STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

REGIONAL TRANSPORTATION AUTHORITY OF MIDDLE TENNESSEE

Performance Audit Report

October 2017

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October 30, 2017

The Honorable Randy McNally
Speaker of the Senate
The Honorable Beth Harwell
Speaker of the House of Representatives
The Honorable Mike Bell, Chair
Senate Committee on Government Operations
The Honorable Jeremy Faison, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Kim McMillan, Chair of the Board
430 Myatt Drive
Nashville, Tennessee 37115

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Regional Transportation Authority of Middle Tennessee for the period August 31, 2015, through July 31, 2017. This audit was conducted pursuant to the requirements of the Tennessee Governmental Entity Review Law, Section 4-29-111, *Tennessee Code Annotated*.

Our audit disclosed certain findings, which are detailed in the Audit Conclusions section of this report. The board chair and contracted management of the Regional Transportation Authority of Middle Tennessee have responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the Regional Transportation Authority of Middle Tennessee should be continued, restructured, or terminated.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

DVL/mc
17/291

Division of State Audit

Regional Transportation Authority of Middle Tennessee
October 2017

Our mission is to make government work better.

AUDIT HIGHLIGHTS

We have audited the Regional Transportation Authority of Middle Tennessee (the Authority) for the period August 31, 2015, through July 31, 2017. Our audit scope included a review of internal controls and compliance with laws, regulations, policies, procedures, and provisions of contracts in the following areas:

- board structure and responsibilities;
- the funding plan;
- the reserve fund; and
- the financial report.

Scheduled Termination Date:
June 30, 2018

Key Conclusions

Findings

- The Authority's board did not provide sufficient oversight of contracted management; additionally, the board has not structured its audit committee as required by statute and has not addressed board member attendance issues through its by-laws (page 14).
- The Authority's board has not established a fare policy to sufficiently guide the Authority's decision-making in funding regional services (page 21).
- The Authority's board did not ensure that contracted management executed revenue contracts between transit customers and the Authority (page 24).

Observations

The following topics are included in this report because of the effect on the Authority's operations and the citizens of Tennessee: one board member appointment has remained unfilled for nearly 36 months (page 17); potential conflict of interest with contracted management (page 18); the Authority's board and contracted management did not establish written policies and procedures over the utilization of the reserve fund that the board approved (page 27); and the Authority's board should review the amounts and uses of its membership dues and administrative costs to ensure the Authority has both maximized dues and contained administrative

costs; furthermore, contracted management should ensure it is familiar with all regulations pertaining to the Authority's financial statements (page 32).

Emerging Issue

The IMPROVE Act, which was introduced during the 110th General Assembly in 2017, could create an opportunity for additional sources of revenue for the Regional Transportation Authority of Middle Tennessee (the Authority) to manage. The Act allows voters in the state's counties and cities with the largest populations to decide by referendum if voters want to fund mass transit, by imposing capped surcharges on already collected taxes and dedicating those funds to transit projects. The Authority may wish to consider the impact the Act may have on its transit plan and the Authority members that meet the population criteria, as well as the impact on members that do not meet the population criteria (page 26).

Performance Audit
Regional Transportation Authority of Middle Tennessee

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Performance Audit
Regional Transportation Authority of Middle Tennessee

INTRODUCTION

AUDIT AUTHORITY

This performance audit of the Regional Transportation Authority of Middle Tennessee (the Authority) was conducted pursuant to the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated,* Title 4, Chapter 29. Under Section 4-29-239, the Authority is scheduled to terminate June 30, 2018. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. This audit is intended to aid the committee in determining whether the Authority should be continued, restructured, or terminated.

BACKGROUND

The Authority was established in 1988 pursuant to Section 64-8-101, *Tennessee Code Annotated*, for the counties of Davidson, Sumner, Williamson, Wilson, Robertson, Cheatham, Maury,[1] Dickson, and Rutherford for the following purposes:

The member counties are on page 3.
The member cities are on page 35.

- to plan, finance, construct, operate, maintain, and manage mass transit systems in response to the growing need for regional solutions to traffic congestion, and
- to develop multimodal transportation necessary for economic growth and environmental sustainability.

In 2009, enabling legislation passed, allowing the Authority to expand to adjacent counties and municipalities with a majority vote of acceptance by the board. In March 2012, the board voted to accept Montgomery County as a member.

The Authority's board member representation is in Appendix 1 on page 35.

The Authority is governed by a board consisting of mayors from all member counties and cities; the Commissioner of the

[1] Although Maury County was included in the original legislation, the county is not a member of the Authority. The county has chosen not to pay the membership fee; therefore, no corridor services are provided and the county is not represented on the board.

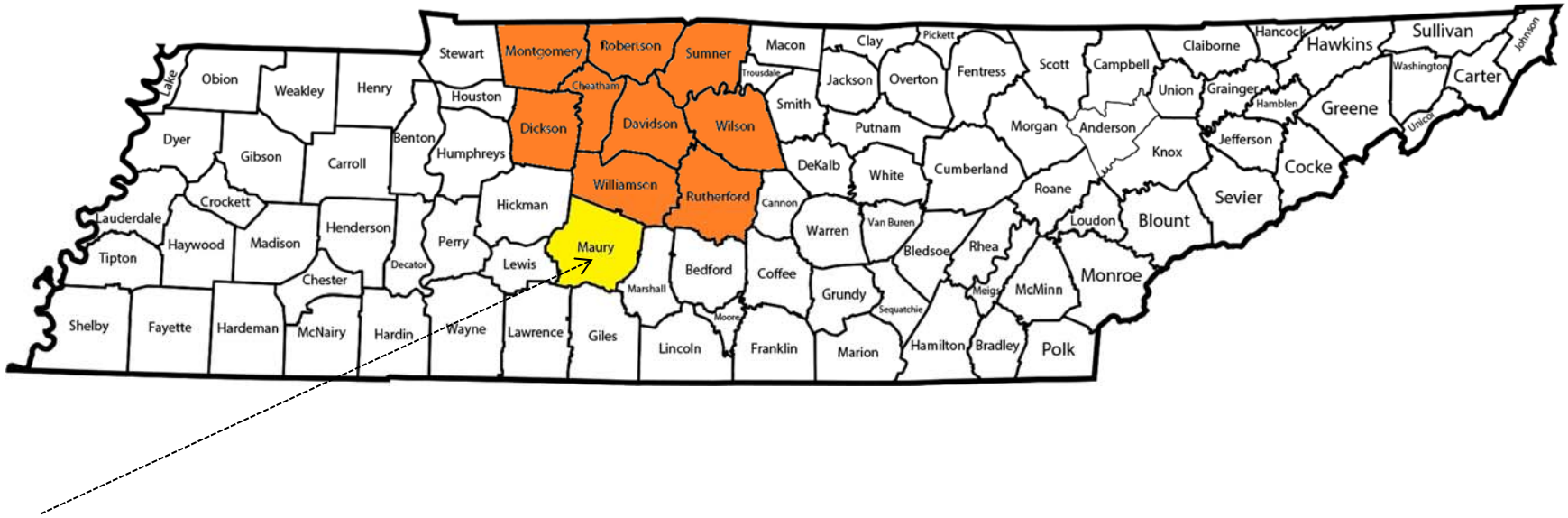
Tennessee Department of Transportation; and one resident from each of the member counties, appointed by the Governor. The Authority's board has 38[2] elected or appointed members, 3 of whom are elected officers:[3] a chair, a vice chair, and a secretary. The board's committees—Finance and Audit, Marketing, Operations, and Corridor—meet quarterly unless a particular issue requires a special meeting of the committee. The corridor committees[4] represent the cities and counties in a particular service corridor, and the committees meet to discuss and make recommendations to the full board on issues specific to that corridor. The Authority has no employees to manage its day-to-day operations; therefore, the Authority's board has entered into a service fee agreement with the Nashville Metropolitan Transit Authority (MTA) at a monthly cost of $66,950 for fiscal year 2017.

[2] According to legislation and based on current membership noted above, there are 38 board member positions, but currently only 37 positions are filled. The Governor appointee position for Robertson County was vacated on August 20, 2014, and is still vacant.

[3] According to the Authority's by-laws, Article 3: Officers, Section 1, Number, and Term, "the officers shall be elected at the first regular meeting of the board in each calendar year from and by the entire Authority membership."

[4] There are seven corridor committees—one for each corridor.

Authority Member Counties (highlighted)
As of July 31, 2017



Note: Maury County was included in the original legislation; however, the county is not currently participating in the Authority, and therefore the Authority provides no transit services to this county.

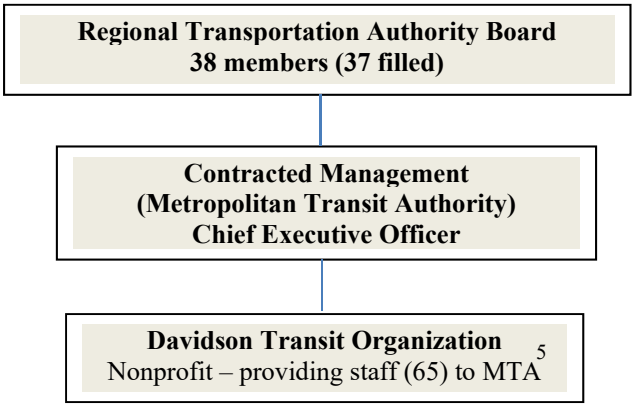
See Appendix 1 on page 35, which includes the cities that are members of the Authority.

Authority's Contracted Management Team

In December 2008, the Authority's board contracted with the Nashville Metropolitan Transit Authority (MTA) management team to manage the Authority's day-to-day operations to provide regional services. Under the current contract, MTA provides management services overseeing all operations of the Authority. The prior five-year contract was approved by the Authority's board in 2011 and expired June 30, 2016. Under its prior contract, the Authority paid MTA $730,020 for the first two years; with an increase to $756,000 on July 1, 2013; and a final increase to $780,000 on July 1, 2014. These increases were allowable, based on a mutual agreement by both parties. On July 1, 2016, the Authority entered into a new five-year contract with MTA, which extends the management arrangement through June 30, 2021. The new contract remains consistent with the terms of the expired contract but includes a 3% increase for a total annual contract payment of $803,400, effective for fiscal year 2017. Current contract terms also include a provision that allows the Authority to adjust the compensation beginning July 1, 2017, and each year thereafter for the life of the contract by mutual agreement of both parties. Similarly, either party can terminate the contract for any reason at any time with a 30-day written notice to the other party.

According to the contract, MTA is responsible for financial duties, including, but not limited to, identifying and obtaining revenue sources; managing cash flow issues; obtaining funding from government sources; and preparing and submitting annual budgets for approval.

Under the current MTA structure, MTA uses the Davidson Transit Organization (DTO), a nonprofit organization, legally separate from MTA but specifically formed for providing all the necessary labor for the operation of MTA's transit system.

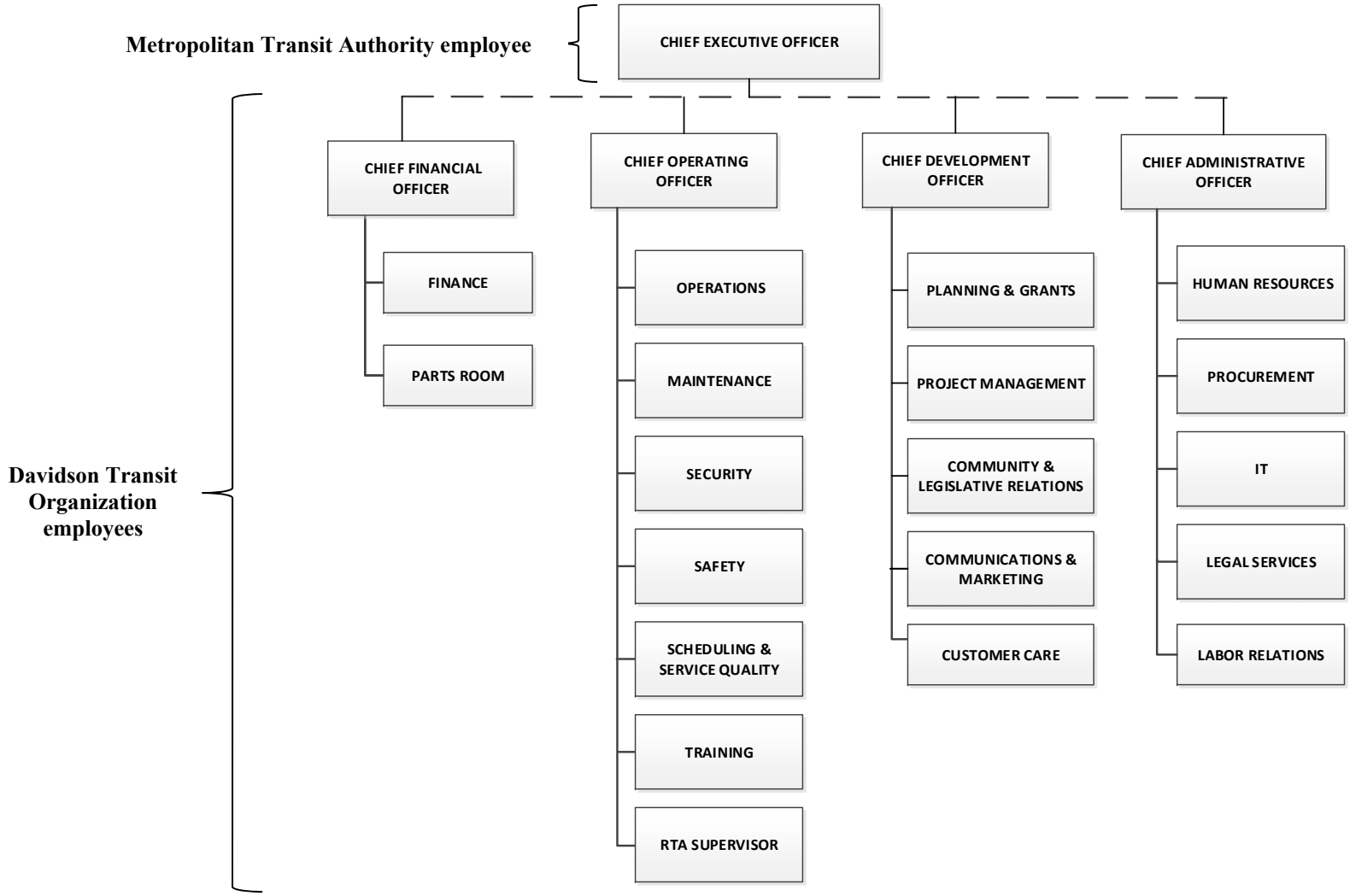


[5] Based on information provided by contracted management, there are approximately 65 employees dedicated to the Authority's operations (3 full-time employees; 25 bus drivers; 6 maintenance employees; and 154 employees who spend 20% of their time on Authority business, which is approximately 31 employees).

Chief Executive Officer

Under the Authority's MTA contract, the chief executive officer, an MTA employee, reports to the Authority's board and is responsible for overseeing all DTO staff. The chief executive officer oversees the chief financial officer, chief operating officer, chief development officer, chief administrative officer, and support staff. An organizational chart of the Authority's contracted management is presented on the following page.

Regional Transportation Authority of Middle Tennessee
Authority Contracted Management Organizational Chart
(As of February 6, 2017)

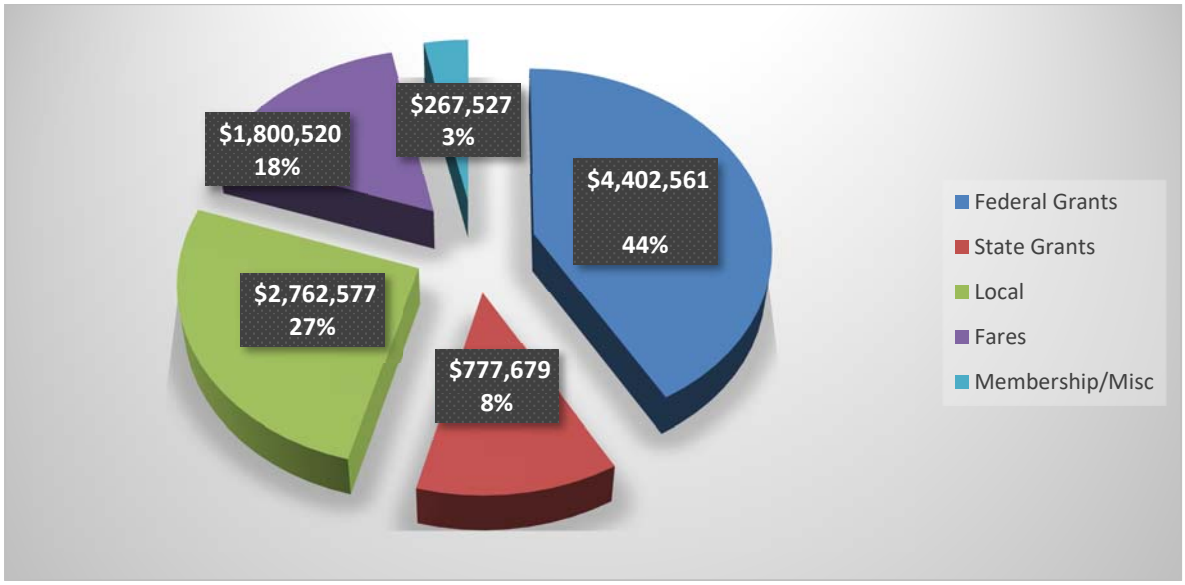


Funding Sources

The Authority may receive or obtain funds to operate from many different sources. Specifically, Section 64-8-105, *Tennessee Code Annotated,* states that the board may "solicit, accept and expend grants, appropriations, contributions or other funds from any source, public or private." Furthermore, Section 64-8-207, *Tennessee Code Annotated,* grants power to the Authority for financing the mass transit and transportation plans by allowing the issuance of bonds. According to the chief financial officer, the Authority has not issued any bonds.

The Authority receives federal grants; state grants;[6] local funds (county/city grant matches and subsidies for services in corridors); fares (bus and commuter rail); and membership dues (see the **Results of Other Audit Work** section). The Authority is a quasi-local government and does not receive any direct state appropriations. The Authority reported total revenue for fiscal year 2016 of $10,010,864. See **Figure 1-a** for revenue sources. See **Appendix 4** for a detailed list of revenues.

Figure 1-a
Sources of Operating and Non-Operating Revenue
For Year Ended June 30, 2016



Source: The Authority's chief financial officer.

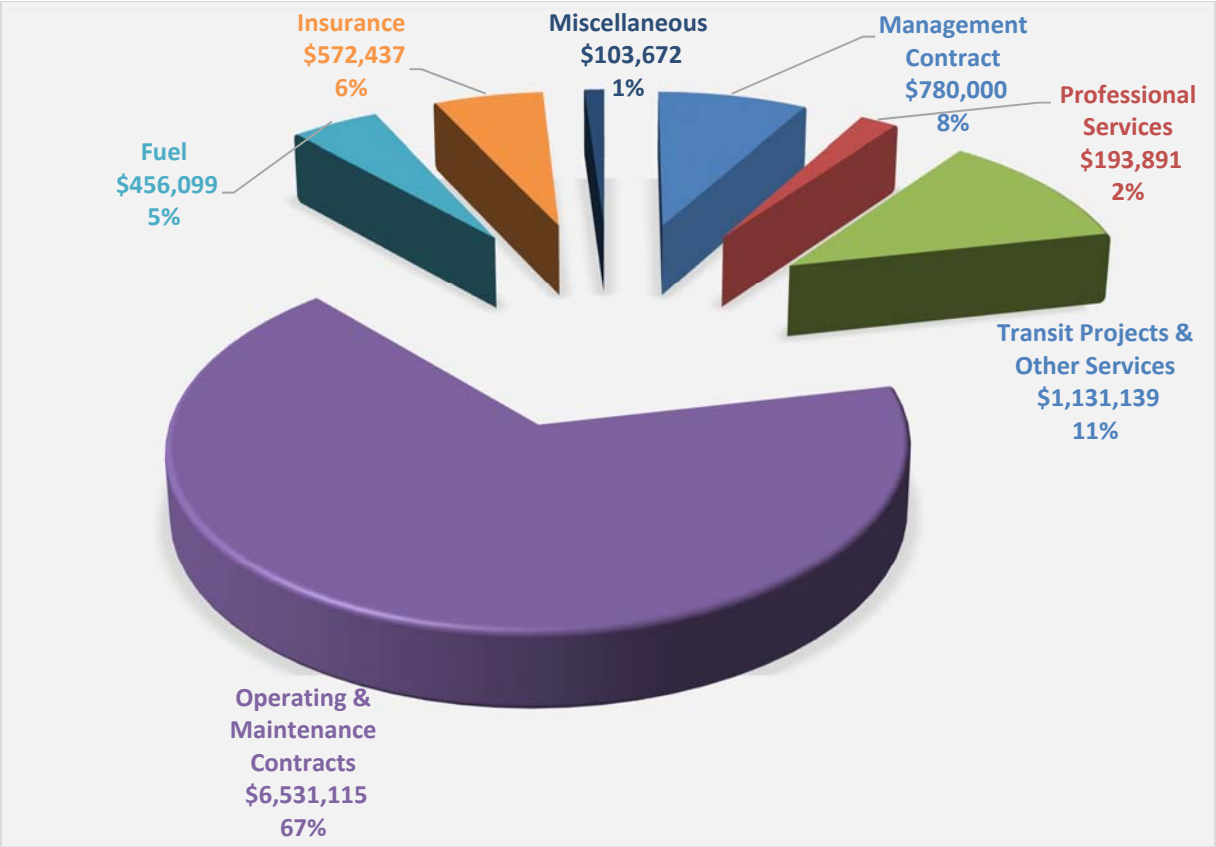
The Authority receives federal funding in the form of direct grants from the U.S. Department of Transportation, as well as pass-through grant funding from the Tennessee Department of Transportation, the Metropolitan Planning Organization, and MTA. See **Appendix 2** for a list of the grants received from these agencies.

[6] The Authority is a subrecipient of federal funds through the Tennessee Department of Transportation.

Expenditures

The Authority reported total operating expenditures[7] of $9,768,353 for fiscal year 2016. See **Figure 1-b** for operating expenditures. See **Appendix 4** for more information on operating expenditures.

Figure 1-b
Operating Expenditures
For Year Ended June 30, 2016



Source: The Authority's chief financial officer.

Services

The Authority has entered into various third-party service contracts[8] to provide services for **regional bus routes** and a **commuter rail route** for citizens throughout the member county/city corridors in Middle Tennessee. The Authority also offers transportation programs,

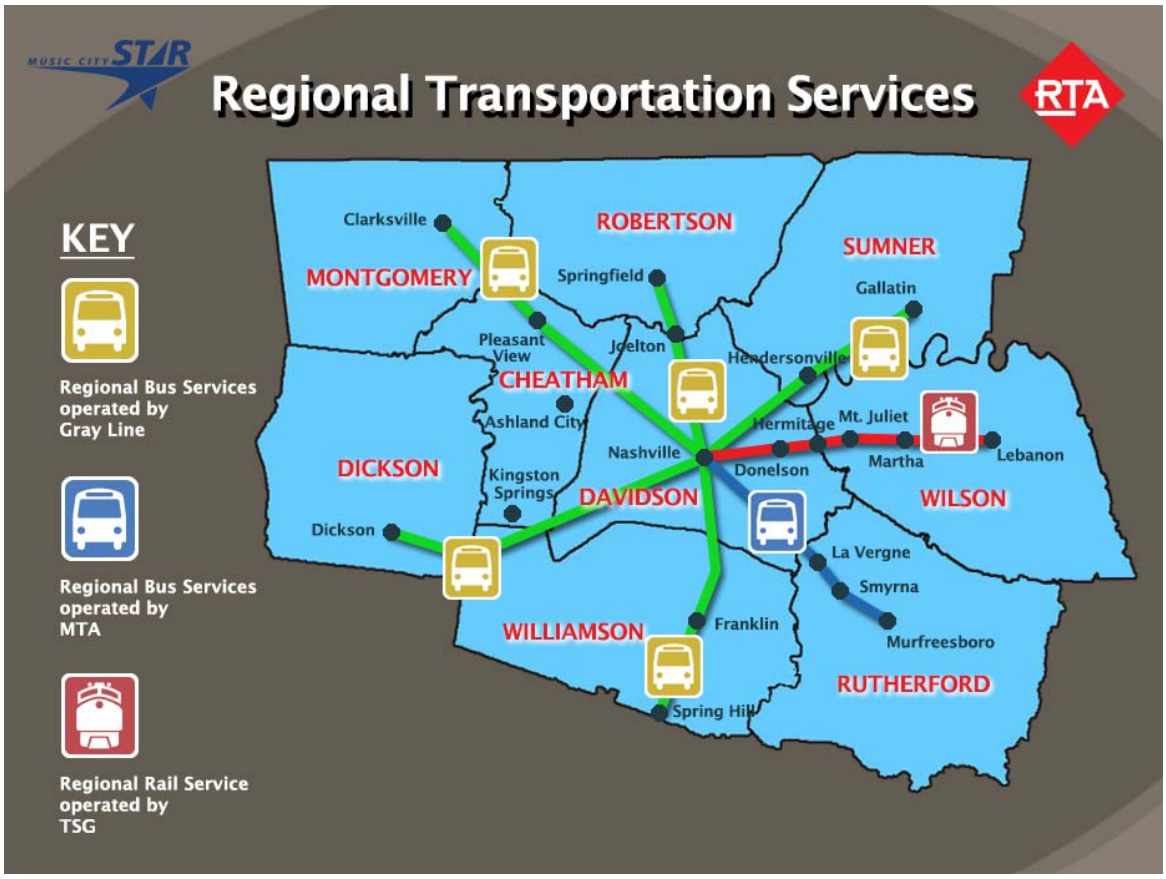
[7] Transit projects include the Northwest Corridor Transit Study ($699,669) and the nMotion 2016 Transit Plan ($298,926), which is the long-range transit plan for the Authority and MTA. Operating and maintenance contracts include contracts with Transit Solutions Group, Gray Line, MTA, and Nashville & Eastern Railroad Corporation. Miscellaneous items include dues and subscriptions; freight charges; utilities; bank charges/interest; and office supplies.

[8] Metropolitan Transit Authority (MTA), Gray Line, and Transit Solutions Group (TSG).

such as the **EasyRide program** and the **rideshare program** (vanpools and carpools). The services and programs are described below:

- For the **regional bus routes**, there are nine express bus routes and one "relax & ride"[9] bus route within the seven servicing corridors. The nine express bus routes have fewer stops than relax & ride. Each corridor pays for the local services it receives. See **Figure 2** for a map of services.
- The **commuter rail,** known as the Music City Star, serves the east corridor. See **Figure 2** for a map of services.

Figure 2
Map of Regional Services



Source: The Authority's website.

- The **EasyRide program** is designed to help employers (known as transit customers) of all sizes incorporate commuter benefits into their employee benefits plans. This program allows the Authority and MTA to provide bus and commuter rail services where employers pay fares for employees to commute for work purposes. The Authority bills employers an amount that is lower than the established standard rate

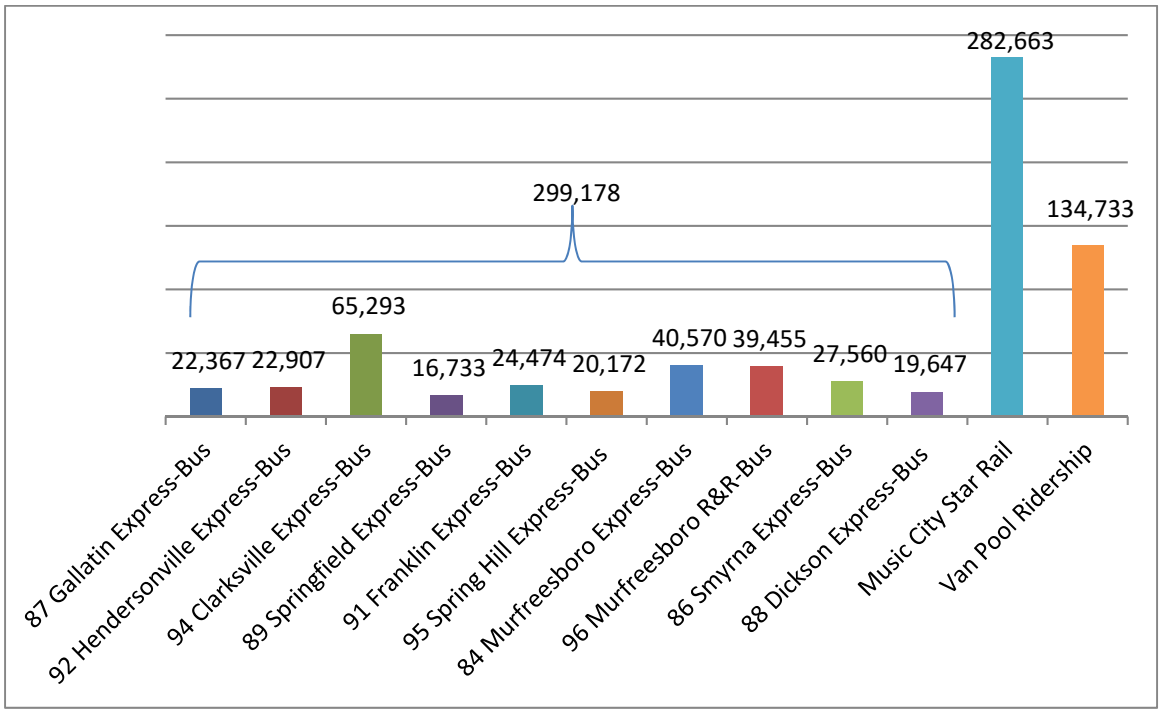
[9] The Authority owns two commuter buses, which MTA uses for the relax & ride route.

(non-discounted rate), which varies between the eight transit customers served by the Authority.

- The **rideshare program** organizes vanpools and carpools for commuters throughout Middle Tennessee. This service provides transportation to and from park and ride locations and place of employment. According to the Authority's contracted management, they maintain a database of over 3,000 commuters located throughout Middle Tennessee who are interested in carpools, and match riders to a convenient carpool. The contracted management team outsources the rideshare program through a contract with the Transportation Management Association (TMA) Group. The Authority has purchased and provides 48 vans for the vanpool. This program is funded through grants that TMA receives directly and through the fees paid by riders using the vanpools. TMA sends the contracted management team a monthly report that shows the revenue TMA received for the month minus the expenses to operate the program. Any revenue exceeding expenses that results in a surplus is returned to the Authority for purchasing new vans as needed for the program.

See **Figure 3** for details on the number of rides by bus route, rail, and vanpool.

Figure 3
Number of Rides[10] by Service
January 2016 Through December 2016
(unaudited)



Source: The Authority's chief operating officer.

[10] A ride equals one way, not roundtrip.

AUDIT SCOPE

We have audited the Regional Transportation Authority of Middle Tennessee (the Authority) for the period August 31, 2015, through July 31, 2017. Our audit scope included a review of internal controls and compliance with laws, regulations, policies, procedures, and provisions of contracts in the following areas:

- board structure and responsibilities;
- the funding plan;
- the reserve fund; and
- the financial report.

The Authority's board and contracted management of the Authority are responsible for establishing and maintaining effective internal controls and for complying with applicable laws, regulations, policies, procedures, and provisions of contracts.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient appropriate audit evidence to support the conclusions in our report. Although our sample results provide a reasonable basis for drawing conclusions, the errors identified in these samples cannot be used to make statistically valid projections to the original populations. We present more detailed information about our methodologies in the individual sections of this report.

We conducted our 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.

PRIOR AUDIT FINDINGS

There were no audit findings in the prior audit report released in October 2015.[11]

[11] The last audit of the Regional Transportation Authority of Middle Tennessee was included with the Department of Transportation's audit report, which was released in October 2015.

AUDIT CONCLUSIONS

BOARD STRUCTURE AND RESPONSIBILITIES

The purpose of the Regional Transportation Authority of Middle Tennessee (the Authority) is to plan for and implement a regional transportation system, including but not limited to a mass transit system, to serve the citizens of the counties, towns, cities, and metropolitan governments that compose the Authority.

Structure

On January 19, 2011, the Authority's board, by a majority vote, chose to follow the alternative legislation that expanded the number of board members appointed by the Governor; allowed for additional metropolitan governments, counties, or municipalities to join the Authority; and allowed the Authority to assume and exercise the powers, duties, and functions under Title 64, Chapter 8, Part 2, *Tennessee Code Annotated*. Pursuant to Section 64-8-204, the board is to consist of the following:

- the county or metropolitan mayor/executive of each county within the Authority;
- the mayor of each town or city included in the Authority;
- the Commissioner of the Department of Transportation or the Commissioner's designee; and
- one person residing in each county of the Authority, to be appointed by the Governor.

Furthermore, statute requires the board to meet at least annually; however, the board's by-laws require at least quarterly meetings with the presence of 30% of board members for a quorum. The board may meet at any time on the call of the chair or upon request of a majority of the membership. The board may establish an Executive Committee; however, the board has not done so.

Audit Committee

As a state governing board that is responsible for the preparation of financial statements, whether included in the financial statements of other entities or freestanding, the Authority's board is required to create an audit committee pursuant to the State of Tennessee Audit Committee Act of 2005, Title 4, Chapter 35, *Tennessee Code Annotated*. In addition, the audit committee is required to develop an audit committee charter, subject to approval by the Comptroller of the Treasury.

Risk Assessment

To carry out the Authority's responsibilities, the Authority's contracted management must establish an adequate internal control structure to provide reasonable assurance that the Authority can achieve basic objectives related to its operations; financial reporting; and compliance with laws, regulations, and policies.

Audit Results

1. **Audit Objective:** Is the board's structure in accordance with state statute?

   Conclusion: The board did not establish an audit committee as required (see **Finding 1**); in addition, one board member appointment remains unfilled (see **Observation 1**).

2. **Audit Objective:** Did the board provide sufficient oversight of contracted management?

   Conclusion: The board did not provide sufficient oversight of contracted management (see **Finding 1**). In addition, because Davidson County Metropolitan government is a participating member of the Authority, the relationship with contracted management (Nashville Metropolitan Transit Authority and Davidson Transit Organization) presents a potential conflict of interest (see **Observation 2**).

3. **Audit Objective:** Did the board meet as statutorily required and in accordance with board by-laws?

   Conclusion: The board met statute requirements and held meetings at least quarterly in accordance with the board's by-laws. However, the board needs to improve recordkeeping of attendance and address the lack of attendance of some board members at board meetings (see **Finding 1**).

Methodology to Achieve Objectives

We interviewed the board chair, chief executive officer, and contracted management staff. We reviewed state statute and the board's by-laws. We reviewed the online board minutes for appropriateness and obtained board member sign-in sheets for board meetings for the period of August 31, 2015, through May 31, 2017. We also observed the board meeting that was held on February 15, 2017.

Finding 1 – The Authority's board did not provide sufficient oversight of contracted management; additionally, the board has not structured its audit committee as required by statute and has not addressed board member attendance issues through its by-laws

Lack of Board Oversight

We found that the Regional Transportation Authority of Middle Tennessee's (the Authority) board did not ensure that contracted management

- prepared and submitted an annual risk assessment (see below);
- set transportation fare rates based on sufficient analysis (see **Finding 2**);
- executed contracts with transit customers (see **Finding 3**);
- created policies and procedures over the reserve fund (see **Observation 3**); and
- classified amounts on the financial statements accurately (see **Observation 4**).

As noted in the background, the Authority's board has not established an Executive Committee. This performance audit recommends that the board should consider creating an Executive Committee to act in the stead of the board, in order to improve its efficiency and effectiveness. The Executive Committee should be composed of a smaller subset of the larger board. The committee's responsibilities should include monitoring the Authority's operation and management and imposing such limitations as are prudent and necessary to assure that freedoms and powers are not abused.

Audit Committee, Risk Assessment, and External Audit Concerns

As a result of our audit work, we determined that even though the Authority has a Finance and Audit committee, the Authority had not established its audit committee in accordance with statute, and we notified the Authority board chair of the audit committee requirement. As described in Section 4-35-105, *Tennessee Code Annotated,* once the audit committee is established, the committee's responsibilities include, but are not limited to,

- overseeing the financial reporting and related disclosures, especially when financial statements are issued;
- evaluating contracted management's assessment of internal controls (risk assessment);
- informing the Comptroller of the Treasury of the results of the assessment and controls to reduce the risk of fraud; and
- serving as a facilitator of any audits or investigations of the body to which the audit committee is attached, including advising auditors and investigators of any information the audit committee may receive that is pertinent to audit or investigative matters.

Furthermore, the board's audit committee is responsible for ensuring management's risk assessment includes all risks identified by audits and self-assessment and the controls developed to mitigate the identified risks. Pursuant to Section 9-18-104(a), *Tennessee Code Annotated*, the head of each state agency and higher education institution is required to prepare and transmit to the Commissioner of the Department of Finance and Administration and the Comptroller of the Treasury a report of management's assessment of risk by December 31, 2008, initially, and then by December 31 of every year thereafter.

Another responsibility of the board's audit committee is to select the independent external auditor for the Authority's financial statement audit; however, contracted management (Nashville Metropolitan Transit Authority) selected the auditor without input from the board. The firm with the lowest bid was selected, which coincidentally was the same audit firm MTA's board selected to audit MTA and Davidson Transit Organization, thus creating a potential conflict of interest for the Authority.

Improvement Needed for Recordkeeping and Attendance of Board Members at Meetings

From our review of the board minutes, which are available on the Authority's website,[12] we found that board member attendance was not recorded in the meeting minutes and attendance records were not available online. Upon our request, contracted management provided copies of the attendance records.

From our review of the board attendance records, we found that attendance records were missing for 2[13] of 18 board meetings (11%) tested. According to the executive assistant,[14] she could not locate records for one meeting; for the other meeting, which was a joint meeting with the MTA board, she failed to complete the attendance record by having board members sign in. In accordance with the Authority's by-laws, Article 3, Section 5, states,

> The Secretary shall be responsible for ensuring that accurate records are kept of all RTAMT [the Authority] Board minutes and actions, and shall be responsible for authenticating records of the RTAMT [the Authority].

Furthermore, the board held 9 monthly board meetings during calendar year 2016, and from our review of the available attendance records for that year, we noted that 12 board members or their designees did not attend the minimum of 4 board meetings in accordance with the Authority by-laws' requirement for the number of meetings per year. In addition, we found that the Authority's by-laws do not address how the board chair should handle member attendance issues.

Members' failure to regularly attend board meetings likely signals board members' inability or unwillingness to carry out the Authority's fiduciary duties and achieve the

[12] http://rtarelaxandride.com/Middle-TN-RTA-board-meetings.asp.
[13] Attendance records for board meetings held on August 17, 2016, and November 16, 2016, were unavailable.
[14] Contracted management staff.

Authority's mission. Therefore, it is imperative that members attend the meetings and that attendance records are documented and included within the board meeting minutes.

Recommendation

The board should consider this recommendation, as well as the recommendations in Finding 2, Finding 3, Observation 3, and Observation 4, in order to fully implement all necessary corrective actions to address the lack of board oversight.

The board should create an Executive Committee to assist the Authority in maintaining management processes and reporting; to provide for the adequacy of financial and accounting control systems; and to serve as a communication channel between contracted management and other outside parties.

The board should also immediately establish an audit committee; once in place and operating, the audit committee should ensure that contracted management performs the risk analysis, including proper mitigating controls and formal documentation of the risk assessment. The audit committee should evaluate the risk assessment annually. The audit committee should also select the external auditor for the Authority's financial report.

The Authority's board chair should review and update the by-laws to include requirements for board member attendance and procedures for dealing with board members who miss a specified number of meetings. The board or one of its committees should review board member attendance at least annually to determine any attendance issues and should formally contact the appropriate city, county, or state government official for a replacement if one is needed.

Authority's Comment

Concur. Although the RTA currently maintains a functioning Finance and Audit Committee that meets regularly and is tasked with many of the same responsibilities as those required under *Tennessee Code Annotated* § 4-35-105, the Authority recognizes the benefits to be gained by expanding the role of the Committee in the manner laid out by the Office of the Comptroller. Based on the findings of this audit, the following changes will be adopted:

1. The formal committee description will be amended to include the specific additional responsibilities as laid out in the performance audit. This will be completed by December 31, 2017.
2. The Finance and Audit Committee, with input from other Board Members, staff and external auditors, will develop an annual risk assessment and review same with the full RTA Board of Directors. This will be done in conjunction with development of the Authority's FY2018-19 Budget and Operating Plan no later than June 30, 2018, and annually thereafter.
3. Effective with the next professional services contract for external audit services (and for each such contract thereafter), the Finance and Audit Committee will formally

review proposals and contract recommendations for external auditors and report same to the full Board. Although the dollar value of these contracts has historically fallen well below the limits required for formal Board approval under Authority, State and Federal procurement laws, the RTA concurs with the Comptroller's Office view that the selection of external auditors is a key element of risk management, and should fall under the purview of the Board under the Finance and Audit Committee.

4. Particularly given the size of the Board (38 Members) and the very busy nature of its membership (most of whom are City and County Mayors), the Authority has been fortunate that Member attendance has been very strong, and has not presented any barriers to Authority business due to a lack of quorum. However, we do concur that improved tracking of Member attendance would further strengthen Authority operations. Toward that end, Member/Alternate attendance for each individual meeting will be formally recorded as a part of adopted meeting minutes, beginning with the October 2017 Board Meeting; on an annual basis (and as part of the Nominations process for Officers), the Executive Committee will review a summary of member attendance and determine what action, if any, should be taken to contact members with poor attendance in conjunction with the next Election of Officers.
5. With respect to other issues of governance (i.e., proper role of Executive Committee, etc.), no later than November 30, 2017, the Chair will appoint an ad hoc committee of members to review the by-laws and make recommendations with respect to changes that would improve the overall governance structure.

Observation 1 – One board member appointment has remained unfilled for nearly 36 months

According to Section 64-8-204, *Tennessee Code Annotated*, the Regional Transportation Authority of Middle Tennessee (the Authority) is to be governed by a board consisting of the following:

- the county or metropolitan mayor/executive of each county within the Authority;
- the mayor of each town or city included in the Authority;
- the Commissioner of the Department of Transportation or the Commissioner's designee; and
- one person residing in each county of the Authority, to be appointed by the Governor.

One of the nine appointments made by the Governor has been vacant since the board member's resignation on August 20, 2014. Robertson County's resident representation member position has remained unfilled for nearly three years. We reviewed all board meeting minutes for the period under audit; we did not note any discussion of this vacancy or attempt to notify the Governor's office of the vacancy.

The board's chair should formally inform the Governor's office of the vacancy and, if necessary, provide a list of recommendations for the appointment. The Authority's by-laws should address the notification process.

Authority's Comment

Concur. We agree with the observation that all Governor's appointments should occur in a reasonable timeframe. The RTA is in the process of clarifying with the Governor's Office what the process should be in making Governor's appointee recommendations in order to speed up the time it takes to fill vacant appointee positions. Upon notification of the appropriate contact person/process, we will follow this process for open positions and soon to be expiring terms within thirty (30) days of notification, and will maintain documentation of this correspondence in a file accessible for future performance audits.

Observation 2 – Potential conflict of interest with contracted management

As noted in the Background section of this report, the Authority contracts with the Nashville Metropolitan Transit Authority (MTA) for day-to-day operations. MTA relies on the Davidson Transit Organization (DTO), a nonprofit organization engaged by MTA to provide necessary labor for the operation of MTA's transit system. Given the fact that both MTA and DTO are part of the Davidson County Metropolitan government, this creates a potential conflict of interest in that Davidson County Metropolitan's transit interests may overshadow the interests of other participating members.

Authority's Comment

In December 2008, the Regional Transportation Authority contracted with the Nashville Metropolitan Transit Authority for management services of the RTA's transit system. This process occurred with the encouragement of professional staff at the Tennessee Department of Transportation, and with the full knowledge and discussion of the RTA Board.

Although we acknowledge that the potential for an appearance of conflict may be resident in certain management actions, decisions and recommendations, we believe that these risks are small relative to the net benefit of having access to professional and experienced mass transit managers in a variety of disciplines, as well as the economies of scale afforded by (essentially) combining expertise with the RTA. Further, the RTA system works most effectively when it is integrated in the most seamless manner possible with local transit providers (many RTA riders also use MTA services to complete their trips). This seamless transportation system is most efficiently achieved through the type of coordination afforded in the existing arrangement. In addition, we believe that this risk is mitigated by the following:

1. Significant RTA decisions with respect to budgets, sub-area funding allocations, service levels and design, fare levels and policies, major procurement actions, strategic plans, corridor plans, the decision to accept State and Federal grants, and the decision to undertake capital projects must be reviewed and approved by the Board, limiting the discretion of contracted management.
2. RTA Board voting occurs in an "unweighted" manner. Each member city and county is allocated the same vote as Nashville/Davidson County.

3. Each organization (RTA and MTA) is established as an independent entity, with separate books, statements, audits, etc. The assignment of costs to RTA is easily identifiable for Board Members and other oversight entities.
4. Because each specific RTA corridor service (i.e, Music City Star, Robertson County Corridor, Williamson County Corridor, etc.) is accounted for individually and funding allocations required of each partner City/County in that corridor, each member can easily track where their funds are being spent.

FUNDING PLAN

As described in the Background section of this report, the Regional Transportation Authority of Middle Tennessee (the Authority) was created to plan, finance, construct, operate, maintain, and manage mass transit systems for the Authority's member counties and cities. The Authority's mission includes responding to the growing need for regional solutions to traffic congestion and promoting economic growth and environmental stability through development of a multimodal transportation system. The Authority's transit system is primarily dependent on its regional bus and commuter rail services, which require significant resources to cover the operating costs of maintaining these services. Given the high operating costs, and because ridership fares are not sufficient to cover the operating costs, the Authority must subsidize these services through federal, state, and local funds that the Authority receives. **Figure 4** presents the subsidies for the prior three fiscal years.

Figure 4
Subsidy Calculation Based on Proposed Budgets
For Fiscal Years Ended June 30, 2017, 2016, and 2015
(unaudited)

Regional Bus Subsidy	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Cost per single ride	$12.91	$12.57	$10.05
Revenue per single ride	2.29	2.42	2.58
Subsidy/single ride	$10.62	$10.15	$7.47
Commuter Rail Subsidy	**Fiscal Year 2017**	**Fiscal Year 2016**	**Fiscal Year 2015**
Cost per single ride	$16.53	$18.48	$19.85
Revenue per single ride	3.42	3.34	3.13
Subsidy/single ride	$13.11	$15.13	$16.72

Source: The Authority's chief executive officer and Authority's website.

Expectations and Best Practices

Generally, organizations that provide transportation services to the public are responsible for developing a plan for funding its planned transportation services. The plan should include a rider fare policy that establishes the principles, goals, and constraints that guide management in setting and collecting fares. Organizations should also develop policies that include short- and long-term financial and operational policy goals. When ridership fares do not provide sufficient revenues and when other funding sources are uncertain, organizations must develop plans to address alternative funding, subsidy options, and other means to cover operational costs of delivering its transportation services. Furthermore, these fare policies should include guidance for evaluating fare levels and fluctuations in operational costs so the Authority can make adjustments to ensure there are sufficient revenues in place to cover costs.

To fulfill its purpose, the Authority is expected to develop an appropriate plan governing its service delivery and sufficient funding for those services. Pursuant to Section 64-8-206, *Tennessee Code Annotated*, one of the Authority's responsibilities includes developing a plan for the operation and expansion of mass transit services that requires "a description of how existing and proposed regional services will be funded, including a plan to coordinate contributions from public and private sources throughout the region." As a federal grant recipient, when the Authority seeks to adjust fare rates, the Federal Transit Administration requires public hearings to allow for input. The most recent increase in fare rates went into effect on September 28, 2015, which increased standard rates[15] by 5%. Prior to this increase, the Authority had not increased its fares in almost four years.

Transit Customers

Currently, the Authority's EasyRide program includes eight transit customers (employers) that receive discounted[16] fare rates for regional buses and the commuter rail for the benefit of their employees. The Authority's most recent transit customer, Trevecca Nazarene University, joined in December 2016. For the regional bus services, these transit customers pay single-ride fare rates that vary from $3 to $3.75, in comparison to the standard rate of $4.25. For the commuter rail service, rates vary from $1.70 to $4, depending on the stop location, in comparison to the standard rate of $2 to $5.25.

The State of Tennessee, one of the Authority's transit customers, pays a flat rate of $2.50 per single ride fare for regional buses and the commuter rail service. The state contracts directly with the Nashville Metropolitan Transit Authority (MTA) rather than the Authority, and the Authority bills MTA monthly based on state ridership for that month. While the State of Tennessee pays $2.50 per single ride to MTA, the boards of MTA and the Authority agreed that MTA would pay the Authority $3.15 per single ride. The reason for the difference in rates,

[15] Standard Fare Rate – The base, non-discounted rate that is charged to a typical rider.

[16] Discounted Fare Rate – A rate that is less than the standard rate. Riders eligible for the discounted fare are youth age 19 and younger; active and retired military; seniors age 65 and older; people with disabilities; and Medicare cardholders.

according to the June 21, 2017, board meeting minutes, is that the Authority's regional bus and commuter rail services cover greater distances than the local MTA routes.

The other six transit customers in the program are

- Asurion;
- Bass, Berry & Sims;
- Metro Medical Supply;
- Nashville Electric Service;
- University School of Nashville; and
- Vanderbilt University Medical Center.

Audit Results

1. **Audit Objective:** Was the Authority's method for determining fare rates adequate?

   Conclusion: The Authority is operating without policies and procedures to support the fare rates, including the discounted fare rates it agrees to with transit customers (see **Finding 2**).

2. **Audit Objective:** Did the Authority maintain contracts with all transit customers?

   Conclusion: The Authority did not ensure contracts for its transit customers were in place and approved by the Authority's board (see **Finding 3**).

Methodology to Achieve Objectives

We interviewed the board chair, chief executive officer, chief financial officer, chief operating officer, and other contracted management staff. We reviewed the Authority's by-laws and state statutes. We obtained a list of all transit customers for the period of August 31, 2015, through July 31, 2017, and reviewed all available MTA transit customer contracts.

Finding 2 – The Authority's board has not established a fare policy to sufficiently guide the Authority's decision-making in funding regional services

Pursuant to Section 64-8-206, *Tennessee Code Annotated*, the Regional Transportation Authority of Middle Tennessee (the Authority) was required to develop a plan for the operation and expansion of mass transit services that requires "a description of how existing and proposed regional services will be funded, including a plan to coordinate contributions from public and private sources throughout the region."

From our review of transit customers (see **Finding 3**), we learned that the Authority has not developed a fare policy to guide its decision-making. According to the board chair, the board

delegates the negotiation of fare rates for transit customers to contracted management, with no board approval.

Based on our discussions with contracted management, we found that they determined the transit customer fare rates by considering the amount of revenue needed to meet current budget demands rather than by performing proper studies and analyses based on established long-term financial and operational goals, including considering future subsidy requirements to remain a viable transportation service for the Authority membership. Furthermore, contracted management believed that providing the transit rates "contributed" by each transit customer as part of the board meeting for the annual budget process was sufficient for board members to review. Due to the absence of an Authority fare plan and policy, we could not determine the appropriateness of the fare rates agreed to with transit customers (see **Figure 5** and **Figure 6**) or any other fare rates.

Figure 5
Regional Buses
Transit Customer Rates

Transit Customer	Transit Rate	% Discount (Standard Rate $4.25)
Asurion	$ 3.00	29%
Bass, Berry & Sims	$ 3.50	18%
Metro Medical Supply	$ 3.50	18%
Nashville Electric Service	$ 3.75	12%
State of Tennessee	$ 3.15	26%
Trevecca Nazarene University	$ 3.50	18%
University School of Nashville	$ 3.00	29%
Vanderbilt University Medical Center	$ 3.50	18%

Figure 6
Commuter Rail
Transit Customer Rates

Transit Customer	Transit Rate (Average)[17]	% Discount (Standard Rate $4.30)[18]
Asurion	$ 3.54	18%
Bass, Berry & Sims	$ 3.34	22%
Metro Medical Supply	$ 3.60	16%
Nashville Electric Service	$ 3.60	16%
State of Tennessee	$ 3.15	27%
Trevecca Nazarene University	$ 3.60	16%
University School of Nashville	$ 3.54	18%
Vanderbilt University Medical Center	$ 2.78	35%

Additionally, contracted management told us that the standard fare rates for bus services were based on what contracted management believed riders would pay for transportation services. Again, the Authority did not request, and contracted management did not perform, a market analysis to determine and set fares sufficient to produce maximum fare revenue to offset increasing subsidization and to cover rising operational costs of the existing services. In the case of the commuter rail, the standard fare rates were based on recommendations from consultants involved in the commuter rail's start in 2006, over 10 years ago.

While contracted management or consultants, by virtue of experience, may be subject matter experts, the Authority's board is not absolved of its responsibilities to govern and, more importantly, fulfill its mission to provide its membership with affordable regional transit options.

According to Section 64-8-201, *Tennessee Code Annotated*, "the express purposes of the regional transportation Authority are to improve mobility and expand multimodal transportation options for residents and visitors in Tennessee's large urban areas." In light of the subsidization noted earlier in **Figure 4**, if fare levels do not keep pace with increases in operating costs, the subsidy requirement increases. Also, without a robust process to acquire new funding sources, the Authority's ability to maintain existing services and/or undertake new projects that would improve transportation options is jeopardized. Not developing an adequate, consistent, and transparent fare policy for contracted management to adhere to creates a risk that the Authority may not be operating in the best interest of all members and the public at large. Without the Authority board's oversight to ensure a proper fare plan and up-to-date fare structure are in place, the Authority risks not remaining a viable transportation option for its membership.

[17]The transit rate for commuter rail was averaged by the five originating rail station stops noted in the MTA contract.

[18]The standard rate for commuter rail was averaged by the five originating rail station stops noted in the MTA contract.

Recommendation

The Authority's board should immediately develop a fare policy that includes the principles, goals, and constraints for setting fares for the Authority. The fare policy should guide the Authority and contracted management in establishing procedures for a fare rate structure. The board should review fare levels annually, assess the changes that need to be made, and approve any considerations for changes to fare rates. Ultimately, the board should provide oversight to contracted management to ensure the Authority fulfills its purpose as described by statute.

Authority's Comment

Concur. We agree that having a fare policy would be beneficial. However, we also believe that this statute generally requires RTA to develop a plan for the operation and expansion of mass-transit services in the region, which is what the nMotion plan that was adopted this past year in fact does. In addition, fare revenue, revenue estimates and the basis for fares are incorporated into the annual budget process over which the Board has oversight responsibility. The RTA will submit a proposed fare policy to the Office of State Comptroller no later than December 31, 2017 for comment as to its acceptability prior to advancing it through the Board approval process.

Finding 3 – The Authority's board did not ensure that contracted management executed revenue contracts between transit customers and the Authority

The Regional Transportation Authority of Middle Tennessee's (the Authority) board did not require contracted management to execute revenue contracts on behalf of the Authority and the eight transit customers that were receiving discounted fare rates for transportation services. Instead, contracted management relied on existing revenue contracts the Nashville Metropolitan Transit Authority (MTA) had executed with the transit customers. According to the board chair, the Authority relied on contracted management, specifically the chief executive officer, to run all day-to-day operations as deemed appropriate. Under this arrangement, the Authority's board in effect was not acting as a board charged with full, direct responsibility.

The purpose of a contract is to formally describe each entity's duties and responsibilities, any applicable exchanges of funds, and the terms of the agreement. By failing to secure executed contracts with its transit customers, the Authority increases the risk that it will not be able to protect its interests, serve its customers, and generate the revenue necessary to carry out its programs. In the board's by-laws, Article 5, Section 2 states that the chief executive officer is required to

> Sign contracts, reports and instruments after approval by the RTAMT Board [the Authority] or the Executive Committee when the Executive Committee is acting in the stead of the Board.

Since the board has not established an Executive Committee, the Authority's full board is responsible for approving contracts before they are executed. When contracted management does not follow established policies and procedures, the Authority is at risk of entering into service arrangements that are not properly reviewed and considered by the governing body and may not serve the Authority's interests or vision.

Recommendation

The Authority's board should ensure that contracted management follows all by-laws and best practices by requiring written executed contracts before providing any services to transit customers. The Authority's board should ensure that contracted management presents each transit customer contract to the board for approval.

Authority's Comment

Concur. We concur with this finding that the board should require contracted management to execute revenue contracts. In the majority of the cases, a signed contract exists for RTA to receive fare revenues, but we do concede that the contracts are contained within MTA master contracts. Going forward, upon the expiration of existing contracts, contracted management will ensure that separate revenue contracts will be entered into specifically for RTA services. We agree that it is a prudent business decision to have executed contracts in place and have a board approved policy designating levels of authority and/or contract amounts that the chief executive officer can sign versus contracts that need board approval. Policies will be developed and approved by the Board no later than June 30, 2018.

IMPROVING MANUFACTURING, PUBLIC ROADS, AND OPPORTUNITIES FOR A VIBRANT ECONOMY (IMPROVE) ACT — Chapter 181 of the Public Acts of 2017

The passage of the IMPROVE Act, which was introduced during the 110th General Assembly in 2017, could create an opportunity for additional sources of revenue for the Regional Transportation Authority of Middle Tennessee (the Authority) to manage. The Act allows voters in the state's largest counties and cities to decide by referendum if voters want to fund mass transit, by imposing capped surcharges on already collected taxes and dedicating those funds to transit projects. Currently, the IMPROVE Act only recognizes those counties and cities meeting a certain population threshold:

> (A) Any county in this state, including any county having a metropolitan or consolidated form of government, having a population in excess of one hundred twelve thousand (112,000), according to the 2010 federal census or any subsequent federal census; or
>
> (B) Any city in this state having a population in excess of one hundred sixty-five thousand (165,000), according to the 2010 federal census or any subsequent federal census.

Cheatham, Dickson, and Robertson Counties, though they are participating Authority members, are excluded due to the population criteria created in the Act; therefore, they are unable to consider a referendum without a change in statute.

Questions That the Authority May Wish to Consider:

- How could the IMPROVE Act's transportation plan impact the Authority's transit plan?
- How could current participating Authority members that do not meet the population criteria be impacted?
- How could the Authority help members meeting population criteria with the IMPROVE Act?

RESERVE FUND

According to the October 21, 2015, board meeting minutes, the Regional Transportation Authority of Middle Tennessee's (the Authority) board was concerned about the loss of federal funds from the Congestion Mitigation Air Quality (CMAQ) grant used to support the regional bus service program. The board acted by establishing a reserve fund of $336,000 from the required contributions remitted by regional partners.[19] Ultimately, the federal grant was renewed for an additional three years until federal fiscal year 2019; however, the board's Finance and Audit committee recommended that the difference between what was required of the regional partners after the CMAQ funding was renewed and what was budgeted be set up as a reserve.

Audit Results

Audit Objective: Did the board establish policies and procedures over the reserve fund?

Conclusion: While the board approved the establishment of a reserve fund to address some of its funding shortages, the Authority did not establish policies and procedures over the reserve fund (see **Observation 3**).

Methodology to Achieve Objective

To meet our objectives, we interviewed the board chair, chief executive officer, chief financial officer, and other key contracted management staff. We reviewed reserve balances and board meeting minutes for the period August 31, 2015, through May 31, 2017.

Observation 3 –The Authority's board and contracted management did not establish written policies and procedures over the utilization of the reserve fund that the board approved

The Regional Transportation Authority of Middle Tennessee (the Authority) did not establish policies and procedures over the utilization of the reserve fund created in October 2015 by the board. Based on discussion with the chief financial officer, he thought the board action item to approve the reserve fund was sufficient and did not realize that the Authority needed to take any further actions to govern reserve fund use. The notes to the financial statements identify the reserve fund, which indicates the funds are "primarily composed of collections from RTA [the Authority] member organizations held for future use if certain funding is not secured and for other specific purposes." While the board approves the use of reserve funds, it has not established written policies or procedures to guide contracted management in the appropriate uses and priorities when expending the reserve fund. The reserve fund balance as of December

[19] These member counties and cities are represented on the Authority's board. See **Appendix 1**.

31, 2016, totaled $589,031. On May 18, 2016, the board approved use of the reserve fund to cover a shortfall of $19,011.[20]

In the Authority's by-laws, Article 5, Section 2 states that the chief executive officer will "develop methods and procedures for accomplishing the objectives and purposes of the RTAMT [the Authority]." By failing to establish adequate policies and procedures over the reserve fund, the Authority—including contracted management—cannot consistently prioritize when reserves should be used, increasing the risks of misappropriation of assets and inefficient use of funds.

Contracted management, in consultation with the board, should establish written policies and procedures over the reserve fund that will ensure that all monies are accounted for properly and any expenditures are used for designated purposes.

Authority's Comment

Concur. We will present a recommended policy for the use of reserve funds to the Board for consideration no later than December 31, 2017. The written policy shall ensure that all monies are accounted for properly and utilized for designated purposes. The current practice was developed following extensive Board discussion and consensus over several months leading up to adoption of the FY2016-17 operating budget. In fact, the development of the current practice came about as a result of an observation in the 2015 Performance Audit conducted by the Office of State Comptroller with respect to ongoing concerns over the stability of the Authority's finances. We do, however, concur that this practice should be more formally adopted through the development of a written policy, approved by the Board of Directors. While there was a clear understanding from the RTA board that the reserve for regional bus operations could only be used for operating budget shortfalls, the policy was not put in writing. The board will establish written policies over the reserve fund to ensure that all monies are accounted for properly and utilized for designated purposes.

[20] The shortfall was due to actual fare revenues being lower than projected budgeted revenue. This was due to a decrease in ridership on the Williamson County and Franklin routes and the elimination of one stop in Brentwood.

FINANCIAL REPORT

Annually, the Regional Transportation Authority of Middle Tennessee (the Authority) obtains, from an independent certified public accountant, an audit of its financial statements, which are prepared by the Authority's contracted management. The financial report consists of five parts: the management's discussion and analysis, the government-wide financial statement presentation, the governmental fund financial statement presentation, the notes to the financial statements, and additional information. The full report of the Authority's most recently audited financial statements for the fiscal year ending June 30, 2016, is available online at http://rtarelaxandride.com/PDF/RTA-Financial-Statements-Year-Ending-June-2016.pdf.

Fare Revenue Collection Process

Contracted management uses various processes for ticket sales and fare validation (scanning of tickets) to collect fare revenues for the services the Authority provides. Riders can purchase tickets for bus or commuter rail services online, at a bus stop, or at a station. As part of the fiscal year 2016 financial audit, contracted management requested an internal control review of the fare revenue collection process for the regional buses and commuter rail. The auditor's report dated January 10, 2017, included one finding on the fare revenue collection process, stating, *"not all existing policies are being followed and additional policies and processes should be implemented."* The finding contained the following nine recommendations to the Authority (see **Appendix 3** for the complete recommendation and corrective actions):

1) Authority officials should have regular meetings with third-party vendors to continually review their procedures;
2) the Authority should develop and utilize a robust secret rider/route checker program;
3) the Authority should consider installing cameras in all vehicles and train cars;
4) the Authority should develop and install signage at all stations and in all vehicles informing customers that they should always be asked to validate their fares;
5) the Authority should perform a monthly surprise count of unsold tickets and related cash on hand for sold tickets in each train conductor's bag;
6) the Authority should investigate with its software vendor the possibility of creating a database report to reflect inventory by ticket type;
7) the Authority fare administrator should run a report listing all tickets that are still held in stock by sequential number;
8) the Authority should perform more frequent counts of state EasyRide passengers; and
9) the Authority should develop detailed analyses relating to passengers' ridership and the related revenues.

The board's Finance and Audit committee presented the financial audit report to the full board during the January 18, 2017, board meeting. The committee recommended acceptance of the report. During the March 22, 2017, board meeting, contracted management developed and presented the corrective action plan to the board to address all finding recommendations.

Audit Results

Audit Objective: Has contracted management addressed the fare revenue collection finding noted in the independent auditor's report?

Conclusion: From the nine recommendations, we identified four (4, 6, 7, and 8) from our follow-up that appear to be fully corrected. The remaining recommendations are only partially corrected or the corrective action is ongoing, since enough time may have not passed since the audit's release. Contracted management's update to the board on corrective actions is exhibited in **Appendix 3**. In addition, we identified other items of interest from our review of the report in the **Results of Other Audit Work** section.

Methodology to Achieve Objective

We interviewed the chief executive officer and contracted management staff, and reviewed the revised policies and procedures. We reviewed the audit finding and recommendations and discussed the status of each recommendation with appropriate contracted management personnel. We also reviewed contracted management's corrective action plan to the board (see **Appendix 3**).

RESULTS OF OTHER AUDIT WORK: FINANCIAL REPORT

From our review of the Regional Transportation Authority of Middle Tennessee's (the Authority) financial report for fiscal year ended June 30, 2016, we identified certain items within the report and have provided them here for informational purposes only. When necessary, we sought additional information from contracted management.

Credit Line

Based on discussion with the chief financial officer, the credit line is used to assist with cash flow to cover expenses that were incurred as part of grant funding. Expenditures that are reimbursable under a grant must be incurred by the Authority first before the Authority can seek reimbursement. According to the Authority's financial report, the Authority entered into a bank agreement for a $1.5 million credit line with a new lender in April 2015.[21] For the year ended

[21] According to the Authority's contracted management, the credit line was initially established in 2006.

June 30, 2016, the Authority's borrowing on the line of credit resulted in $8,622 of interest and loan extension fees.

Lawsuit

According to the Authority's financial report,

> A lawsuit has been filed by two of the nation's largest railroads challenging the legality of Tennessee taxes on diesel fuel for locomotives. The taxes are used to provide funding for railway rehabilitation projects for short line railroads operating in Tennessee. The Authority leases the Music City Star rail line from the Nashville Eastern Rail Authority to operate its daily commuter rail service between Nashville and Lebanon. The eventual outcome of the litigation as well as the impact on the Authority, if any, is unknown at this time.

Annual Membership Dues

From our review of the Authority's financial report, specifically the Statement of Activities to Budget Comparison, annual membership dues provided revenue in the amount of $162,119 (see **Appendix 4**). The counties and cities in the Authority's service area may join the Authority's board by paying dues based on population. According to the Authority's website,

> Cities and counties in the RTA [the Authority] service area may join the RTA board by paying dues based on population. . . . The first benefit is that dues can help provide for the overhead and administrative costs of the RTA such as salaries and office rental. Federal, state and local grant and matching money can be used towards projects instead of administrative and operational expenditures. The second benefit is to the members of the RTA. By paying dues, member governments voice their support of RTA initiatives. The dues structure opens membership opportunities to governments and communities that, based on the initial legislation, could not participate in the RTA in the past.

According to contracted management, the membership dues are based upon the most recent 2010 U.S. Census for each county and city, and then multiplied by 10 cents (.10). Membership dues paid in fiscal year 2017 ranged from $500 (minimum requirement) to $60,357. (For example, if a city had a census population of 85,000 persons, the dues would be 85,000 x .10 = $8,500.) According to the chief financial officer, dues have remained the same since 2002, and the Authority's board has not considered raising dues since the Authority's inception (see **Observation 4**).

Observation 4 – The Authority's board should review the amounts and uses of its membership dues and administrative costs to ensure the Authority has both maximized dues and contained administrative costs; furthermore, contracted management should ensure it is familiar with all regulations pertaining to the Authority's financial statements

Membership Dues Assessment

According to Section 64-8-206(b)(8), *Tennessee Code Annotated*, the Authority is allowed

> to establish local assessments for the purposes of paying expenses related to the administration of the Authority's activities, including, but not limited to, the costs associated with insurance policies and deductibles, to be paid by its city, town, metropolitan government and county government members. Local assessments shall not be used for the construction or operation of transportation facilities or services.

We determined that the current membership dues assessment of $162,119 annually is insufficient to cover annual administrative costs. To illustrate, the Authority pays the Nashville Metropolitan Transit Authority $803,400 annually to administrate the Authority's operations, resulting in a shortfall of $641,281 to cover those administrative costs. According to contracted management, the Authority's board has never considered raising dues, despite the intent that dues are to be used to assist with covering overhead and administrative costs. Similarly, the board has not directed contracted management to analyze the Authority's administrative costs to ensure costs are contained to actual justifiable costs.

Rainy Day Fund

From our discussions with contracted management, we learned that in 2012 the Authority began diverting membership dues into a rainy day fund (RDF), instead of using the collected dues to pay overhead and administrative costs. According to contracted management, the board's intent was to place the membership dues into the RDF for future potential needs. The current board could not provide evidence of the approved board action from its 2012 decision to create the RDF. The RDF has accumulated a total balance of $680,192 as of July 31, 2017, since the Authority has not used membership dues to cover its administrative costs as statute suggests. Furthermore, the Authority's website appears to support that the board's intent was to use membership dues as described in the statute by stating,

> The first benefit is that dues can help provide for the overhead and administrative costs of the RTA such as salaries and office rental. Federal, state and local grant and matching money can be used towards projects instead of administrative and operational expenditures.

Since statute specifies the allowable purposes and the limitations of membership dues, and since the Authority has recurring administrative costs, we believe the board should use the dues to cover administrative costs to the extent that funds are available.

Even though the next U.S. Census is not scheduled to occur until 2020, the Census schedule does not prohibit the Authority from reassessing the fee methodology by increasing the amount per capita or using more current population estimates, as stated in statute. The Authority's board should review membership dues and ensure that the board's use of dues is in compliance with statute. In conjunction with the dues assessment, the board should also assess administrative costs in order to avoid future shortfalls.

Financial Statements

For the Authority's most recent audited financial statements, we found that contracted management did not classify the amounts collected in the RDF as restricted in accordance with accounting principles. Instead, the RDF amount of $587,904 was classified as cash (unrestricted) on the balance sheet account as of June 30, 2016. According to contracted management, they were not aware of the limitations imposed by Section 64-8-206(b)(8), *Tennessee Code Annotated*. As a result, external users of the report were unaware of both the existence of the RDF and its purpose and uses.

Contracted management is currently preparing the Authority's financial statements for the fiscal year ending June 30, 2017, and stated they will classify the RDF as restricted. Although contracted management intends to classify the RDF as restricted in its fiscal year 2017 financial statements, the Authority should consider whether it is necessary to restate its prior year financial statements.

Authority's Comment

Concur. We will address this observation regarding the RTA board's review of the amounts and use of RTA's membership dues. The board has had many discussions regarding the need for the establishment of a "rainy day fund" utilizing funds raised through membership dues. While the statute states what the membership dues can and cannot be used for, it does not stipulate when the funding must be used. The RTA feels that it is a prudent business decision to have reserves set aside for emergencies or unexpected expenses. RTA does concede that the board needs to adopt a policy regarding the rainy day fund and that the presentation in the audited financial statements should reflect that the rainy day fund is restricted cash as presented in the balance sheet and will correct that in all future audit reports. A specific policy regarding the recording and uses of these funds will be developed by October 31, 2017; and audited financial statements issues for the fiscal year ending June 30, 2017 will reflect these policies.

Results of Federal Review by Federal Transit Administration
(For Informational Purposes Only)

Based on discussion with the chief financial officer, we found that the Federal Transit Administration (FTA) completed a triennial review on August 24, 2016, for the period 2013 through 2015. Not a financial audit, the triennial review is FTA's assessment of the Authority's compliance with federal requirements. The triennial review focused on the Authority's

compliance with federal requirements in 17 areas. Deficiencies were found in the following 6 areas:

- maintenance – the facility/equipment maintenance program was lacking or inadequate, and the Authority had inadequate oversight of contracted maintenance activities;[22]
- Americans with Disabilities Act (ADA) – ADA service provisions contained deficiencies;
- procurement – procurement policies were not current or complete;
- Disadvantaged Business Enterprise – the small business element was not submitted and/or implemented;
- half fare – half fares were not extended to all required services; and
- drug-free workplace/drug and alcohol program – Management Information System reports were not properly submitted, and there were deficiencies in the process of checking previous drug and alcohol testing records.

The Authority had until November 29, 2016, to submit all required corrective actions. Contracted management received a letter dated July 12, 2017, from FTA stating that the Authority's July 6, 2017, request for additional time to address the repeat finding in the area of maintenance would be granted. The letter went on to state that this was the third and final extension request that would be granted for the deficiency regarding inadequate oversight of contracted maintenance activities. We did not perform any audit procedures or follow-up of this federal review.

[22] This deficiency is repeated from the 2013 federal triennial review.

APPENDICES

APPENDIX 1
Board Member Representation[23]

County or City Name	County	City	Governor Appointee
Cheatham	1		1
Ashland City		1	
Davidson County	1		1
Bell Meade		1	
Goodlettsville		1	
Dickson County	1		1
Dickson		1	
Montgomery County	1		1
Clarksville		1	
Robertson County	1		1[24]
Springfield		1	
Rutherford County	1		1
LaVergne		1	
Murfreesboro		1	
Smyrna		1	
Sumner County	1		1
Gallatin		1	
Hendersonville		1	
Portland		1	
Westmoreland		1	
White House		1	
Williamson County	1		1
Brentwood		1	
Franklin		1	
Spring Hill		1	
Wilson County	1		1
Lebanon		1	
Mt. Juliet		1	
Appointment based on position			1[25]
Subtotals	**9**	**19**	**10**
Total Members	**38**		

[23] Obtained from contracted management staff.
[24] Vacant since August 20, 2014.
[25] The Commissioner of the Tennessee Department of Transportation.

APPENDIX 2
Federal and State Awards Received
For the Year Ended June 30, 2016
(unaudited)

U.S. Department of Transportation:	Award Beginning Date	Award Amount
Urbanized Area Formula Program – Capital Cost of Contracting	7/1/2010	$1,875,000
Urbanized Area Formula Program – 5307 – PM	7/1/2011	$625,000
Urbanized Area Formula Program – 5307 – PM	3/1/2013	$11,080,321
Urbanized Area Formula Program – CMAQ	7/1/2011	$5,500,000
Urbanized Area Formula Program – 5307 Bus Seat Guarantee	7/1/2010	$1,050,000
Urbanized Area Formula Program – 5307 P&R Development	10/8/2013	$695,500
Urbanized Area Formula Program – 5307 – PM	10/1/2013	$4,039,800
Urbanized Area Formula Program – 5307 – HS Station	9/1/2014	$160,000
Passed through Tennessee Department of Transportation:		
Van Pool Seat Guarantee	4/27/2007	$200,000
Regional Ridesharing Program	7/1/2011	$2,500,000
Regional Ridesharing Program	7/1/2008	$1,900,000
Passed through the Metropolitan Planning Organization:		
Unified Planning Work Program (UPWP) – FHWA planning	10/1/2015	$150,000
Unified Planning Work Program (UPWP) – FTA Planning	10/1/2015	$180,000
Passed through Metropolitan Transit Authority:		
Job Access Reverse Commute	7/1/2015	$104,317

Source: The Authority's chief financial officer provided us with the list of grant awards with expenditure activity from the fiscal year June 30, 2016, financial report.

APPENDIX 3
Management's Corrective Action Plan
(Presented to the Board on March 22, 2017)
(For Presentation Purposes Only)

	Finding/Recommendation	Corrective Action Plan	Date
	RTA officials should have regular meetings with the third-party vendors employing bus drivers and train operators to continually review their procedures. This should include ensuring that all bus and train passengers are checked for a fare card, EasyRide card, or some form of payment for rides provided.	RTA management was already meeting with vendors on a regular basis on a variety of topics. Going forward, the meetings will occur, at a minimum, on a monthly basis and will include a review of fare collection processes and procedures and a review of any customer complaints or issues raised through a new secret rider program being implemented.	March 1, 2017 and ongoing
	RTA should develop and utilize a robust secret rider/route checker program. Such secret riders should ride buses and trains to ensure fare validation is occurring in accordance with RTA policy. All routes should be covered by the secret rider program using regular but random methodology.	RTA is currently out to bid for a third-party vendor to perform secret ride checks on both bus and train services as well as several other areas, from observation of security to monitoring of customer care. Once in place, the vendor will be expected to perform at least 36 observations per month. Observations will be conducted based on a weighted sample of bus and train routes provided by RTA. They will also develop a scoring matrix based on input from RTA Board or senior management.	July 1, 2017
	RTA should consider installing, or requiring the vendor to install, cameras in all vehicles and train cars. Video footage should be regularly reviewed to ensure that fare validation is occurring, and to protect RTA in any other questionable areas or events.	RTA is looking into installation of cameras on the train through its capital projects budget. In discussions with its bus vendor, the capital outlay would be too great for the vendor to consider, especially since vendor buses are used for other things besides public transportation. Management feels that the secret rider program will be effective enough to overcome not having cameras on the buses.	No definitive date. Depends on availability of Capital Funding. ongoing
	RTA should develop and install signage at all stations and in all vehicles informing customers that they should always be asked to validate their fares. The signage should instruct customers that if an operator does not properly validate a fare, the customer should call RTA's Customer Care to describe the situation.	RTA has already installed new signage on the trains informing riders that all tickets must be validated. Verbiage on the signs is currently being updated to include a hotline to call if their tickets are not validated or checked. Management has identified a location on the third-party buses to post similar signage and is in the process of installing appropriate signage.	March 31, 2017

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	RTA should perform a monthly surprise count of unsold tickets and related cash on hand for sold tickets for each train conductor's bag. This will ensure completeness of support for all 60 tickets issued by RTA to each conductor.	RTA management is currently developing a schedule to perform surprise inspections of conductor ticket bags to ensure accuracy and compliance. Surprise inspections will begin in April 2017 and will occur randomly going forward.	April 2017 and ongoing
	RTA should investigate with its software vendor the possibility of creating a database report to reflect inventory by ticket type as well as by sequence number issued to each specific location. This report could then be used to reconcile ticket inventory reported as sold and ticket inventory reported as unsold by location. This process and reconciliation will help to account for the complete population of inventory issued by RTA to the respective locations and help to ensure any missing or potentially stolen tickets are detected on a timely basis.	RTA has worked with its software vendor and created separate databases for each location selling tickets that will allow for RTA's Fare Administrator to examine by ticket type and/or ticket sequence. The separate databases are updated monthly for tickets sold or issued to consignees in order to maintain control of all ticket inventory.	Completed February 1, 2017
	The RTA Fare Administrator should run a report listing all tickets that are still held in stock with RTA by sequential number. RTA should compare beginning serial numbers on this report to the next physical ticket number available to be pulled for ticket orders. If the ticket numbers differ, RTA should timely investigate the discrepancy. Additionally, a person independent of the Fare Media Administrator should perform periodic surprise physical inventory counts of the ticket stock and compare the stock on-hand to the available tickets report.	RTA has worked with its software vendor to create a report in the bulk sales module that will be used each time a ticket order is filled to verify the previous ending serial number ensuring tickets are sold in sequence. Effective February 15, 2017, RTA's Fare Administrator began utilizing the report successfully. A new process has also been implemented that someone independent of the Fare Administrator will conduct surprise inventory checks at least once per quarter and document and investigate any discrepancies.	Completed February 15, 2017 and ongoing
	In order to more precisely ensure that State EasyRide passenger counts are properly reflected on invoices to the State, it is recommended that RTA perform counts of State EasyRide passengers on a more frequent basis. Specifically, RTA should follow the procedures for passenger sampling which are prescribed in the National Transit Database and Federal Transit Administration Circulars. Using these sampling and counting strategies will help to ensure that RTA has an appropriate basis for determining ridership levels and for invoicing the State.	RTA management has already tested three electronic counting software systems not only for State EasyRide passengers, but for all passengers that validate their train ride with a smart card. Since February 1, 2017, RTA has been building a passenger database based upon the radio frequency identification (RFID) number imbedded in the cards. Effective March 31, 2017, a 100% count will be done on all train trips and the RFID software will allow us to do 100% billing for all rides to our EasyRide customers and effectively guarantee 100% collection of all fare revenues.	March 31, 2017 and ongoing

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	RTA should develop detailed analysis relating to passengers' ridership and the related revenues. Specifically, ridership statistics should be compared to related revenues collected on a routine basis (i.e., at least monthly). Reports should be developed for analyses by Senior Management and the Board to review revenue and ridership trends. Revenue per ride statistics should be compared to fare prices for reasonableness. Relevant revenue and ridership reports, coupled with the other recommendations in this report will help to identify any material inconsistencies in revenues.	RTA has already developed statistical analysis worksheets to review average fare collections per customer that will raise red flags when there is an exception outside normal trends to investigate. This is now being reviewed on a monthly basis.	February 1, 2017 and ongoing

Source: The Authority's chief financial officer.

APPENDIX 4
Regional Transportation Authority
Statement of Activities to Budget Comparison
From the Audited Financial Statements for the Year Ended June 30, 2016

http://rtarelaxandride.com/PDF/RTA-Financial-Statements-Year-Ending-June-2016.pdf

	Budget	Actual	Budget Variance
REVENUES			
Full adult fare – R&R	$ 957,706	$ 914,535	$ (43,171)
Full adult fare – Train	795,036	815,416	20,380
Special events	42,600	70,569	27,969
Advertising sales	2,000	4,504	2,504
Rent of building and property	60,000	61,091	1,091
Non-transportation revenue	100	39,813	39,713
Annual membership dues	-	162,119	162,119
Local operating	1,668,182	1,661,542	(6,640)
Regional operating subsidies	1,362,494	1,101,035	(261,459)
State operating revenues	1,292,450	777,679	(514,771)
Planning grant revenues	-	350,000	350,000
JARC	104,317	104,317	-
CMAQ revenues	1,923,019	1,647,578	(275,441)
Capital operating assistance	1,729,491	2,300,666	571,175
Total operational revenues	9,937,395	10,010,864	73,469
EXPENSES			
Salary-contract admin – R&R	214,500	214,500	-
Salary-contract admin – Train	214,500	214,500	-
Other fringes – R&R	175,500	175,500	-
Other fringes – Train	175,500	175,500	-
Advertising service and fees – R&R	80,000	36,668	43,332
Advertising service and fees – Train	82,400	7,807	74,593
Attorney's fees	41,000	43,347	(2,347)
Outside auditing fees	33,000	45,554	(12,554)
Web management contract	64,000	60,515	3,485
Interest on track usage loan	5,282	1,761	3,521
Interest/extension fees – LOC	35,000	8,622	26,378
Bank service charges	4,000	6,797	(2,797)
Other services – R&R	2,500	17,056	(14,556)
Other services – Admin/MasterPlan/NW Corridor	-	998,595	(998,595)
Other services – Train	94,200	111,560	(17,360)
Other services – Admin Train	14,000	-	14,000
Emergency ride home	10,000	3,928	6,072
Contract maintenance – TVM's Train	11,000	-	11,000
Contract maintenance – Train Parts/Repairs/ Maintenance	225,200	142,599	82,601
Contract maintenance – R&R/MTA	1,499,142	1,500,119	(977)
Contract maintenance - R&R/Gray Line	2,501,013	2,342,494	158,519
Contract maintenance - Train Shuttle/MTA	169,700	160,347	9,353
Contract maintenance - Base Train Service/TSG	1,725,424	1,725,426	(2)

Regional Transportation Authority
Statement of Activities to Budget Comparison (continued)
From the Audited Financial Statements for the Year Ended June 30, 2016

	Budget	Actual	Budget Variance
Contract maintenance - Special Service Train/TSG	27,460	36,560	(9,100)
Contract maintenance - Track Rent/NERC	56,115	56,112	3
Contract maintenance - Special Track Usage/NERC	9,370	9,990	(620)
Contract maintenance - Base Track Usage/NERC	550,000	547,436	2,564
Contract maintenance - Train/Train Systems	25,000	10,032	14,968
Contract maintenance - Deferred Track Usage	162,539	-	162,539
Fuel hedging expense - Train	-	71,868	(71,868)
Diesel fuel - Train	694,697	384,231	310,466
Gasoline - (MCS) Support Vehicle	500	-	500
M&S general - R&R	1,000	-	1,000
M&S general - Train	3,500	-	3,500
Promotional M&S	3,500	823	2,677
M&S Passenger Stations - Train	3,000	561	2,439
Printing services - R&R	5,000	4,823	177
Printing services - Train Fare Media	35,000	16,394	18,606
Printing services	25,000	1,319	23,681
Office supplies - Rideshare Admin	4,500	50	4,450
Janitorial supplies - Train	2,000	1,752	248
Electric	500	4,440	(3,940)
Water/sewer	-	480	(480)
Telephones - Train	4,600	721	3,879
Insurance - PPADO	-	3,113	(3,113)
Insurance -CS&A	555,148	544,898	10,250
Insurance - Real Property	15,400	18,281	(2,881)
Insurance - TPA Claims	-	6,145	(6,145)
Licensing vehicles	500	250	250
Dues and subscriptions - RTA	13,900	17,557	(3,657)
Dues and subscriptions - Train	13,900	14,836	(936)
Travel and meetings - RTA	6,000	79	5,921
Miscellaneous general	2,000	12,423	(10,423)
Postage - R&R	1,000	-	1,000
Freight charges	3,250	6,691	(3,441)
Freight charges - Train	-	3,293	(3,293)
Contingency	336,155	-	336,155
Total operation expenses	9,937,395	9,768,353	169,042
OTHER REVENUE/EXPENSES			
Capital purchases revenue	-	864,633	864,633
Depreciation expense	-	(978,899)	(978,899)
Gain on sale of capital assets	-	92,900	92,900
Total other revenue/expenses	-	(21,366)	(21,366)
CHANGE IN NET POSITION	$ -	$ 221,145	$ 221,145

Source: The Authority's chief financial officer.