



September 4, 2015

The Honorable Thomas Davis Rust  
Virginia House of Delegates  
House Transportation Committee  
730 Elden Street  
Herndon, VA 20170

The Honorable S. Chris Jones  
Virginia House of Delegates  
House Appropriations Committee  
P.O. Box 5059  
Suffolk, VA 23435-0059

The Honorable Walter Stosch  
Virginia Senate  
Senate Finance Committee  
4551 Cox Road, Suite 110  
Glen Allen, VA 23060-6740

The Honorable Charles J. Colgan  
Virginia Senate  
Senate Finance Committee  
10677 Aviation Lane  
Manassas, VA 20110-2701

The Honorable Stephen Newman  
Virginia Senate  
Senate Transportation Committee  
P.O. Box 480  
Forest, VA 24551

Ms. Jennifer Mitchell  
Director, Virginia DRPT  
600 East Main Street, Suite 2102  
Richmond, VA 23219

Dear Chairman Rust, Chairman Jones, Co-Chair Stosch, Co-Chair Colgan, Chairman Newman and Director Mitchell:

During the 2015 legislative session, the Virginia General Assembly passed an amendment to the 2014-2016 biennium budget (item 439 #1c) requiring the Washington Metropolitan Area Transit Authority (WMATA) Board of Directors to provide, immediately upon its issuance, a copy of the audited financial statements for FY 2014 and a plan to remedy any deficiencies within 30 days of receipt of the report. The FY 2014 audited financial statements are required to be submitted to the Director of the Virginia Department of Rail and Public Transportation and the Chairman of the Virginia House and Senate Transportation Committees and the Virginia House Appropriations and Senate Finance Committees.

WMATA provided a copy of the FY 2014 financial statements to the General Assembly and DRPT in a letter dated August 11, 2015. The letter stated that the plan to remedy the audit findings would be provided in 30 days. Please find the enclosed "Single Audit Reports in Accordance with OMB Circular A-133, Year Ended June 30, 2014". This document provides the auditor's findings and WMATA's planned corrective actions in response to each finding

**Washington  
Metropolitan Area  
Transit Authority**

600 Fifth Street, NW  
Washington, DC 20001  
202/962-1234

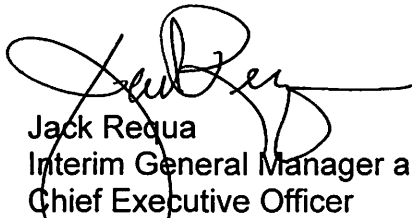
By Metrorail:  
Judiciary Square—Red Line  
Gallery Place-Chinatown—  
Red, Green and  
Yellow Lines  
By Metrobus:  
Routes D1, D3, D6, P6,  
70, 71, 80, X2

Chairman Rust, Chairman Jones, Co-Chair Stosch, Co-Chair Colgan,  
Chairman Newman and Director Mitchell  
Page 2

in the subsections titled "Views of Responsible Officials and Planned Corrective Actions". The audit findings begin on page 11.

If you have any further questions, please contact Gregory Potts, Virginia Government Relations Officer, at 202-962-2756 or [gpotts@wmata.com](mailto:gpotts@wmata.com).

Sincerely,



Jack Requa  
Interim General Manager and  
Chief Executive Officer

Enclosure

# Washington Metropolitan Area Transit Authority

Single Audit Reports in Accordance with OMB  
Circular A-133

Year Ended June 30, 2014

# Washington Metropolitan Area Transit Authority

## Table of Contents

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	1 - 2
Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	3 – 6
Schedule of Expenditures of Federal Awards	7 - 8
Notes to Schedule of Expenditures of Federal Awards	9
Schedule of Findings and Questioned Costs	10 - 47
Summary Schedule of Prior Year's Audit Findings	48



**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Washington Metropolitan Area Transit Authority  
Washington, D.C.

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Washington Metropolitan Area Transit Authority (the Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's business-type activity financial statements, and have issued our report thereon dated August 6, 2015. We expressed a qualified opinion on the business-type activity financial statements relative to the reported amounts of restricted net position.

**Internal Control over Financial Reporting**

In planning and performing our audit of the business-type activity financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 through 2014-009, and 2014-013 to be material weaknesses.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-010 through 2014-012 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's business-type activity financial statements are free from material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-014 and 2014-015.

## **The Authority's Response to Findings**

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the business-type activity financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*McGladrey LLP*

Washington, D.C.  
August 6, 2015



**Report on Compliance For Each Major Federal Program;  
Report on Internal Control Over Compliance; and Report on Schedule of Expenditures  
of Federal Awards Required by OMB Circular A-133**

To the Board of Directors  
Washington Metropolitan Area Transit Authority  
Washington, D.C.

**Report on Compliance for Each Major Federal Program**

We have audited Washington Metropolitan Area Transit Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Authority's major federal programs for the year ended June 30, 2014. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

**Basis for Qualified Opinion on Each Major Federal Program**

As described in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with requirements regarding the following:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
CF 2014-016	20.500/20.507	Federal Transit Cluster	Reporting
	20.516/20.521	Transit Services Programs Cluster	Reporting
	20.524	Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA)	Reporting
	97.075	Rail and Transit Security Grant Program	Reporting
CF 2014-017	20.500/20.507	Federal Transit Cluster	Allowable Activities/Allowable Costs
	20.516/20.521	Transit Services Programs Cluster	Allowable Activities/Allowable Costs
	20.524	Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA)	Allowable Activities/Allowable Costs
CF 2014-018	20.500/20.507	Federal Transit Cluster	Allowable Activities/Allowable Costs
	20.524	Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA)	Allowable Activities/Allowable Costs
CF 2014-019	20.500/20.507	Federal Transit Cluster	Allowable Activities/Allowable Costs
	20.516/20.521	Transit Services Programs Cluster	Allowable Activities/Allowable Costs

Compliance with such requirements is necessary, in our opinion, for the Authority to comply with requirements applicable to these programs.

**Qualified Opinion on each Major Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each major program for the year ended June 30, 2014.

**Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance in OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned cost as items CF 2014-020 through CF 2014-026. Our opinion on each major federal program is not modified with respect to these matters.



The Authority's response to noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal controls over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal controls over compliance described in accompanying schedule of findings and questioned cost as items 2014-016 through 2014-019 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal controls over compliance described in accompanying schedule of findings and questioned cost as items 2014-020 through 2014-024 to be significant deficiencies.

The Authority's response to the internal controls over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the business-type activity financial statements of the Authority as of and for the year ended June 30, 2014, and have issued our report thereon dated August 6, 2015, which contained a modified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*McGladrey LLP*

Washington, D.C.

August 31, 2015, except for the Schedule of Expenditures of  
Federal Awards for which the date is August 6, 2015

**WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30,2014**

Federal Grantor/ Program Title	CFDA Number	Grant Contract Number	Federal Expenditures
<b><u>U.S. Department of Transportation - Federal Transit Administration</u></b>			
Passenger, Rail, Investment and Improvement Act of 2008	20.524		
FFY10 PRIIA Appropriation		DC-75-0001	\$ 3,433,145
FY2011 PRIIA Appropriation		DC-75-0002	21,371,015
FY2012 PRIIA Appropriation		DC-75-0003	17,539,360
FY2013 PRIIA Appropriation		DC-75-0004	126,485,874
Total Passenger, Rail, Investment and Improvement Act of 2008			<u>168,829,394</u>
Federal Transit Cluster			
Federal Transit - Capital Investment Grants (Fixed Guideway Capital Investment Grants)	20.500		
Largo Town Center Extension		DC-03-0039	2,749,222
FFY07 5309 Rail Modernization		DC-05-0009	1,037,683
ARRA Fix Guideway Infra Improvement		DC-56-0001	500,936
09 Section 5309 Rail Modern Improvement		DC-05-0011	1,339,359
FFY10 5309 Fixed Guideway		DC-05-0012	-
FY08 WMATA Bus & Bus Facilities		DC-04-0005	378,230
FY10 SGR Asset Management		DC-04-0007	1,196,968
FY2011 5309 Fixed Guideway Moderniz		DC-05-0013	7,146,219
FY2012 5309 Fixed Guideway Moderniz		DC-05-0014	9,644,503
Total Federal Transit - Capital Investment Grants (Fixed Guideway Capital Investment Grants)			<u>23,993,120</u>
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507		
FF 2006 5307 Formula Grant		DC-90-X079	557,833
FFY07 5307/5340 Formula Fund		DC-90-X081	420,966
FFY08 5307/5340 Formula Fund		DC-90-X082	840,157
VA CMAQ Bus Purchase		DC-95-X004	91,632
ARRA Transit Capital Assistance		DC-96-X001	2,020,306
FFY'07 VA CMAQ Bus Purchase		DC-95-X007	394,160
FFY09 VA CMAQ Bus Purchase		DC-95-X012	8,560
FFY10 VA CMAQ Bus Purchase		DC-95-X013	400,000
FFY10 5307/5340 Formula Grant		DC-90-X085	1,030,278
FFY11 5307/5340 Formula Grant		DC-90-X086	2,783,069
FFY12 5307/5340 Formula Grant		DC-90-X087	23,017,041
Total Federal Transit - Formula Grants (Urbanized Area Formula Program)			<u>31,564,002</u>
Total Federal Transit Cluster			<u>55,557,122</u>
Transit Services Programs Cluster			
Job Access/Reverse Commute Program	20.516		
Job Access/Reverse Commute		DC-37-X004	654,108
JARC Travel Training		DC-37-X022	96,262
Total Job Access/Reverse Commute Program			<u>750,370</u>

(continued)

**WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30,2014**

Federal Grantor/ Program Title	CFDA Number	Grant Contract Number	Federal Expenditures
New Freedom Program	20.521		
New Freedom-Travel Training		DC-57-X004	\$ 35,265
New Freedom - Bus Stop Improvements		DC-57-X007	75,089
Total New Freedom Program			<u>110,354</u>
Total Transit Services Program Cluster			<u>860,724</u>
Public Transportation Research, Technical Assistance, and Training	20.514		
Energy Rail Demonstration projects		DC-26-7209	54,730
Transit Works		DC-26-7363	104,987
Total Public Transportation Research, Technical Assistance, and Training			<u>159,717</u>
Total U.S. Department of Transportation - Federal Transit Administration			<u>225,406,957</u>
<b><u>U.S. Department of Homeland Security</u></b>			
Homeland Security Grant Program	97.067		
Protect Maintenance in MetroRail Stations		11UASI113-01	174,359
Protect Maintenance in MetroRail Stations		12UASI113-01	300,811
Total Homeland Security Grant Program			<u>475,170</u>
Rail and Transit Security Grant Program	97.075		
DHS K-9 Opack (3 teams)	97.075	09-RA-T9-K023-1	(148,505)
Cameras on Rail Cars TSGP09		2009-RA-T9-K023	4,927,092
CCTV & Access Control TSGP 09		2009-RA-T9-K023	923,224
Platform Security TSGP 09		2009-RA-T9-K023	391,780
Rail Yard Hardening		2010-RA-T0-K009	6,690,489
Explosive Detection Canine Teams		2011-RA-K00082	1,184,149
Mobile Explosive Screening Team		2011-RA-K00082	195,605
Overtime for Special Events		2011-RA-K00082	388,136
Remediation Plans For Current TTAL Assets		2011-RA-K00082	177,588
FY2012 TSGP		2012-RA-K00056	2,778,816
Total Rail and Transit Security Grant Program			<u>17,508,374</u>
Total U.S. Department of Homeland Security			<u>17,983,544</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 243,390,501</u></b>

See accompanying notes to schedule of expenditures of federal awards.

## Washington Metropolitan Area Transit Authority

### Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

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#### 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Washington Metropolitan Area Transit Authority (the "Authority") under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.

#### 2. Summary of Significant Accounting Policies

The Schedule is presented using the accrual basis of accounting. Such expenditures/expenses are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures/expenses are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

#### 3. Relationship to Financial Statements

The categorization of expenditures by program included in the Schedule of Expenditures of Federal Awards is based on the Catalog of Federal Domestic Assistance (CFDA).

Federal grant expenditures are reported in the Authority's financial statements as follows:

- a. Metrorail and Metrobus capital grant expenditures are recorded as construction-in-progress when expended.
- b. Operating assistance grant expenditures are recognized in the Authority's Statement of Revenues, Expenses, and Changes in Net Position.
- c. State and local expenses are the nonfederal portion of the grant expenditures for which stipulated percentages are identified in each grant document.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2014**

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**Section I – Summary Of Auditor’s Results**

Financial Statements

Type of auditor’s report issued: Modified

Internal control over financial reporting:

- Material weakness(es) identified?  X  Yes   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  X  Yes   None reported

Noncompliance material to financial statements noted?  X  Yes   No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?  X  Yes   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  X  Yes   None reported

Type of auditor’s report issued on compliance for major programs: Modified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  X  Yes   No

*Identification of Major Programs:*

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
20.524	Passenger, Rail, Investment and Improvement Act of 2008
20.500 / 20.507	Federal Transit Cluster
20.516 / 20.521	Transit Services Programs Cluster
97.075	Rail and Transit Security Grant Program

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee?   Yes  X  No

## Section II – Financial Statement Findings

### Internal Control- Material Weaknesses

#### A. Internal Control

##### **Finding 2014-001 Financial Reporting – Material Weakness**

Criteria: Internal control policies and procedures should provide reasonable assurance regarding the reliability of the financial reporting process. Preparation of the financial statements should include procedures that are designed to help ensure information required to be disclosed in accordance with accounting principles generally accepted in the United States of America (GAAP) is accumulated, recorded, processed, summarized and appropriately reported in a timely manner to facilitate the organization's financial reporting covenants, and to those charged with governance. The yearend closing and financial reporting process, including the accurate recording and accounting of transactions and financial statement preparation, are critical functions of management and should be completed in a timely manner.

Condition: Management had an inadequate design of controls over the yearend closing and financial reporting process. Numerous adjustments were required to be made to the Authority's trial balance and financial statements in order to comply with GAAP and with government accounting and financial reporting principles issued by the Governmental Accounting Standards Board (GASB). In addition, we noted the Authority did not have a formalized system to establish time requirements for each of the significant milestones in the reporting process, and did not have the proper review procedures for the recording of nonrecurring, unusual entries or adjustments. We also noted that the prior year's financial statement had to be restated in order to comply with GAAP.

Context: The trial balance provided to us by management on September 5, 2014 identified only a few areas (accrual adjustments resulting from actuarial calculations and capital assets) that required additional adjustments. During the course of our engagement, management provided over 125 adjusting entries, including adjustments to previously provided entries. Significant financial areas such as revenue, subsidies, capital contributions, capital assets, net position, accounts payable, and other accruals were not fully analyzed, reconciled, and adjusted by management in a timely manner.

Management provided multiple versions of the basic financial statements between December 24, 2014 and July 31, 2015, each of which contained significant and material adjustments from the previous version.

Effect: The effect resulted in material misstatements to the previously issued financial statements and material misstatements in the fiscal year 2014 data presented at closing. It also resulted in the financial statements for the year ended June 30, 2014 not being ready for issuance within the timeframe required by debt provisions and made available to those charged with governance.

Cause: Management's accounting procedures are not effective to help ensure accurate financial reporting and management does not have a comprehensive accounting policies manual. The lack of knowledge and the complexity of the system upgrade to the new grants management system, including but not limited to the project costing module, in fiscal year 2012 has introduced challenges when personnel are adjusting from the budgetary maintenance of grant activity to financial reporting of revenue. Challenges were also introduced in recent years due to the ownership of the project costing module

## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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resting with the Office of Management and Budget Services while the financial reporting is the responsibility of the Office of Accounting. The Authority experienced management turnover in the Office of Accounting during fiscal year 2014, and continues to experience significant difficulties with financial management, as reported in the Financial Management Oversight Review issued June 20, 2014 by the Federal Transit Administration (FTA).

Recommendation: We recommend that management redesign, update, and adhere to an effective policy and procedures that will help ensure all routine as well as significant and unusual transactions are recorded properly in the financial statements. Management should fully evaluate the year-end closing and financial reporting process and the qualifications of those responsible for preparation and review functions. Additionally, the disconnect between the project costing module and proper revenue recognition should be fully evaluated and the process modified to help ensure proper cost and revenue recognition.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding that Internal Control procedures that were previously in place were not sufficient to provide reasonable assurance regarding the reliability of the financial reporting process, including timely and accurate recording of financial transactions, which then resulted in several material misstatements in prior fiscal year and also management's inability to timely complete its fiscal year 2014 annual year-end audit.

Prior to the issuance of these audit findings, management conducted an assessment of the issue and determined the following root causes and/or extenuating circumstances that exacerbated the issue:

1. Impact of the Financial Management Oversight (FMO) Review - In June 2014, the Authority received the Federal Transit Administration's (FTA) Final FMO Report containing nine findings, five advisory comments and 45 recommendations, to which the Authority responded with 65 corrective action plans. In an effort to address and resolve these findings, as well as help ensure the accuracy of its financial records, the Authority conducted internal reviews to assess levels of compliance with federal and FTA grant eligibility regulations and requirements, as a result of these reviews management discovered improper charging of capital expenditures to incorrect project budgets. The Authority then hired an external forensic accounting team to conduct a comprehensive review of its capital expenditures. This review not only required extensive support from the Authority staff, but it also significantly impacted the year-end close schedule as staff awaited the final forensic audit results in order to make any necessary adjusting entries. The final results were received December 2014.
2. Turnover in Key Finance Staff - During fiscal year 2014, there were changeovers in key staff and departmental management, including the positions of CFO, Comptroller, General Ledger Manager and Asset Management Manager.
3. The Authority continued to experience significant challenges with its project costing and grants management system stemming from complexities introduced to both modules after its fiscal year 2012 financial system upgrade. These challenges resulted in the inability to fully assign certain expenditures to the proper funding sources within the grants management system, including but not limited to the project costing module,
4. New External Auditors - The Authority contracted with McGladrey LLP to perform the Single Audit and Financial Audit for fiscal year 2014. This fact, in conjunction with recent FMO findings that caused McGladrey to deem the Authority as a high risk auditee, resulted in more extensive and deliberate audit procedures performed than in prior years.
5. Material restatement resulting from change in accounting treatment for certain transactions, such as grants revenues that had previously been accepted as GASB compliant.



## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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To address these issues management is taking the following key actions:

1. Implementing a more rigorous year-end closing calendar to include time for extensive analyses and review of transactions and accounts, not just in relation to timeliness and accuracy but also compliance with GASB requirements.
2. Increasing staff capacity by hiring an additional Assistant Comptroller, a General Ledger Manager, and an Asset Management Manager.
3. Enhancing staff capabilities by contracting with a national accounting firm to provide audit readiness support.
4. Undertaking an extensive cleanup effort of the project costing module to help ensure most of the capital activities are now properly aligned to funding sources.

In addition, fiscal year 2016 efforts are underway to address the following areas in the near term:

1. Implement several system fixes to the project costing module to reduce the current complexities in transaction processing before the end of fiscal year 2016 (please refer to our response to 2014-002 for more details).
2. Develop an action plan by December 2016 on how to automate and standardize the current process of time collection to improve compliance with federal grants requirements.
3. Formally review and update the current accounting policies and procedures to include desk top procedures.

## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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#### Finding 2014-002 Capital Contributions Revenue – Material Weakness

Criteria: GASB Statement No. 33 establishes the requirement for reporting of government-mandated and voluntary nonexchange transactions. Nonexchange revenues are recognized in the proprietary fund on the accrual basis. Those resources in proprietary funds should be recognized when eligibility requirements are met and recorded as nonoperating revenue or capital contributions, as applicable. Nonexchange revenues are recorded as unearned revenue if received before the eligibility requirements are met.

Condition: Management did not properly evaluate and document the basis for revenue recognition on nonexchange transactions including, but not limited to, capital contributions revenue from federal grants and jurisdictional capital contributions.

Context: Management improperly accounted for nonexchange revenue associated with grants received from the Department of Transportation (DOT) and the Department of Homeland Security (DHS), as well as the local match component and other jurisdictional capital contributions (system performance):

1. Management did not fully assign certain expenditures to the funding source within the grants management system, including but not limited to the project costing module. As a result, Management manually assigned these expenditures to federal grants and system performance outside the system when determining revenue adjustments.
  - a. Approximately \$576M of costs were manually assigned for fiscal year 2014 reporting.
  - b. Approximately \$425M of costs, estimated to be approximately \$200M and \$225M for federal grants and system performance, respectively, from fiscal year 2012 and 2013 were not yet assigned as of fiscal year 2014 reporting. Revenue has not been recognized on unassigned costs which are anticipated to be reimbursed under federal grants as Management has not yet assessed if eligibility requirements have been met. As of June 30, 2014 there was approximately \$300M in available federal funds. If costs are not assigned to a federal funding source, under the current process, they are assigned to system performance which is funded by the jurisdictions.
2. We also noted certain invoices for reimbursement under DHS grant reimbursements were not recorded in the financial accounting system. As a result, cash receipts were accumulated in a balance sheet account but not properly applied against outstanding receivables. During the audit process, an adjustment of approximately \$32 million was necessary to eliminate a credit balance in accounts receivables.
3. Additionally, we identified that certain DHS grant activity, related to operating type activities, was presented net rather than gross in the financial statements. Revenue and expenditures were understated by approximately \$6 million for fiscal year 2014.

Management did not fully complete the evaluation of revenue recognition until July 2015.

Effect: Significant adjustments were recorded to the original trial balance presented to us for audit and to previously issued financial statements. A prior period adjustment in the amount of approximately \$231 million was recorded at June 30, 2013 to decrease Net Position as a result of incorrect recognition of capital contributions. Adjustments totaling approximately \$268M were recorded to decrease fiscal year 2014 capital contributions revenue. Additionally, management has reported amounts of restricted net position in the financial statements, but is unable to substantiate such amounts with proper supporting financial information.

## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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Cause: The Authority experienced management turnover in the Office of Accounting during fiscal year 2014. The Authority also continues to experience significant difficulties with financial management, as reported in the Financial Management Oversight Review issued June 20, 2014 by the Federal Transit Administration (FTA).

The complexity of the grants management system, including but not limited to the project costing module, does not provide clear visibility over the expenditure transactions information necessary for timely and accurate recognition of revenue. The current process does not properly align the timing of revenue recognition in the general ledger with the timing of meeting eligibility requirements. Additionally, the significant delay in assigning qualified expenditures to grants through the project costing module required manual reconciliations to determine revenue.

Effective procedures were not in place for the communication of DHS grant invoicing, performed by grants management personnel, to accounting personnel in order for the invoices to be posted to the general ledger.

Recommendation: We recommend that management adopt and adhere to effective policy and procedures that will help ensure all routine as well as significant and unusual transactions are recorded properly in the financial statements, including the accurate and timely recognition of contributions revenue from grants and system performance. The process should help ensure reviews are in place, are functioning and are being performed by personnel with the appropriate skill set.

Management should also address the lack of timely assignment of expenditures to grants. Further, costs manually assigned outside the system must be mapped within grants management system, including but not limited to the project costing module. Changes to the manual assignments should be reviewed closely by management, documented for audit purposes, and evaluated for potential impact on previously reported revenue and federal reporting requirements. Authority personnel indicated that they have noted inconsistent coding between the manual mapping and the subsequent system mappings. This will create reconciling and potentially revenue recognition issues.

We recommend management implement clear procedures for the communication of all grants invoices between grants management personnel and accounting personnel. Review procedures should also be in place to help ensure such procedures are followed and that transactions are recorded properly.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding that assignment of certain expenditures to the funding source within the project costing module were not performed. We also concur that certain large adjustments were made to prior year Net Position.

As noted in response to finding 2014-001 above, this issue was primarily as a result of improper transaction processing in the project costing module stemming from complexities introduced after a recent PeopleSoft upgrade and a change in accounting treatment for certain capital revenue recognition transactions based on reexamination of the nature and substance of the transaction to help ensure compliance with GASB requirements.

The Authority has taken the following corrective actions to address the identified issues:

1. Conducted an assessment of the Project Costing module setup and configuration within PeopleSoft and identified the root causes related to the difficulties that inhibited proper and complete assignment of capital expenditures to proper, eligible federal grants.

## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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2. As a result of the assessment, the project team implemented a two-phase approach to address the root causes:
  - A. Phase 1 activities, which are slated to be completed by December 2015 include: Deployment of improved structural interfaces to minimize errors in transaction processing to minimize errors in coding; extensive cleanup of unassigned transactions in the project costing module; additional review processes and monitoring for project costing transactions.
  - B. Phase 2 activities, which are slated to commence in fiscal year 2016 and be completed by December 2016, include: Improved automation and simplification of recording grants transactions; additional tools for monitoring and reporting transactions including dashboards, FFR and SEFA automation, automated annual/quarterly jurisdictional reports, standardization of transaction templates to minimize errors; and the creation of a data validation query.

Additionally, the Authority has implemented a more rigorous year-end closing process to include extensive analysis and review of transactions and accounts to help ensure compliance with GASB requirements; Increased staff capacity by hiring an additional Assistant Comptroller, General Ledger Manager, and Asset Management Manager; Enhanced staff capabilities by contracting with a National accounting firm to provide audit readiness support.

## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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#### Finding 2014-003 Passenger Revenue – Material Weakness

Criteria: Governmental GAAP establishes the requirements for accounting for proprietary fund revenue, currently defined by GASB Statement No. 62. A proprietary fund should recognize revenue from exchange transactions on an accrual basis, meaning that (1) the earning process is complete or virtually complete and (2) an exchange has taken place. Consequently, proceeds received prior to revenue considered earned should be reported as unearned.

Condition: The Authority sells pre-funded fare cards, whereby revenue is recognized when the fare card is used in exchange for ridership. Management has adopted a practice of recognizing revenue from the fare cards if there is no activity (usage) from the card for a period of 180 days.

Management has not performed a recent analysis and have it subjected to an independent review to evaluate the reasonableness of its revenue recognition practice.

Context: Management estimated unearned revenue based upon unused balances on farecards used within the last six months (approximately \$50 million at June 30, 2014). The estimation process did not give consideration to card balances greater than six months old (approximately \$95 million on farecards used in the last thirty-six months) or to industry practices which could materially affect the determination of unearned revenue.

Effect: Unearned passenger revenue represents a significant account balance to the Authority and improper accounting could result in a material misstatement.

Cause: Management did not have a practice or policy to periodically analyze historical financial trends that would allow them to reasonably evaluate amounts for revenue recognition.

Recommendation: We recommend that management performs a comprehensive analysis of the usage of prefunded fare cards sold. The analysis should assess the pervasive trend of discontinued usage in relation to the accounts sold. The assessment should also include a survey of industry practices of similar type transit related activities. Once the analysis is performed, a policy should be articulated and adopted. The policy should include the proper supervisory reviews and approvals of the amounts that will be recorded. The analysis should be evaluated and updated periodically to help ensure its reasonableness. In addition, we recommend management implement a process to help ensure reports utilized for accounting purposes are periodically tested for accuracy and completeness based upon the specific use of the report.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding that the current policy for revenue recognition of unused farecard balances needs to be reassessed to help ensure that it gives consideration to card balances greater than six months.

The Authority currently has an extensive process for estimating and validating passenger revenues. This process not only includes setting a targeted reserve to cover 6 months of inactive unused farecard balances but also an extensive activity review of active cards. As background, the Authority currently has two types of Smartcards: customer registered and customer unregistered. The Office of Accounting in its analysis of the reasonableness of the unearned passenger revenue balance assumes that 100% of the value of registered cards for the immediate past 12 months plus a percentage of the value of unregistered cards will be redeemed. The analysis is calculated using 25%, 50%, and 75% of unregistered cards. This analysis is then compared to the balance of the unearned passenger revenue account to determine if it is reasonable.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2014**

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Beginning in June 2015 (fiscal year 2016), the Authority has changed the test for adequacy of the unearned revenue balance related to Smartcard balances to include a more detailed measure of card value. The Office of Accounting has expanded the analysis of active card balances to include any cards active in the immediate past 12 months.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding 2014-004 Journal Entries – Material Weakness**

Criteria: All transactions recorded in the financial information system, including standard and non-standard journal entries, should be timely reviewed and approved by appropriate supervisory personnel.

Condition: We noted that all manual journal entries were not subjected to an independent review and approval prior to being recorded in the financial statements.

Context: We noted certain accounting department employees can post and approve a manual journal entry without an independent review function. Supervisors, managers, assistant controller and controller have approval limits of less than \$500,000, less than \$1,000,000, less than \$5,000,000 and \$5,000,000 and above, respectively. Within these limits, the employees can post and approve the same entry. In addition, reoccurring entries and reversing entries do not have approval requirements. We noted various entries posted incorrectly (ex. utilized a prior month's activity, posted incorrectly) and we also noted post closing entries were subsequently reversed or subsequently modified by the accounting department.

Effect: There is an increased risk of misstatement and risk of loss to Authority's assets due to fraud or an employee's unintentional error.

Cause: Proper review and approval internal control policies were not adopted.

Recommendation: We recommend a modification to the procedures manual to provide for an independent review of all manual journal entries by a qualified reviewer.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the findings and recommendation to modify the procedures for approval of manual journal entries to help ensure that all manual journal entries are subject to independent review and approval.

To address this issue, in August 2015 the Office of Accounting changed its document approval procedure to require that all manual journal entries be reviewed and approved by an independent party that is different from the transaction initiator. Additionally, during fiscal year 2016, the Office of Accounting will work with the Office of Information Technology to create system controls that will prevent a single (same) person to initiate a transaction and also approving it.

Note: System Controls already exist that routes transactions over certain thresholds for supervisory and management approvals.

## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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#### Finding 2014-005 Account Reconciliations and Review – Material Weakness

Criteria: The reconciliation process is a critical component of an organization's control environment which is designed to check whether two items or computer systems are consistent. Periodic reconciliation of supporting details to the general ledger control account should be performed and significant reconciling items should be addressed and disposed of by supervisory personnel.

Condition: We noted various general ledger accounts which were not reconciled or were not properly evaluated for accuracy. The significant areas identified are as follows:

1. Capital contributions revenue was inaccurately calculated in an excel spreadsheet based upon certain general ledger account balances.
2. Jurisdiction subsidy revenue was inaccurately calculated.
3. Unearned passenger revenue was not reasonably estimated.
4. Approximately 45 accounts payable and accrued liability accounts were not reconciled during the year-end closing process and supervisory personnel were unable to readily explain the nature and use of many of the accounts. Upon completion of the reconciliations during the audit process, the following significant adjustments were identified:
  - a. Accounts payable was overstated by approximately \$19 million for an equipment purchase obligation which was paid in the prior year. The adjustment was recorded as a prior period adjustment.
  - b. Accounts payable was understated and accrued liabilities were overstated by approximately \$12 million related to payroll payment transactions that occurred in July 2014 but were recorded in June 2014.
  - c. Accrued liabilities and prepaid assets were overstated by approximately \$7 million related to July 2014 health and welfare payments.
  - d. Accrued liabilities were overstated by approximately \$4 million related to settled labor negotiations.
  - e. Accrued liabilities were understated by approximately \$2 million related to the obligation for employee compensatory time.
5. Cash accounts held by third parties for worker's compensation claims processing contained a combined bank balance of approximately \$2 million at June 30, 2014. One account was no longer actively being used, due to a change in claims processors, but had not been closed.
6. Outstanding checks were reclassified to accounts payable without a documented or supportable GAAP treatment. An effective reconciliation between the bank reconciliation and the general ledger would have identified that cash and accounts payable were overstated by approximately \$7 million.
7. For 7 of 12 inventory items sampled from warehouse 400, we noted quantity discrepancies between the June 30, 2013 inventory balances between the subledger maintained in PeopleSoft and the subledger maintained in Maximo (system which updates the general ledger) due to a lag in the time transactions were updated in Maximo. The total dollar difference could not be determined by Management as the PeopleSoft functionality was no longer being utilized. We projected a maximum misstatement of \$12 million between fiscal year 2013 and 2014. No quantity differences were identified at June 30, 2014.
8. Proceeds from sale of assets were not properly tracked in the general ledger between those assets acquired with federal funds, with a fair market value greater than \$5,000, and those not acquired with federal funds or those federally funded assets with a fair market value less than \$5,000. Proceeds from the sale of federally funded assets are to be recorded as a liability until management obtains federal agency approval to utilize the funds. It appears that throughout the first half of fiscal year 2014, management recorded proceeds from all sales as a liability. The liability account was approximately \$6 million and \$4 million at June 30, 2014 and 2013, respectively.



## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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Context: The reconciliation deficiencies are considered systemic in nature.

Effect: The lack of adequate internal control procedures requiring timely reconciliations and effective supervisory reviews can result in material misstatements to the financial statements.

Cause: The cause is due to a breakdown in the control system and lack of effective oversight, review and timely reconciliations.

Recommendation: We recommend management adopt and adhere to a policy that will help ensure effective and timely reconciliations which includes an independent review performed by qualified personnel.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the findings related to certain general ledger account reconciliations. Prior to the issuance of these audit findings, the Office of Accounting initiated a full review of general ledger accounts and the associated transactions in those accounts. As a result of these ongoing reviews, the Office of Accounting has significantly cleaned up many of the legacy accounts and balances referenced in the findings, to include reconciliation of accounts.

Additionally, in August 2015 the Office of Accounting hired a new manager for the general ledger area to provide extensive oversight and management of the general ledger accounts. The management in the Office of Accounting reviewed reconciliations on a quarterly basis, however, it has been determined that a more extensive review process for general ledger account reconciliations be developed as procedure to include following up on outstanding reconciling items.

Below outlines the corrective actions taken to date on the specific findings:

- A. An additional staff resource has been added to assist in the account reconciliation preparation and review process for accounts payable and accrued liability accounts on a monthly basis. All of the sub-bullets were corrected during the course of the fiscal year audit fieldwork. Ongoing reviews are in place to help ensure that the liabilities are accurately recorded.
- B. The cash account held by third parties for worker's compensation claims are reconciled monthly. The bank account for the predecessor claims processor was closed in fiscal year 2015 and the remaining funds returned to the Authority.
- C. As past practice, the Authority reclassified outstanding checks from cash to accounts payable. The Authority agrees that its interpretation of GASB Statement No. 34 was not appropriate nor compliant. This interpretation error was corrected during the fiscal year 2014 audit fieldwork.
- D. The cost issues identified in the audit resulted from systems (Maximo and PeopleSoft) process, which were in effect at the time of the 2014 audit fieldwork. Storeroom 400 was using the PeopleSoft Inventory module while all other Storerooms used Maximo. The PeopleSoft Inventory module was decommissioned in November 2014. All Authority inventory is currently tracked and valued in Maximo.
- E. The Asset Management group in the Office of Accounting reviews and reconciles the general ledger account monthly to determine the non-federally funded assets sold with a value of \$5,000 or less. A journal entry is recorded monthly to reclass the assets sold with a value of \$5,000 or less out of the liability account and into revenue.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding 2014-006 Capital Asset Management System – Material Weakness**

Criteria: Internal control policies and procedures should provide reasonable assurance regarding the reliability of the financial reporting process, including the accuracy of sub-ledger financial data.

Condition: The procedures over utilization and reconciliation of the PeopleSoft Asset Management (PSAM) system (sub-ledger), which tracks capital assets and performs depreciation calculations, are not effective to provide complete and accurate data from which the general ledger can be updated.

Context: Capital asset, accumulated depreciation and depreciation expense balances maintained in the sub-ledger are not consistent with financial reporting in the general ledger.

Effect: Could result in amount improperly recorded in the general ledger and consequently, a misstatement in financial statements.

Cause: This resulted from not adhering to defined accounting policies and procedures.

Recommendation: We recommend management adhere to established policies that will help ensure effective and timely updates of the PSAM system, which includes an independent review performed by qualified personnel. The system should be updated for the differences that have occurred over the past few years prior to fiscal year 2015 financial reporting.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the findings that the sub-ledger (PSAM) is inconsistent in some instances with the general ledger and that timely reconciliations between the two were not performed during the year. We note that the differences between the two systems and our ability to timely reconcile is hindered by both system limitations and ineffective business processes, including:

1. Transactions flowing between the General Ledger, Project Costing and PSAM system result in tremendous amounts of raw data being dumped into PSAM that then have to be recategorized to asset type.
2. An existing flaw in the PSAM system design that prevents journal entries for depreciation from being generated and posted to the general ledger.
3. Significant manual adjustments needed to be performed as a result of WIP reclassification entries not processed timely in the PSAM system.

The Authority has instituted the following corrective actions to address the identified issues:

- a) Hiring an experienced and qualified manager in August 2015 to head the Asset Management Unit. The new manager will provide additional review and oversight of reconciliations and other asset management activities in order to facilitate the timely, complete and accurate recording and reporting of capital asset transactions.
- b) Assignment of a project team to examine the root causes of the current system limitations and business process challenges and provide recommendations that can be implemented before or by June 2016.
- c) A planned update of the Authority's Asset Management Manual to incorporate policies and procedures that further improve accounting and reporting of accurate and complete capital assets balances will be completed by June 2016.
- d) Perform monthly reconciliations, in addition to timeliness of reporting and addressing identified issues.

## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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#### Finding 2014-007 Timesheet Approval – Material Weakness

Criteria: Internal control policies and procedures should provide reasonable assurance regarding the reliability of the financial reporting process, including the accuracy of labor expenditures.

Condition: Policies and procedures do not require a formal approval of timesheets for employees with pay grade B14 and above (salaried employees). Timesheets for all other employees require a supervisory level approval within the PeopleSoft financial system.

Context: This condition is considered systemic.

Effect: Labor expenditures represents a significant account balance to the Authority and improper accounting could result in a material misstatement. Labor costs could be misclassified between operating expenditure and capital asset. Additionally, the nature of the expenditures effects the funding source.

Cause: Timesheets do not properly reflect the time spent by employees on labor activities, including activities that should be allocated between operating and capital. In addition, timesheets are not signed by supervisory personnel to evidence the proper review.

Recommendation: We recommend management adopt and adhere to a policy that requires that all employee timesheets are subjected to an effective, independent review by qualified supervisory personnel. Correction action should be taken in conjunction with Compliance Findings 2014-019 and 2104-020.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding only as it relates to pay grade BO14 and above employees charging time to capital projects. It is the Authority's goal to adhere to all FTA requirements and to help ensure that all labor hours charged to federal grants accurately reflect work performed. To this end, the Authority has implemented additional controls to increase its assurance that capital labor charges from all employees are accurate, allowable, and properly allocated. These controls include:

1. Adoption of a Grants Management Policy by Board Resolution 2014-18 on April 7, 2014, and subsequently amended by Board Resolution 2015-23 on April 23, 2015. The Grants Management Manual published July 1, 2014 requires supervisory approval of time for all personnel charging to capital projects.
2. Starting in fiscal year 2016, the Office of Compliance now performs periodic reviews of all capital labor charges to help ensure compliance with policy and accuracy of charges.

## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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#### Finding 2014-008 Accounting for Net Pension Asset – Material Weakness

Criteria: Internal control policies and procedures should provide reasonable assurance regarding the reliability of the financial reporting process, including the accuracy of management's net pension asset calculation.

Condition: Management's review of the actuarial valuation report for the Transit Employees' Retirement Plan as of July 1, 2013 was not effective to help ensure compliance with GASB reporting requirements. In addition, the determination of the Authority's net pension asset has been reported based upon plan year contributions rather than the Authority's fiscal year contributions, as required by GASB statement No. 27.

Context: The actuarial cost method of the aggregate method was not properly applied to determine the results of the pension plan valuation in the original report provided. The actuary adjusted the aggregate cost method by carving out the large asset loss of 2008 from the unfunded of the pension plan and recognizing the loss over a 5 year period and amortized it over a closed 30 year period. The amortization was accelerated if the asset gain exceeded a threshold above the expected return on assets. The adjustment to the aggregate cost method is not permitted by GASB 25 and 27.

Single employer plan contributions should be based upon employer's year. Three of the Authority's five defined benefit plans have different financial reporting periods than the Authority. Contributions to these three plans made between January 1, 2014 and June 30, 2014 were not included in the Authority's net pension asset calculation.

Effect: The actuary revised the report and determined that an adjustment to increase the net pension asset by approximately \$34 million was required to comply with GASB.

In addition, the exclusion of plan contributions through the Authority's fiscal year end resulted in an understatement of net pension asset and an overstatement of the related expenditures by approximately \$72 million at June 30, 2014.

Cause: The cause is due to an incorrect interpretation of the accounting standards.

Recommendation: The accounting for pension contributions will change effective July 1, 2014 when the Authority adopts GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, which replaces GASB Statement No. 27. We recommend management fully evaluate the proper adoption of GASB Statement No. 68.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding that the actuarial cost method of the aggregate method was not properly applied to determine the results of the pension plan valuation in the original report provided as required by GASBs 25 and 27. Once identified, this issue was addressed prior to closing the books for fiscal year 2014. Management also concurs with the finding that three of the Authority's five defined benefit plans were reported with different financial reporting periods than the Authority as required by GASB, resulting in contributions to these three plans made between January 1, 2014 and June 30, 2014 not being included in the Authority's net pension asset calculation.

Previously, management relied fully on the expertise of professionals and experts (such as qualified insurance actuaries) in fulfilling its oversight role as related to the net pension asset actuarial calculations and did not help ensure any additional in house process or expertise to oversee the work products.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2014**

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Management also agrees with the recommendation to fully evaluate the proper adoption of GASB Statement No. 68: Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27 and GASB Statement No. 71: Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68 in fiscal year 2015. These two GASB pronouncements provide clear guidance on the salient points of this finding. To this end, in collaboration with its team of experts, management is currently undertaking this evaluation and will include the results and impacts in the fiscal year 2015 financial statements.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding 2014-009 Inventory – Material Weakness**

Criteria: Internal control policies and procedures should provide reasonable assurance regarding the reliability of the financial reporting process, including the existence, accuracy, and valuation of inventory.

Condition: Management's policies and procedures are not effective to help ensure the existence, accuracy, and valuation of inventory. We identified the following deficiencies in controls over inventory:

1. Reserve for inventory obsolescence: During the Authority's year-end closing process, a comprehensive analysis was not performed to review the estimated reserve. The inventory reserve balance is largely determined through a re-occurring monthly journal entry which increases the reserve based on a percentage of the inventory balance as established within the annual budget. The estimation process did not give consideration to the Authority's historical rate of actual obsolescence or other relevant factors which could significantly affect the reserve. Management's re-evaluation of the reserve resulted in an approximate \$2.5 million reduction.
2. Valuation of inventory: Management does not have a process in place to periodically evaluate if inventory is properly stated at lower of cost or market, using the average cost methodology. Inventory values are system generated data and management does not apply independent checks or recalculation of system data to validate the accuracy of reported values.
3. Cycle counts: Certain inventory items (classified as "N") are not subject to routine cycle counts. These items represent items that are ordered on an as-needed basis and a quick usage is anticipated. At June 30, 2014 this inventory amounted to approximately \$5.8 million. Policies and procedures do not include controls to address the existence of this inventory. In addition, cycle count procedures call for counts on a fixed schedule, however, Authority personnel were unable to provide documentation to support counts of all inventory during a specified time period and therefore, the inventory is not properly reconciled on a timely basis.

Context: The condition is considered systemic in nature.

Effect: Inventory represents a significant account balance to the Authority and improper accounting could result in a material misstatement.

Cause: This resulted from not adhering to defined accounting policies and procedures.

Recommendation: We recommend the management adhere to a policy that will help ensure the existence, accuracy, and valuation of inventory, which includes an independent review performed by qualified personnel.

Views of Responsible Officials and Planned Corrective Actions: Management concurs that a comprehensive analysis to properly estimate the value of the reserve for inventory obsolescence was not conducted during the year. However, this issue was addressed prior to closing the books in fiscal year 2014.

Additionally, management has initiated the following corrective action plan:

1. The current policy for the reserve for inventory obsolescence is being amended to include a new process that gives consideration to the Authority's historical rate of yearly write-offs (average of the last three years). At a minimum, inventory will be reviewed annually and low turnover and aged items will be evaluated to see if the reserve needs to be adjusted.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2014**

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2. Management concurs with the finding that a periodic evaluation of inventory values be performed to help ensure carrying cost of inventory is stated at lower of cost or market as required by GASB.

The Authority's current policy and practice uses the average cost method which is a valid and acceptable inventory valuation method under GAAP. Maximo, the inventory system of record, automatically generates the value of inventory items. The Office of Accounting reviews the Maximo inventory report on a monthly basis, compares the balances to the PeopleSoft general ledger balances and researches and documents any variances and makes adjustments to the general ledger balances as needed.

Management will implement additional procedures in fiscal year 2016 that will help ensure carrying values are reviewed and properly stated. This procedure will include additional assessment of carrying values of slow moving or old inventory items, as well as obsolete and surplus inventory.

3. Management concurs with the finding that system improvements are needed to properly account for all inventory items during cycle counts. The following corrective actions have been taken to address this finding.

Beginning, August 1, 2015, all items will have their count frequency managed by an automated process within Maximo, ensuring that all items are counted over a specified period. The on-demand items that previously had a designation of "N" count frequency have been changed and will be managed with a "C" count frequency. The "N" designation will be used for items that will not be re-ordered any longer and will be included in the cycle counts. The count frequency designations will be updated monthly by Maximo and calculated by movement and cost. The new process is being documented and frequency reports will be included as part of the Maximo monthly accounting reports.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding 2014-010 Census Data – Significant Deficiency**

Criteria: Internal control policies and procedures should provide reasonable assurance regarding the reliability of the financial reporting process, including the accuracy of census data provided to external actuaries.

Condition: The procedures over the accuracy of certain census data was not functioning properly. Census data for non-L689 participants was not generated as of the proper date. The incorrect data was supplied to the external actuary who performed the calculation of the Authority's liability for the other postemployment benefits (OPEB) obligations.

Context: Management provided census data for non-L689 participants to the external actuary as of June 2014 rather than July 2013, the OPEB plan valuation date.

Effect: The original actuarially determined OPEB liability as of June 30, 2014 was not properly stated. The external actuary revised the OPEB actuarial report as of July 1, 2013 which is utilized for fiscal year 2014 financial reporting.

Cause: The cause is due to a breakdown in the control system and lack of effective oversight, review and timely reconciliations.

Recommendation: We recommend management adhere to a policy that will help ensure accurate and complete census data is provided to external actuaries, which includes an independent review performed by qualified personnel.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding concerning the accuracy of certain census data provided to the OPEB plan actuary. This issue was addressed and corrected during the fiscal year 2014 audit fieldwork.

To prevent this issue from occurring in the future, the Office of Human Resources Compensation and Benefits, has implemented a review process for census data requests before submission to external actuaries. Once the review process has been completed and no deficiencies have been found, the data will be provided to the external actuary.



**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding 2014-011 Lease Obligations – Significant Deficiency**

Criteria: Internal control policies and procedures should provide reasonable assurance regarding the reliability of the financial reporting process, including the accuracy and completeness of lease obligations.

Condition: Management does not have policies and procedures over the tracking of property and equipment leases. During our audit, it was noted that management did not have a centralized process to maintain complete data relative to in-process or terminated property and equipment leases. The accounting department and the office of general counsel were required to obtain data from various departments in order to verify accuracy and completeness.

Context: The condition is considered systemic in nature.

Effect: No financial statement reporting or disclosure errors were identified as a result of this deficiency. However, without a centralized process there is an increased risk of misstatement.

Cause: Effective policies and procedures have not been established.

Recommendation: We recommend management adhere to a policy that will help ensure accuracy and completeness of lease obligations, which includes an independent review performed by qualified personnel. In addition, we recommend management follow up on outstanding liens reported on the UCC search results for terminated leases.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the recommendation to help ensure accuracy and completeness of lease obligations. The following corrective actions have been initiated to address the finding:

1. The Authority has identified the offices and staff who are authorized to enter into lease obligations (property and equipment).
2. Initiate quarterly meetings to commence the first quarter of fiscal year 2016 (October 2015) with authorized staff and the Office of Accounting for updates on lease activities.
3. A draft Delegation of Authority Policy Instruction (P/I) is currently under review with the Office of Procurement and Materials (PRMT), Office of Real Estate and Station Planning (LAND), Office of General Counsel (COUN) and Chief of Staff (CHOS). Formal approval and issuance of this draft P/I is anticipated by December 2015.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding 2014-012 Accounts Payable – Significant Deficiency**

Criteria: Internal control policies and procedures should provide reasonable assurance regarding the reliability of the financial reporting process, including the completeness of accounts payable.

Condition: Management's policies and procedures regarding the completeness of accounts payable were not effective to capture all liabilities incurred prior to June 30, 2014.

Context: During our testing of payments made subsequent to June 30, 2014, we identified two of the forty-three sample items were not properly recorded as liabilities at June 30, 2014.

Effect: The actual understatement of accounts payable and related expenditures could not be determined as the date services performed or goods were received was not readily available.

Cause: Effective policies and procedures have not been established. Additionally, the data contained in the financial accounting software does not include the date on which services were performed or goods were received which hinders management's ability to systemically evaluate completeness.

Recommendation: We recommend management adopt and adhere to a policy that will help ensure accuracy and completeness of accounts payable, which includes an independent review performed by qualified personnel. In addition, we recommend management evaluate the ability to include a data field within the accounting software for the date services were incurred and goods received.

Views of Responsible Officials and Planned Corrective Actions: Management agrees to enhance its cut off procedures to help ensure additional reviews of invoices received after year-end close.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding 2014-013: Reporting Schedule of Expenditures of Federal Awards (“SEFA”) – Material Weakness**

Criteria: 49 CFR 18.20(b)(1) states for financial reporting, grantees must have procedures to provide reasonable assurance that accurate, current, and complete disclosure of the financial results of financially assisted activities made in accordance with the financial reporting requirements of the grant or sub grant.

Condition: We noted that the SEFA did not reconcile to the 2014 general ledger and also included a significant amount of expenditures relating to fiscal years prior to 2014. A proper process of internal control was not performed which should have included a reconciliation of the SEFA to the general ledger, including supervisory review and approval.

Context: The condition is considered systemic.

Questioned Costs: Not applicable

Cause: Management does not have proper supervision and review controls that will allow for the tracking of expenditures that are to be reported on the SEFA.

Effect: Without proper controls in place over the reporting of federal awards, federal grants may be improperly reported on the SEFA.

Recommendation: We recommend that management perform reconciliations of the expenditures listed on the SEFA for each grant back to the general ledger, any differences should be investigated and adjustments made as necessary, and that the proper reviews and approvals are performed.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding that the SEFA include a significant amount of expenditures relating to fiscal years prior to 2014.

As noted in finding 2014-002, the complexities associated with implementing the Project Costing module in PeopleSoft in fiscal year 2012 created challenges for capital project reporting.

Quarterly a reconciliation is completed of the capital costs reported in the general ledger as compared to the SEFA.

## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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#### **B. Compliance and Other Matters**

##### **Finding 2014-014 Covenant Noncompliance as related to financial statement reporting**

Criteria: The Authority is subject to various debt covenant provisions which require submission of audited financial statements within 120 days after the close of the fiscal year. Certain provisions allow for cure periods and extension request options.

Condition: The Authority is not in compliance with these debt covenant provisions.

Context: Pursuant to the 2009 Gross Revenue Bond Resolution of the Authority, section 606.2 requires the Authority to provide to the Trustee and to other entities as provided by law a copy of the audited financial statements within 120 days after the close of the fiscal year. The same section also allows that if the statements are not available then they should be provided "when and if available". Section 701.2 of the Bond Resolution provides that the Authority has 60 days after receiving written notice of the failure to cure the situation before it becomes an Event of Default. The Trustee may also grant an extension of time for the Authority to correct the situation if the Authority is diligently pursuing corrective action. The 120 days reporting requirement for financial statements for the year ended June 30, 2014 was not met by the Authority.

The Line of Credit Resolutions of the Authority require the Authority to provide to the issuing financial institutions its financial statements within 120 or 180 days after the end of the fiscal year (depending on the terms of the agreement). Failure to meet these deadlines would be a default under the terms of the Line of Credit Resolution. The 120 or 180 days reporting requirement for financial statements for the year ended June 30, 2014 was not met by the Authority.

Under section 10 of the Participation Agreement (for tax advantage leases), the Authority agreed to supply its audited financial statements within 120 days after the conclusion of the fiscal year. The Authority has an automatic 60 day cure period before it becomes a formal Event of Default.

Effect: The Authority is in technical default with debt issue provisions. Debt holders could require repayment in full or termination values, as applicable, should requests for extension be denied.

Cause: Management was unable to prepare accurate financial information to enable the completion of the audit within the time required.

Recommendation: We recommend management aggressively adhere to its financial reporting policies and fully incorporate its corrective actions as described in Finding 2014-001.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding related to timely financial reporting. As of August 6, 2015, the Authority has issued its fiscal year 2014 audited financial statements.

The Authority's delay in completing the fiscal year 2014 financial statements timely was as a result of the following factors:

1. Impact of the Financial Management Oversight (FMO) Review - In June 2014, the Authority received the Federal Transit Administration's (FTA) Final FMO Report containing nine findings, five advisory comments and 45 recommendations, to which the Authority responded with 65 corrective action plans. During the course of internal reviews to assess levels of compliance with federal and FTA grant eligibility regulations and requirements, Authority management discovered improper charging of

## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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capital expenditures to incorrect project budgets. In an effort to address and resolve these findings, as well as help ensure the accuracy of its financial records, the Authority hired an external forensic accounting team to conduct a comprehensive review of its capital expenditures. This review not only required extensive support from the Office of Accounting staff, but it also significantly impacted the year-end close schedule as staff awaited the final results in order to make any necessary adjusting entries. The final results were not received until December 2014.

2. Turnover in Key Finance Staff - During fiscal year 2014, there were changeovers in key staff and departmental management, including the positions of CFO, Comptroller, General Ledger Manager and Asset Management Supervisor.
3. New External Auditors - The Authority hired McGladrey LLP to perform the Single Audit and Financial Audit for fiscal year 2014. This fact, in conjunction with recent FMO findings, resulted in more extensive audit procedures performed than in prior years.

The Authority's goal is to comply with all covenants. Processes have been instituted during fiscal year 2015 as noted in management's response to findings 2014-001 and 2014-002 to produce accurate and timely financial statements. It should be noted that the Authority timely notified all of its creditors prior to the financial reporting deadlines for the debt covenants and no default remedial actions available to the creditors in their respective debt covenants was exercised.

## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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#### Finding 2014-015 Capital Funding Reconciliations

Criteria: In accordance with Section 5 of the Capital Funding Agreement between the Authority and the contributing Jurisdictions, management shall prepare an annual reconciliation of the actual expenditures to the planned expenditures for projects and activities under the current improvement program on or before October 15<sup>th</sup>.

Condition: Management did not complete the reconciliations for fiscal year 2013 or 2014. In addition, the completed reconciliation for fiscal year 2012 is being re-evaluated for accuracy.

Context: Jurisdiction capital funding totaled approximately \$354 million during fiscal year 2014. No reconciliation was prepared by management to report how those funds were utilized for planned projects under the capital improvement program.

Effect: Incomplete or inaccurate reconciliations prohibit management from making surplus amounts available to the contributing Jurisdictions for refund or application to future period's expenditures and hinders the Jurisdictions ability to make informed decisions.

Cause: The actual expenditure data from which to prepare the reconciliation is not available. Management is significantly behind in assigning qualified expenditures to funding sources through the project costing module. As of June 30, 2014, the Authority is reporting approximately \$135 million surplus.

Recommendation: We recommend management complete the required reconciliations as part of a comprehensive evaluation of aligning actual expenditures to funding sources in order to determine the Jurisdictions' funded status of the capital program. The refund or application of surplus should be provided in accordance with the Capital Funding Agreement.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding that no jurisdictional reconciliation has been prepared by the Authority since fiscal year ended 2012, as required by Section 5 of the Capital Funding Agreement between the Authority and the contributing jurisdictions to report how funds received from the jurisdictions were utilized for planned projects under the capital improvement program.

As noted in finding 2014-002, the complexities associated with implementing the Project Costing module in PeopleSoft during the system upgrade in fiscal year 2012 have created challenges for capital project reporting.

Management intends to have these reconciliations done during fiscal year 2016 and the reports issued no later than December 2016.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Section III – Federal Award Findings and Questioned Costs**

A. Internal Control over Compliance

**Finding 2014-016: Federal Financial Reporting**

Federal Transit Cluster: CFDA – 20.500 and 20.507  
Transit Services Program Cluster: CFDA – 20.516 and 20.521  
Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524  
Rail and Transit Security Grant Program: CFDA – 97.075

Criteria: 49 CFR 18.20(b)(1) states for financial reporting, grantees must have procedures to provide reasonable assurance that accurate, current, and complete disclosure of the financial results of financially assisted activities made in accordance with the financial reporting requirements of the grant or sub grant.

Condition: Expenditures reported in the general ledger, which are then reported in the SEFA, differ from expenditures reported in the Federal Financial Reports (FFR) required by grantors.

Context: The condition is considered systemic.

Questioned Costs: Not applicable

Cause: Inadequate supervision, reviews, and approvals of the reconciliation of the FFR to the general ledger and the preparation of the SEFA.

Effect: The condition could result in improper reporting and non-compliance with the use of federal funds which could result in the loss of future federal funding.

Recommendation: We recommend proper supervision, reviews, and approvals of the reconciliation of the FFR to the general ledger and also to the SEFA be performed.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding that expenditures reported in the SEFA differ from expenditures reported in the Federal Financial Reports (FFR).

As noted in finding 2014-002, the complexities associated with implementing the Project Costing module in PeopleSoft in fiscal year 2012 created challenges for capital project reporting.

Management is currently documenting the FFR preparation process.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding 2014-017: Allowable Costs (Non Payroll Expenditures)**

Federal Transit Cluster: CFDA – 20.500 and 20.507  
Transit Services Program Cluster: CFDA – 20.516 and 20.521  
Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524

Criteria: OMB Circular A-87 requires that grantees must have procedures for determining costs for Federal awards are accurate and complete.

Condition: Management was not able to provide sufficient documentation to help ensure that expenditures were properly charged to the Activity Line Items (“ALI”).

Context: ALI supporting documentation was not provided for the following:

- Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524:
  - Expenditures 12 of 36 sampled items
- Transit Services Program Cluster: CFDA – 20.516 and 20.521:
  - Expenditures 2 of 9 sampled items
- Federal Transit Administration Cluster: CFDA – 20.500 and 20.507:
  - Expenditures 9 of 42 sampled items

Questioned Costs: Questioned costs were accumulated for all sampled items where ALI supporting documentation was not provided:

- Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524:
  - Expenditures \$350,037
- Transit Services Program Cluster: CFDA – 20.516 and 20.521:
  - Expenditures \$16,260
- Federal Transit Administration Cluster: CFDA – 20.500 and 20.507:
  - Expenditures \$294,949

Cause: Management did not maintain the proper supporting documentation.

Effect: The Authority may have been reimbursed for unallowed expenditures.

Recommendation: We recommend a process be established to facilitate the proper maintenance of supporting documentation for the related expenditure charges to the Federal Transit Administration grants.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding that sufficient documentation was not provided to help ensure that expenditures were properly charged to the Activity Line Items (“ALI”).

As noted in finding 2014-002, the complexities associated with implementing the Project Costing module in PeopleSoft in fiscal year 2012 created challenges for capital project reporting. Refer to management’s response to finding 2014-002.

Due to the system complexities, a manual process has been put in place to align all expenditures to the grant ALI. As part of the FMO review corrective actions, management is currently documenting the process and procedures in place to manually align expenditures to the grant ALI.



**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding 2014-018: Allowable Costs (Payroll Expenditures)**

Federal Transit Cluster: CFDA – 20.500 and 20.507  
Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524

Criteria: OMB Circular A-87 requires that grantees must have procedures for determining costs for Federal awards are accurate and complete.

Condition: Management was not able to provide sufficient documentation to help ensure that expenditures were properly recorded as expenditures funded by Federal Transit Administration grants. In addition, management was not able to provide sufficient documentation to help ensure labor expenditures charged to Federal Transit Administration grants were proper.

Context: Supporting documentation was not provided for the following:

- Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524:
  - Time reporting 19 of 30 sampled items
- Federal Transit Administration Cluster: CFDA – 20.500 and 20.507:
  - Time reporting 11 of 22 sampled items

Questioned costs: The questioned costs were accumulated for all items where the supporting documentation was not provided:

- Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524:
  - Time reporting \$48,185
- Federal Transit Administration Cluster: CFDA – 20.500 and 20.507:
  - Time reporting \$11,206

Cause: Management does not have proper controls in tracking expenditures properly.

Effect: The Authority may have been reimbursed for unallowed expenditures.

Recommendation: We recommend a process be put in place to help ensure that sufficient and proper documentation is maintained for expenditures charged to Federal Transit Administration grants.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding that the sufficient documentation was not provided to help ensure that expenditures were properly recorded as expenditures funded by Federal Transit Administration grants.

As noted in finding 2014-002, the complexities associated with implementing the Project Costing module in PeopleSoft in fiscal year 2012 created challenges for capital project reporting. Refer to management's response to finding 2014-002.

## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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#### Finding 2014-019: Allowable Costs (Payroll Expenditures)

Federal Transit Cluster: CFDA – 20.500 and 20.507  
Transit Services Program Cluster: CFDA – 20.516 and 20.521

Criteria: OMB Circular A-87 requires that grantees must have procedures for determining costs for Federal awards are accurate and complete.

Condition: Management was not able to provide signed and approved time sheets for amounts charged to capital projects funded by Federal Transit Administration (“FTA”) grants.

Context: Supporting documentation was not provided for the following:

- Transit Services Program Cluster: CFDA – 20.516 and 20.521:
  - Time reporting 3 of 3 sampled items tested
- Federal Transit Administration Cluster: CFDA – 20.500 and 20.507:
  - Time reporting 9 of 9 sampled items tested

Questioned costs: The questioned costs were accumulated for all items where approved time sheets were not provided:

- Transit Services Program Cluster: CFDA – 20.516 and 20.521:
  - Time reporting \$5,273
- Federal Transit Administration Cluster: CFDA – 20.500 and 20.507:
  - Time reporting \$3,700

Cause: Management does not have proper controls in tracking labor expenditures properly.

Effect: The Authority may have been reimbursed for unallowed expenditures.

Recommendation: We recommend a process be put in place to help ensure that sufficient and proper documentation is maintained for labor expenditures charged to Federal Transit Administration grants.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding to the extent that the complexities surrounding data interfaces and extraction out of the Project Costing module within the PeopleSoft system have been identified in findings 2014-002, 2014-014, 2014-015, 2014-016, 2014-017 and 2014-018.

The Authority’s goal is to adhere to the current FTA requirements calling for wages charged to federal grants accurately reflect work performed and be supported by a system of internal controls which provides reasonable assurance that the charges are accurate, allowable, and properly allocated. In support of these requirements, the Authority is currently improving its time reporting process (recording and documentation) for hours worked on federal grants as support for time reported, processed, and paid to employees, with the necessary system tracking in place when support is requested for these labor charges. The requirement to utilize the standardized process will begin during the second quarter of fiscal year 2016.

Additionally, the Office of Information Technology is in the early stages of assessing the requirements to move to an Authority-wide standardized automated time keeping solution that adheres to the standards set forth in the latest OMB federal circular for collecting and reporting time worked on capital projects. This comprehensive revision to the Authority’s existing time collection processes is expected to be completed between 24 and 36 months.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding 2014-020: Equipment and Real Property Management**

Federal Transit Cluster: CFDA – 20.500 and 20.507  
Transit Services Program Cluster: CFDA – 20.516 and 20.521  
Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524  
Rail and Transit Security Grant Program: CFDA – 97.075

Criteria: 49 CFR 18.20(b)(3) on internal control states that effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. In accordance with OMB Circular A-102 Common Rule, an appropriate system must be in place to manage and safeguard equipment acquired with federal funds. Property records must include a description of the property, a serial number or other identification number, funding source of the property, who holds title, the acquisition date, cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and ultimate disposition data, including the date of disposal, and sale price of the property. A physical inventory of equipment should be taken at least once every two years, and reconciled to the asset records.

Condition: Management did not maintain sufficient documentation to support the additions and dispositions of assets funded with federal funds. In addition, we were not able to physically observe 21 of 60 tested assets selected to verify that the assets are maintained and secure.

Cause: The cause is due to a breakdown in the control system and lack of effective oversight, review and timely reconciliations.

Context: See condition.

Questioned costs: Not applicable

Effect: Non-compliance with federal funds could result in the loss of future federal funding.

Recommendation: We recommend management implement procedures to help ensure that any changes in federally funded assets are well documented and complete to support information recorded in the financial system.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding to the extent that the complexities surrounding the PeopleSoft Asset Management module's inability to properly track federally funded assets. We note that there are challenges to processing transactions as a result of the PeopleSoft upgrade implementation in fiscal year 2012.

Management has implemented policies and procedures to document changes in federally funded assets are documented and complete. Additionally, an assessment of the Asset Management module setup and configuration within PeopleSoft is underway with subject matter experts from the Offices of Accounting and Information Technology.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding 2014-021: Equipment and Real Property Management**

Federal Transit Cluster: CFDA – 20.500 and 20.507  
Transit Services Program Cluster: CFDA – 20.516 and 20.521  
Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524

Criteria: 49 CFR 18.20(b)(3) on internal control states that effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property and other assets and 49 CFR 18.32(e) states that when original or replacement equipment acquired under a grant or sub-grant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:

- (1) Items of equipment with a current per-unit fair value of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.
- (2) Items of equipment with a current per unit fair value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.
- (3) In cases where a grantee or sub-grantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or sub-grantee to take excess and disposition actions.

Condition: Management does not have a formal or accurately documented asset disposal process. Furthermore, the grantor is not being notified about disposals of assets prior to the sale.

Context: Management did not notify FTA for 8 asset disposals tested.

Questioned costs: Not applicable

Cause: There are no formal documented procedures regarding the asset disposal process. There is no overall policy that helps ensure that the grantor is notified of all disposed federally funded assets.

Effect: Non-compliance with federal funds could result in the loss of future federal funding.

Recommendation: We recommend management implement a policy to help ensure the review of all assets, and develop and submit procedures for disposing of assets, along with policies regarding notifying the grantor of disposed assets prior to removal or sale.

Views of Responsible Officials and Planned Corrective Actions: Management agrees that during fiscal year 2014 there was no formal policy regarding notifying the grantor about disposals prior to the sale of an asset. However, the Asset Management manual was revised and implemented in September 2014 of fiscal year 2015 to include a request for approval to dispose notification for all federally funded assets regardless of their fair market value. If an asset is sold after approval from the grantor, a subsequent notification letter is sent advising the grantor of their interest. The Authority is in compliance with the current policy.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding 2014-022: Reporting**

Rail and Transit Security Grant Program: CFDA – 97.075

Criteria: The 2009 Transit Security Grant Program Guidance and Application Kit states, "Following an award, the awardees will be responsible for submitting Categorical Assistance Progress Reporting (CAPRs) on a semi-annual basis; CAPRs should address performance measures and activities as described in the investment justification(s).

Condition: Management did not submit timely the reports required by the Transit Security Grant Program.

Context: Management did not timely file 4 out of 8 reports tested.

Questioned costs: Not applicable

Cause: Management does not have procedures in place for monitoring the submission of required reports.

Effect: Non-compliance with reporting requirements could result in the loss of future federal funding.

Recommendation: We recommend management develop procedures to properly reporting requirements.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding that reports required by the Transit Security Grant Program were not submitted timely.

As noted in finding 2014-002, the complexities associated with implementing the Project Costing module in PeopleSoft in fiscal year 2012 created challenges for capital project reporting. Refer to management's response to finding 2014-002.

The Authority has augmented staff capacity in the Grants Management area by hiring a dedicated grants financial officer for the Homeland Security Grant Program during fiscal year 2015.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding 2014-023: Reporting**

Rail and Transit Security Grant Program: CFDA – 97.075

Criteria: The financial reports for the DHS grants (form SF-425) are required to be filed quarterly, and the submitting organization is required to certify that the SF-425 are complete and accurate.

Condition: Management did not submit timely the reports required by the Department of Homeland Security (“DHS”).

Context: Management did not timely file 1 out of 4 reports tested. One report was filed timely, however it included an improper period.

Questioned costs: Not applicable

Cause: Management does not have procedures in place for monitoring the submission of required reports.

Effect: Non-compliance with reporting requirements could result in the loss of future federal funding.

Recommendation: We recommend management develop procedures to properly reporting requirements.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding that reports required by the Department of Homeland Security were not submitted timely nor included all costs on the quarterly reports.

As noted in finding 2014-002, the complexities associated with implementing the Project Costing module in PeopleSoft in fiscal year 2012 created challenges for capital project reporting.

The Authority has augmented staff capacity in the Grants Management area by hiring a dedicated grants financial officer for the Homeland Security Grant Program.

## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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#### Finding 2014-024: Special Tests

Rail and Transit Security Grant Program: CFDA – 97.075

Criteria: Grant No. EMW-2012-RA-K00056 states in part that:

- a. If, during the past three years, the recipient has been accused of discrimination on the grounds of race, color, national origin (including limited English proficiency), sex, age, disability, religion, or familial status, the recipient must provide a list of all such proceedings, pending or completed, including outcome and copies of settlement agreements to the DHS awarding office and the DHS Office of Civil Rights and Civil Liberties.
- b. In the event any court or administrative agency makes a finding of discrimination on grounds of race, color, national origin (including limited English proficiency), sex, age, disability, religion, or familial status against the recipient, or the recipient settles a case or matter alleging such discrimination, recipients must forward a copy of the complaint and findings to the DHS Component and/or awarding office. The United States has the right to seek judicial enforcement of these obligations.

Condition: Management did not submit required reports on discrimination.

Context: The condition is considered systemic.

Questioned costs: Not applicable

Cause: Management does not have procedures in place for monitoring the submission of required reports.

Effect: Non-compliance with reporting requirements could result in the loss of future federal funding.

Recommendation: We recommend management develop procedures to properly meet reporting requirements.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the findings outlined in bullets A and B related to the submission of required reports under DHS grant awards.

The Authority's Office of Equal Employment Opportunity (OEEEO) provides to the FTA every three years a report on EEO complaints received during the 3-year time period. By September 1, 2015, the Public Safety Business Manager in the Metro Transit Police Department (MTPD) will submit to the DHS awarding office and the DHS Office of Civil Rights and Civil Liberties the EEO complaints report for the period July 1, 2010 thru June 30, 2013. So long as this grant requirement is in place, the Director, OEEEO will provide each FTA triennial report to the MTPD grants manager for submission to DHS. Additionally, the OEEEO will provide a listing of determination including a finding of discrimination on any of these bases with a copy of the related complaint to the MTPD Public Safety Business Manager. By September 1, 2015 the OEEEO will provide a report on all such determination and complaints since January 1, 2014 for submission to DHS.

The Office of General Counsel is responsible for any matters that result in a court finding of discrimination on any of these bases. So long as this grant requirement applies, whenever the General Counsel receives such a court finding, the General Counsel will forward a copy, with a copy of the related complaint, to the MTPD Public Safety Business Manager for submission to DHS. By September 1, 2015, the General Counsel will provide the MTPD Public Safety Business Manager all such findings and complaints since January 1, 2014 for submission to DHS.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Section III – Federal Award Findings and Questioned Costs**

B. Compliance

**Finding CF 2014-016: Federal Financial Reporting**

Federal Transit Cluster: CFDA – 20.500 and 20.507  
Transit Services Program Cluster: CFDA – 20.516 and 20.521  
Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524  
Rail and Transit Security Grant Program: CFDA – 97.075

See Section III A. Internal Control Over Compliance – Federal Awards Findings and Questioned Costs  
Finding 2014-016: Federal Financial Reporting

**Finding CF 2014-017: Allowable Costs**

Federal Transit Administration Cluster: CFDA – 20.500 and 20.507  
Transit Services Program Cluster: CFDA – 20.516 and 20.521  
Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524

See Section III A. Internal Control Over Compliance – Federal Awards Findings and Questioned  
Costs Finding 2014-017: Allowable Costs

**Finding CF 2014-018: Allowable Costs**

Federal Transit Cluster: CFDA – 20.500 and 20.507  
Transit Services Program Cluster: CFDA – 20.516 and 20.521  
Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524

See Section III A. Internal Control Over Compliance – Federal Awards Findings and Questioned Costs  
Finding 2014-018: Allowable Costs

**Finding CF 2014-019: Allowable Costs - Time Reporting**

Federal Transit Cluster: CFDA – 20.500 and 20.507  
Transit Services Program Cluster: CFDA – 20.516 and 20.521  
Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524

See Section III A. Internal Control Over Compliance – Federal Awards Findings and Questioned Costs  
Finding 2014-019: Allowable Costs – Time Reporting



**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding CF 2014-020: Equipment and Real Property Management**

Federal Transit Cluster: CFDA – 20.500 and 20.507  
Transit Services Program Cluster: CFDA – 20.516 and 20.521  
Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524  
Rail and Transit Security Grant Program: CFDA – 97.075

See Section III A. Internal Control Over Compliance – Federal Awards Findings and Questioned Costs Finding 2014-020: Equipment and Real Property Management

**Finding CF 2014-021: Equipment and Real Property Management**

Federal Transit Cluster: CFDA – 20.500 and 20.507  
Transit Services Program Cluster: CFDA – 20.516 and 20.521  
Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524

See Section III A. Internal Control Over Compliance – Federal Awards Findings and Questioned Costs Finding 2014-021: Equipment and Real Property Management

**Finding CF 2014-022: Reporting**

Rail and Transit Security Grant Program: CFDA – 97.075

See Section III A. Internal Control Over Compliance – Federal Awards Findings and Questioned Costs Finding 2014-022: Reporting

**Finding CF 2014-023: Reporting**

Rail and Transit Security Grant Program: CFDA – 97.075

See Section III A. Internal Control Over Compliance – Federal Awards Findings and Questioned Costs Finding 2014-023: Reporting

**Finding CF 2014-024: Special Tests**

Rail and Transit Security Grant Program: CFDA – 97.075

See Section III A. Internal Control Over Compliance – Federal Awards Findings and Questioned Costs Finding 2014-024: Special Tests

## Washington Metropolitan Area Transit Authority

### Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2014

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#### Finding CF 2014-025: Procurement, Suspension and Debarment

Federal Transit Cluster: CFDA – 20.500 and 20.507  
Transit Services Program Cluster: CFDA – 20.516 and 20.521  
Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524  
Rail and Transit Security Grant Program: CFDA – 97.075

Criteria: Non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All non-procurement transactions entered into by a recipient (i.e., sub-awards to sub-recipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity, as defined in 2 CFR Section 180.995 and Agency Adopting Regulations, is not suspended or debarred or otherwise excluded from participating in the transaction.

Condition: Management was not able to provide sufficient support that proper procurement procedures were followed for contracts funded with federal funds. We were not able to determine if competitive bidding and debarment procedures were followed.

Context: Management did not provide contract files for 4 of 36 items selected for the Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524 and 4 of 42 items selected for the Transit Services Program Cluster: CFDA – 20.516 and 20.521. In addition, the vendor suspension/debarment search for one contract tested was conducted after the contract was awarded for Rail and Transit Security Grant Program: CFDA – 97.075.

Cause: Management does not have proper controls determine and monitor procurement procedures.

Effect: Non-compliance with the procurement requirements could result in the loss of future federal funding.

Recommendation: We recommend a process be put in place to help ensure that all procurement requirements are followed and monitored.

Views of Responsible Officials and Planned Corrective Actions: A review of the contract file supports that the initial Federal Excluded Parties List System document was misplaced on the main contract, however the contract filed contained the vendor’s signed “representations and certifications” stating that the company was not debarred.

During a quality review of the contract file to help ensure proper documentation, it was discovered that the Excluded Parties document was misplaced, and a second document was put in the contract file. It should be noted that the contract selected for sampling was a Task Order. Excluded Parties verifications are not conducted on Task Orders, but prior to the award of original contracts.

**Washington Metropolitan Area Transit Authority**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2014**

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**Finding CF 2014-026: Special Tests - Charter Bus Services**

Federal Transit Cluster: CFDA – 20.500 and 20.507  
Transit Services Program Cluster: CFDA – 20.516 and 20.521  
Passenger, Rail, Investment and Improvement Act of 2008 (PRIIA): CFDA 20.524

Criteria: 49CFR part 604 restricts recipients of federal assistance from providing charter bus services unless certain exceptions under subpart B are met. The Authority did provide charter services to an organization that qualified under subpart B exception 604.7. Subpart B contains quarterly reporting requirements that include identifying whether the vehicles used for the charter services were purchased with federal funds.

Condition: Management did not submit the required quarterly reports timely.

Cause: Management does not have proper controls to help ensure that required reports are submitted timely.

Context: Management was required to file one report during the testing period, which was filed late.

Questioned Costs: Not applicable

Effect: Improper reporting and non-compliance with the use of federal funds could result in the loss of future federal funding.

Recommendation: We recommend a process be put in place to identify and track the filing of required reports.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding that the quarterly Charter Bus reports were not submitted timely to the FTA. The Authority submitted the report for the period ending June 30, 2014 in August 2014.

The Office of Grants Management will submit reports within 30-days of the end of a quarter.

**Washington Metropolitan Area Transit Authority**

**Summary Schedule Of Prior Year's Audit Findings  
Year Ended June 30, 2014**

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**Section II – Financial Statement Findings**

Internal Control

**Material Weakness reported:**

The financial statements as of and for the year ended required restatement and reissuance due to errors in accounting for grants, net pension assets, prefunded rail car leases (receivable and offsetting liability) and accounts payable.

This material weakness is repeated as finding 2014-001.

Compliance

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

Internal Control

**Finding 2013-01: Equipment disposal:**

Audit Finding: For 22 of 40 equipment disposals tested, management failed to perform timely notification of the dispositions to the grantor.

This finding is repeated as finding 2014-021.

Compliance

See finding 2013-01