedures documentation is to be updated during fiscal year 2017 and all levels cited within the documentation will reflect the current authorized levels.

Auditor's Reply

We agree that the resolution of these receivable balances can be a long process that requires the Authority to strive to adhere to its established policies and procedures to ensure that accounts are properly monitored and controls are in place to advise management when monitoring procedures are not followed. Accordingly, the MBTA should review the collectability of these accounts and recommended write-offs.

We are aware of the dunning-letter feature of the MBTA's accounts-receivable system; however, the MBTA could not provide us with copies of the actual letters that were sent for the audit period. We urge the MBTA to retain all future dunning letters sent to document that this collection procedure was actually performed at the required 30-, 60-, and 90-day intervals.

2. The MBTA did not ensure that all of its departments properly processed transactions for trade accounts receivable.

At least two MBTA departments did not process their trade accounts receivable in accordance with MBTA policies and procedures. During our audit period, approximately \$27 million in trade accounts receivable

was billed and collected by the MBTA's Engineering and Maintenance Department and Police Department, as follows.

Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Total
\$7,719,496	\$8,085,285	\$9,045,109	\$24,849,890
739,407	510,670	529,453	1,779,530
<u>\$8,458,903</u>	<u>\$8,595,955</u>	<u>\$9,574,562</u>	<u>\$26,629,420</u>

We reviewed 145 transactions for trade accounts receivable (totaling \$187,000) and found that for all of the transactions, these two departments did not complete the required Accounts Receivable General Ledger Entry Form (ARGLEF), did not obtain proper prior authorization before processing invoices, and instructed clients to remit payments directly to them instead of the MBTA Cashier's Office. In addition, \$709,150 in trade accounts receivable that was owed to these two departments as of the end of fiscal year 2015 had not been reported to ARG or recorded in ARG's accounts-receivable records. Finally, neither department had established adequate segregation of duties for this process: each department designated only one staff member to be responsible for administering all activity for trade accounts receivable.

Because they did not follow MBTA policies and procedures, ensure that balances for trade accounts receivable were properly reported to ARG, and establish proper segregation of duties for this process, these departments placed funds at greater risk of theft and of being recorded inaccurately in ARG's financial records.

Authoritative Guidance

The MBTA's Accounting Policies and Procedures Manual states that ARG is responsible for establishing customer accounts, assigning contract work orders, accounting for invoices billed, and maintaining the overall accounts-receivable subsidiary ledger balances. Further, ARG is responsible for ensuring that all invoices are fully prepared and mailed on a timely basis (within a month after the MBTA records an amount as receivable) for services rendered. In order to do this, ARG reviews an Unbilled Work Order Report each month that identifies the unbilled amounts for each open work order. ARG sorts the Unbilled Work Order Report by department and emails a copy to each department manager, informing him or her of the department's unbilled balances and the need to prepare an invoice. Each department must submit an ARGLEF (signed by the department head) and an invoice to ARG. Upon receipt and review, ARG enters the invoice in the accounts-receivable module of its PeopleSoft accounting software, and a Receivable

Document Number (RDN) is automatically assigned. Invoices must be assigned RDNs before they are mailed to customers. ARG notifies the department contact person listed on each ARGLEF and gives him or her the RDN assigned to the invoice. The contact person enters the RDN on the department's copy of the ARGLEF and invoice, generates a copy to send to the Cashier's Office, and sends the invoice to the customer.

These policies and procedures also state that all payments for billed services must be made payable, and remitted, to the MBTA Treasurer-Controller's Department and that payments sent to the department that originated the invoice must be forwarded to the Cashier's Office for proper processing.

Finally, sound business practices would include ensuring that no single employee is responsible for authorizing, paying, and reconciling the same funds and would also include ensuring timely reporting of accounts receivable so that year-end financial records are accurate.

Reason for Noncompliance

ARG did not establish monitoring controls over its departments' activities related to trade accounts receivable to ensure that the activities were completed in accordance with its established policies and procedures.

Recommendations

1. The MBTA should immediately implement controls to ensure that all of its departments that conduct transactions for trade accounts receivable comply with ARG's policies and procedures.
2. The MBTA should verify that all amounts owed to each of its departments have been properly billed, collected, and forwarded to the Cashier's Office and that all transactions have been properly entered in ARG's financial records.
3. The MBTA should determine all uncollected amounts owed to all of its departments as of the end of our audit period, review these accounts to determine the validity and collectability of the unpaid amounts, and ensure that the amounts are properly recorded in ARG's financial records.

Auditee's Response

We are in agreement with the finding and had begun to incorporate the billing, accounts receivable and cash collection processing with the Police details performed by the Transit Police during the period under review for this audit. We have subsequently also incorporated miscellaneous parking fees, group pass sales and electricity billing for all station vendors and tenants within the Accounts Receivable Group. Each of these billing and revenue streams is a separate receivable entity within the FMIS Accounts Receivable ledger with separate 30/60/90 agings and collection efforts.

Auditor's Reply

According to its response, the MBTA is taking measures to ensure that all of its departments that conduct trade accounts receivable transactions comply with established ARG policies and procedures. We urge the MBTA to verify that all amounts owed to each of its departments, as of the date they incorporated the related accounts into ARG records, have been billed and collected; that the payments have been forwarded to the Cashier's Office; and that the amounts have been properly recorded in ARG's financial records. Further, the MBTA should determine all uncollected amounts owed to all of its departments as of the date they incorporate the related accounts into ARG records, review these accounts to determine the validity and collectability of the unpaid amounts, and ensure that the amounts are properly recorded in ARG's financial records.