



Finance, Administration and Oversight Committee

Action Item III-E

February 14, 2008

**Review and Acceptance of FY07 External Audit
Deliverables**

**Washington Metropolitan Area Transportation Authority
Board Action/Information Summary**

Action
 Information

MEAD Number:

Resolution:
 Yes No

PURPOSE

To request acceptance of the FY07 External Audit Deliverables submitted by KPMG, LLP/F.S. Taylor and Associates.

DESCRIPTION

KPMG, LLP/F.S. Taylor audited Metro's financial statements in accordance with *Government Auditing Standards* for the period July 1, 2006 through June 30, 2007 resulting in an Unqualified Opinion. An unqualified opinion means the statements present fairly, in all material respects, the financial position of the Authority, as of June 30, 2007 and the changes in its financial position and cash flows for the year then ended are in conformity with United States generally accepted accounting principles.

KPMG, LLP/F.S. Taylor has submitted the following FY07 external audit and related materials for acceptance:

- Financial Statements
- 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
- Single Audit Report
- CAFR
- Management Letter
- National Transit Database Agreed Upon Procedures
- Report on Applying Agreed Upon Procedures

FUNDING IMPACT

None.

RECOMMENDATION

It is recommended the Board of Directors accept the FY07 External Audit Deliverables submitted by KPMG/F.S. Taylor and Associates.

PRESENTED & ADOPTED:

SUBJECT: REVIEW AND ACCEPTANCE OF FY 2007 EXTERNAL AUDIT DELIVERABLES

PROPOSED
RESOLUTION
OF THE
BOARD OF DIRECTORS
OF THE
WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

WHEREAS, KPMG, LLP/F.S. Taylor & Associates has submitted the following FY 2007 external audit and related materials for acceptance:

- Financial Statements
- 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
- Single Audit Report
- CAFR
- Management Letter
- National Transit Database Agreed Upon Procedures
- Report on Applying Agreed Upon Procedures; and

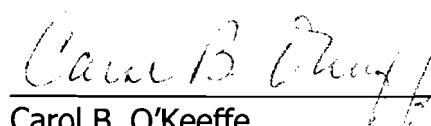
WHEREAS, The staff responses to the Management Letter, Report on Internal Controls and Single Audit are presented; and

WHEREAS, The FY 2007 External Audit and related materials include the Staff Responses to the Management Letter, Report on Internal Controls and Single Audit are being presented to the Board of Directors for acceptance; now, therefore be it

RESOLVED, That the Board of Directors accepts the FY 2007 External Audit and related materials including the Staff Responses to the Management Letter, Report on Internal Controls and Single Audit; and be it finally

RESOLVED, That this Resolution shall be effective immediately.

Reviewed as to form and legal sufficiency,



Carol B. O'Keeffe
General Counsel

Washington Metropolitan Area Transit Authority

Results of June 30, 2007 Financial Statement Audit

February 14, 2008

AUDIT

Audit Team

- Dan Kowlak
KPMG Partner
- Rachel Locus
F.S. Taylor Partner
- Irfan Satriadhi
KPMG Manager
- LaTonja Thompson-Belsches
F.S. Taylor Manager
- Kevin Friend
KPMG IT Manager

Agenda

- Our Audit Approach
- Audit Results
- Single Audit
- Required Communications

Our Audit Approach

- Integrated KPMG and F.S. Taylor & Associates professionals
- Team – Integrated and multidisciplinary
 - auditors
 - IT specialists
 - actuary
 - financial instruments specialist
 - tax specialist
- Approach – Risk based
- Communication – Frequent, formal, and informal

Audit Results

- **Auditors' Opinion on Financial Statements – Unqualified**
- **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**
 - One significant deficiency - controls over Construction-in-Progress need to be improved

Audit Results (cont.)

- **Management Letter Comments**

- Mortality table should be updated for the transit employee retirement plan
- Reconciliation of Construction-in-Progress
- Capitalizing interest
- Controls over the review of timesheets
- Documentation of controls over IT program changes - repeat
- Controls over Automated Payment System (ACH) - repeat
- 8 IT general controls comments - 3 repeat comments

- **Agreed-upon Procedures Results**

- National Transportation Database – One finding. Motorbus Surveys were not performed for one quarter due to system conversion.
- Capital Program Funding Schedule – One finding. \$35 million difference between the schedule and the general ledger.

- **Management concurred with all audit comments.**

Audit Results (cont.)

- **There was one adjusted audit difference.**

\$215 million was reclassified from Construction-in-Progress to fixed assets and the related \$22 million of depreciation expense was recorded.

- **There were six unrecorded audit adjustments in FY2007.**

- Total effect on expenses \$20,239,000 out of total expenses of \$1.69 billion (1.2 %)
 - Total effect on assets \$8,115,000 out of total assets of \$10.5 billion (0.1%)
 - Total effect on liabilities \$1,408,000 out of total liabilities of \$2.4 billion (0.1%)
- Since management determined, and the auditors agreed, that these items were **considered to be immaterial**, these audit differences were not recorded.

Single Audit

- **Single Audit Reports Issued**

- 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
- Report on Compliance with Requirements Applicable to Each Major Program and on Internal control over Compliance in Accordance with OMB Circular A-133 – Unqualified

- **Major Programs**

- DOT Federal Transit Cluster
- Homeland Security Rail and Transit Security Grant Program
- Homeland Security Grant Cluster
- Homeland Security Urban Area Security Cluster

Single Audit (cont.)

- **Findings and Questioned Costs**
 - Security Improvement Needed at Bus Facilities (repeat)
 - Purchases of seven 30-foot buses instead of 40-foot buses that are allowed by the grant and a vehicle lift that is not allowed by the grant with a total cost of \$829,000
 - Duplicate charges to the grant for public safety radio system in the amount of \$23,000 (only paid once)
 - \$89,000 for the purchase of security system was expended after expiration of grant
- **Management concurs with the Single Audit findings.**

Required Communications

- The American Institute of Certified Public Accountants' Statement on Auditing Standards No. 61 established requirements for independent public accountants to communicate certain matters to those who have responsibility for oversight of the financial reporting process. We have summarized the results of our audit of WMATA for the year ended June 30, 2007 by addressing each of these required communications.

Required Communications

- **Auditors' Responsibility Under Generally Accepted Auditing Standards**

- The financial statements are the responsibility of management. Our audit was designed in accordance with GAAS which provides for reasonable, rather than absolute, assurance that the financial statements are free of material misstatements. As a part of our audit, we obtained an understanding of internal control sufficient to plan our audits and to determine the nature and extent of testing performed.

- **Significant Accounting Policies**

- WMATA's accounting policies and methods are appropriate and in accordance with industry standards.
- No significant changes in the current fiscal year.

Required Communications (cont.)

- **Judgments and Accounting Estimates**

- The preparation of the financial statements requires that certain estimates and judgments be made by management. These judgments and estimates include:
 - Deferred revenues
 - Pension benefit assumptions
 - Liability for injury and damage claims
- We concluded that management has a reasonable basis for significant judgments and estimates that impact the financial statements.

- **Significant Audit Adjustments**

- Management consults with us on significant accounting or reporting matters (discussed on page 4).
- Unrecorded audit adjustments (discussed earlier).

Required Communications (cont.)

- **Disagreements with Management**

- We had no disagreements with management over the application of accounting principles or management's judgments about accounting estimates.

- **Consultation with Other Accountants**

- We are not aware of any situations in which management consulted with other accountants on accounting or financial reporting matters.

- **Major Issues Discussed with Management Prior to Retention**

- We discussed the application of accounting principles and auditing standards, however, our responses were not a condition to our retention.

- **Difficulties Encountered in Performing the Audit**

- We encountered no significant difficulties in dealing with management in performing our audit.

Required Communications (cont.)

- **Significant Written Communications Between Auditor and Management**
 - Engagement Letter,
 - Management representation letter, and
 - Management letter.
- **Independence**
 - We confirm that we are independent accountants with respect to WMATA.

Open Discussions / Questions

