

**METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**



March 25, 2011

Mayor Jo Ann Graves, Board Chair  
Regional Transportation Authority  
130 Nestor Street  
Nashville, TN 37210

Dear Mayor Graves:

Please find attached the Monitoring Report of the Regional Transportation Authority relating to the contract it had with the Metropolitan Government of Nashville and Davidson County for the fiscal year ending June 30, 2010.

The Office of Financial Accountability (OFA) is charged with the responsibility of monitoring grant funds, including Direct Appropriations, from Metropolitan Nashville Government to any nonprofit organization. The OFA is also responsible for monitoring the federal and state grants to departments within the Metropolitan Nashville Government. Staff from the OFA completed its review on March 22, 2011.

We appreciate the assistance provided by your agency during the course of the review. If you have any questions, please call me at 615-880-1035.

Sincerely,

Fred Adom, CPA  
Director

cc: Paul Ballard, CEO  
Ed Oliphant, CFO  
Richard M. Riebeling, Director of Finance

Talia Lomax-O'dneal, Deputy Director of Finance  
Gene Nolan, Deputy Director of Finance  
Kim McDoniel, Chief of Accounts  
Mark Swann, Internal Audit  
Kevin Brown, Office of Financial Accountability  
Essie Robertson, Office of Financial Accountability  
Brad Thompson, Office of Financial Accountability



◆ Monitoring Report of ◆

# Regional Transportation Authority



Conducted by



## Office of Financial Accountability

March 25, 2011

MONITORING REPORT

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## INTRODUCTION

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The Office of Financial Accountability (hereinafter referred to as “OFA”) has completed a monitoring review of Regional Transportation Authority. A monitoring review is substantially less in scope than an audit. The OFA did not audit the financial statements and, accordingly, does not express an opinion or any assurances regarding the financial statements of the Regional Transportation Authority. The OFA is responsible for the internal monitoring of Metro agencies that receive federal and state financial assistance, including cooperative agreements and non-profit organizations that receive Direct Appropriations and Community Enhancement Funds from Metro government. In summary, any agreement(s) that imposes performance and/or financial requirements on Metro government is subject to review by the OFA.

The purpose of this review was to assess the agency’s compliance with contractual requirements set forth in the following contract with Metro Government:

<b>Contract</b>	<b>Type</b>	<b>Grantor</b>	<b>Amount</b>	<b>Contract Term</b>	
L-2321	Direct Appropriation	Metro Government	\$1,164,900.00	July 1, 2009	June 30, 2010

### **Agency Background**

Regional Transportation Authority (RTA) is an agency supported by member communities. Created in 1988, RTA provides ridesharing opportunities in order to promote the economic growth of its membership and improve the air quality of the community. The agency is led by a board of city and county mayors and serves the following nine Middle Tennessee counties: Cheatham, Davidson, Dickson, Maury, Robertson, Rutherford, Sumner, Williamson and Wilson. RTA operates four regional bus routes traveling between downtown Nashville and Murfreesboro, Gallatin/Hendersonville, Franklin/Brentwood and Spring Hill/Thompson’s Station. RTA works closely with MTA in linking riders with 37 routes throughout Davidson County. In addition, RTA’s rideshare program organizes vanpools and carpools for commuters throughout Middle Tennessee.

## OBJECTIVES, SCOPE AND METHODOLOGY

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The objectives of our review were:

- 1) To determine whether the agency had the resources and capacity to administer the grant funds.
- 2) To determine if costs and services were allowable and eligible.
- 3) To verify that program objectives were met.
- 4) To test the reliability of the financial and programmatic reporting.
- 5) To verify contractual compliance.

The scope of our review was limited to the contract term July 1, 2009 through June 30, 2010.

Audit procedures included meeting with agency management and staff, reviewing the design of internal controls as a basis for establishing our testwork, reviewing Board minutes and obtaining written representations from management. In addition, we examined certain financial records and supporting documentation necessary to ensure compliance with contractual requirements set forth in Contract L-2321. Specific procedures included:

- Interviewing the employees responsible for grant management, financial reporting, and accountability.
- Reviewing supporting documentation of expenditures for allowability, necessity and reasonableness.
- Reviewing the agency's General Ledger and verifying the accuracy of all invoices submitted to Metro.
- Reviewing documentation to determine that funds were used for intended beneficiaries and expended in accordance with the Spending Plan of the contract.
- Reviewing documentation to support program activities for consistency with grant requirements.
- Assessing the financial stability of the agency and its ability to continue to administer the grant program funded by Metro.

## RESULTS OF REVIEW

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### Summary of Results

Criteria	Yes	No
Sufficient Resources and Capacity to Administer Funds?	✓	
Costs and Services are Allowable and Eligible?		✓
Program Objectives being Met?	✓	
Reporting Requirements Met?	✓	
Sufficient Internal Control Environment?	✓	
Compliance with Civil Rights Requirements?	✓	

## **RESULTS OF REVIEW**

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The overall results of the monitoring review are provided in this section. Results are based on testwork performed and include conclusions regarding specific review objectives and, if applicable, recommendations for improvement and an action plan for implementation. Where applicable, the Findings and Recommendations section of this report provides more insight into any issues identified below.

### **1. Sufficient Resources and Capacity to Administer Grant Funds**

Our review of the agency's accounting system and the qualifications of the individuals assigned to manage the accounting records indicate that the agency possesses the necessary resources and professional expertise to effectively administer the grant funds.

### **2. Allowable and Eligible Costs and Services**

Our review covered all of the core compliance areas identified by OMB Circular A- 133: *Audit of States, Local Government, and Non-Profit Organizations*. Based on our test work, approximately 93.93% (\$1,094,212.30) of the costs and services during the period were allowable, eligible, and were incurred by the agency in compliance with applicable guidelines stated in OMB Circular A-122. However, as explained in Finding #1 in the Findings and Recommendation Section, 6.07% (\$70,687.70) was deemed unallowable and should be refunded to Metro Nashville Government.

Additionally, the Metro Grants Manual requires separate accounting of the Metropolitan Nashville Government grant funds to prevent co-mingling of Metro Funds with other sources of funding. The agency was in compliance with this requirement. Different revenue classes as well as expenditure classes had been established to separately track the sources and amounts of funding. Also, the agency could easily and accurately report their expenses supported by the Metro Grant.

## **RESULTS OF REVIEW**

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### **3. Program and Performance Objectives**

The grant contract stipulates that the agency was to provide the following program objectives:

- The operation of the Music City Star to provide trips for 850 passengers who commute on the train per day.
- The operation of the Relax and Ride extension bus service between Davidson County and neighboring Rutherford County; and between Metro Nashville and Gallatin, TN and is provided under contract with MTA and shall provide 17 trips daily from Downtown Nashville.
- 32,500 low-income persons and persons with disabilities shall be served under the Job Access and Reverse Commute Project.

Based on our review of program documentation and discussions with staff, program performance objectives had been met and the agency was in compliance with contractual program objectives.

### **4. Reliability of Financial and Programmatic Reporting**

The contract requires submission of an annual audit report performed by a Certified Public Accountant. The contract also requires the agency to submit to Metro year end reports of the program outcome and a final expenditures report, no more than 45 days after the close of the contract. We reviewed all applicable financial and programmatic reports required by the contract, including audited financial statements. Based on our review, the agency was in compliance with the financial and programmatic reporting requirements.

### **5. Internal Control Environment**

In order to determine the adequacy of the design of internal controls, we obtained and reviewed an independent auditor's report on internal control over financial reporting and/or a completed internal control questionnaire. This audit procedure was performed solely as a basis for determining our test work and to assist us in

## RESULTS OF REVIEW

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making suggestions for improvement to management. We did not evaluate the operating effectiveness of internal controls over financial reporting.

Our review of the design of the agency's internal controls did not reveal any control deficiencies. Further, nothing came to our attention that would necessitate suggestions for improvement in internal control activities to management.

### **6. Civil Rights Requirements**

Our review did not reveal anything to indicate that the agency was noncompliant with civil rights requirements. The agency also has necessary written policies and procedures relating to civil rights. The agency has not received any complaints regarding any form of discrimination. Further, civil rights and ADA postings are publicly displayed.

## FINDINGS & RECOMMENDATIONS

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### 1. Questioned Costs in the Amount of \$70,687.70

The Regional Transportation Authority reported and charged \$70,687.70 of interest expense, extension fees, and loan origination fees associated with the agency's line of credit to the Metro Direct Appropriation grant. Per OMB Circular A-122, Cost Principles for Non-Profit Organizations, "cost incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the non-profit organization's own funds, however represented, are unallowable." Therefore, the \$70,687.70 expenses reported to the Metro Government that were incurred as a result of borrowed capital is deemed to be questioned cost. The following table provides the breakdown on the interest expense, extension fees, and the Line of Credit origination fees:

<b>Vendor Name</b>	<b>Payment Item No.</b>	<b>Check Date</b>	<b>Remark</b>	<b>Amount</b>
Bank of America	55225	12/4/2009	LOC Extension	\$5,800.00
Bank of America	55200	11/2/2009	LOC Extension	\$5,800.00
Bank of America	55188	10/16/2009	LOC Extension	\$5,800.00
Bank of America	55185	10/16/2009	LOC Interest Only	\$12,406.14
Bank of America	55224	12/4/2009	LOC Interest Only	\$3,973.66
Bank of America	55158	9/16/2009	LOC Extension	\$17,400.00
SunTrust	55345	4/27/2010	Loan Origination Fee at SunTrust	\$17,500.00
SunTrust	55346	4/28/2010	State and Local Taxes for LOC	\$2,007.90
<b>Total</b>				<b>\$70,687.70</b>

## FINDINGS & RECOMMENDATIONS

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### **Recommendation:**

The Regional Transportation Authority should take the necessary steps to ensure that only cost incurred in accordance with OMB Circular A-122 and are considered allowable to be reported and charged against the Metro Government Direct Appropriation.

Secondly, the RTA should reimburse the Metro Government the questioned cost totaling \$70,687.70 for the expenses incurred as a result of the interest expense, extension fees, and loan origination fees for the agency's line of credit.

### **Corrective Action Plan Required**

Please submit a corrective action plan indicating the actions the agency intends to take to correct the findings identified in this report. The corrective action plan should be submitted within 30 days from the report date to the address below:

Ms. Brandie Haywood, Director  
Department of Finance  
Division of Grants Coordination  
700 2<sup>nd</sup> Avenue South, Suite 201  
P.O. Box 196300  
Nashville, TN 37219-6300