



## M E M O R A N D U M

SUBJECT: Results of the Audit of WMATA's  
Single Audit for FY2019 (OIG 20-03)

DATE: October 18, 2019

FROM: OIG – Geoffrey A. Cherrington

TO: GMGR – Paul J. Wiedefeld

The Single Audit Act, as amended, requires an independent external auditor, as determined by the Inspector General, to annually audit the WMATA's federal awards in accordance with applicable standards. In compliance with this requirement, OIG retained RSM US, LLP (RSM) to conduct this annual audit. Transmitted with this memorandum is RSM's report which contains the following:

- Independent Auditor's Report on Internal Controls 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 on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.

### FY 2019 Audit Results

#### Internal Controls over Financial Reporting

- |                                     |                              |
|-------------------------------------|------------------------------|
| • <b>Unmodified opinion</b>         | Two significant deficiencies |
| • Internal Controls over Compliance | No deficiencies              |
| • Compliance and other matters      | No deficiencies              |

RSM discussed the results of the audit with the Board Executive Committee on October 10, 2019.

### Objective of the Single Audit

The objective of a Single Audit is to ensure a recipient of federal funds is in compliance with the federal program's requirements for how the money can be used. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Single Audit.

RSM's audit and examination were made in accordance with

- auditing standards generally accepted in the United States of America;
- standards applicable to the financial audits, contained in Government auditing Standards issued by the Comptroller General of the United States; and
- attestation standards established by the American Institute of Certified Public Accountants.

The audit included, among other things, obtaining an understanding of WMATA and its operations, including internal control over financial reporting; evaluating the design and operating effectiveness of internal control and assessing risk; and testing relevant internal controls over financial reporting. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies, or procedures may deteriorate.

#### OIG Oversight of RSM Performance

To fulfill our responsibilities under the contract for ensuring the quality of the audit work performed, we monitored RSM's audit of WMATA's FY2019 Single Audit by:

- Reviewing RSM's audit approach and planning.
- Monitoring audit progress at key points.
- Examining the working papers related to planning and performing the audit and assessing WMATA's internal controls.
- Reviewing RSM's audit report to ensure compliance with Government Auditing Standards.
- Coordinating the issuance of the audit report.
- Performing other procedures deemed necessary.

RSM is responsible for the attached auditors' report and the conclusions expressed therein. OIG is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our oversight, as differentiated from an audit in conformance with Government Auditing Standards, was not intended to enable us to express, and accordingly we do not express an opinion on:

- The effectiveness of WMATA's internal control over financial reporting.
- WMATA's compliance with laws and regulations.

However, our monitoring review disclosed no instances where RSM did not comply, in all material respects, with applicable auditing standards.

Attachment



REBUILDING, REFORMING & IMPROVING REGIONAL TRANSIT

# SINGLE AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2019



Single Audit Report issued in  
accordance with Title 2 U.S. Code of  
Federal Regulations Part 200,  
*Uniform Administrative Requirements,  
Cost Principles, and Audit  
Requirements for Federal Awards*

This Single Audit Report was prepared by:

**Office of the Chief Financial Officer**

VP & Comptroller, Office of Accounting  
Washington Metropolitan Area Transit Authority  
600 Fifth Street, NW  
Washington, D.C. 20001  
(202) 962-1602  
[www.wmata.com](http://www.wmata.com)

Dennis Anosike  
Executive Vice President and Chief Financial Officer

La Toya Thomas, CPA, CGFM  
Vice President and Comptroller

Fawzia Hafeez, FCA  
Assistant Comptroller

Sonia Francone, MSA, CPA, CITP, CGFM  
Manager, Financial Management Services

Special thanks to all Office of Accounting and support personnel whose inputs contributed to the preparation of this document.

**Washington Metropolitan Area Transit Authority  
Single Audit Report  
For the Fiscal Year Ended June 30, 2019**

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**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

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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 18, 2019. Our report contained an emphasis of matter paragraph concerning certain fiscal year 2018 amounts reported in the financial statements were adjusted to reflect a change in accounting principle related to the recording of receivables on the statements of net position.

**Internal Control over Financial Reporting**

In planning and performing our audit of the 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as 2019-001 and 2019-002 that we consider to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Authority's Responses to Findings**

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**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.

*RSM US LLP*

Washington, District of Columbia  
October 18, 2019



**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 The Uniform Guidance**

**Independent Auditor's Report**

To the Board of Directors  
Washington Metropolitan Area Transit Authority

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

We have audited the Washington Metropolitan Area Transit Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

**Opinion on Each Major Federal Program**

In our opinion, 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 of its major federal programs for the year ended June 30, 2019.

## **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 the Uniform Guidance, 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.

*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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the business-type activities of the Authority as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated October 18, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic 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 basic financial statements or to the basic 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 basic financial statements as a whole.

*RSM US LLP*

Washington, District of Columbia  
October 18, 2019

# Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2019

(continued)

| <b>Federal Grantor/ Program or Cluster Title</b>                                    | <b>CFDA<br/>Number</b> | <b>Grant Contract<br/>Number</b> | <b>Federal<br/>Expenditures</b> |
|---|------------------------|----------------------------------|---------------------------------|
| <b>U.S. Department of Transportation - Federal Transit<br/>Administration:</b>      |                        |                                  |                                 |
| <b>Direct Awards</b>  |                        |                                  |                                 |
| Passenger, Rail, Investment and Improvement (PRIIA) Projects:                       | 20.524                 |                                  |                                 |
| FFY2016 PRIIA Appropriation   |                        | DC-2016-010                      | \$ 58,427                       |
| FFY2017 PRIIA Appropriation   |                        | DC-2017-006                      | 18,807,847                      |
| FFY2018 PRIIA Appropriation   |                        | DC-2018-007                      | 122,430,119                     |
| FFY2019 PRIIA Appropriation   |                        | DC-2019-006                      | 20,664,247                      |
| Total PRIIA   |                        |                                  | <u>161,960,640</u>              |
| Federal Transit Cluster:  |                        |                                  |                                 |
| Federal Transit Formula Grants:   | 20.507                 |                                  |                                 |
| FFY2015 5307/5340 Formula   |                        | DC-90-X089                       | 594,797                         |
| FFY2017 5307/5340 Formula Funding   |                        | DC-2017-014                      | 13,341,636                      |
| FFY2017 VA CMAQ/RSTP Replacement Buses  |                        | DC-2018-003                      | 5,528,683                       |
| FFY2018 5307/5340 Formula Funding   |                        | DC-2018-011                      | 108,268,297                     |
| FFY2018 VA CMAQ/RSTP Replacement Buses  |                        | DC-2019-003                      | 5,919,290                       |
| Total Federal Transit Formula Grants  |                        |                                  | <u>133,652,703</u>              |
| State of Good Repair Grants Program:  | 20.525                 |                                  |                                 |
| FFY2016 5337 State of Good Repair   |                        | DC-2016-009                      | 83,414                          |
| FFY2017 5337 State of Good Repair   |                        | DC-2017-007                      | 5,692,729                       |
| FFY2018 5337 State of Good Repair   |                        | DC-2018-006                      | 163,912,998                     |
| Total State of Good Repair Grants Program   |                        |                                  | <u>169,689,141</u>              |
| Buses and Bus Facilities Formula, Competitive, and Low or<br>No Emissions Programs: | 20.526                 |                                  |                                 |
| FFY2018 5339 Bus program  |                        | DC-2018-004                      | <u>11,324,662</u>               |
| Total Federal Transit Cluster   |                        |                                  | <u>314,666,506</u>              |
| Public Transportation Emergency Relief Program:                                     | 20.527                 |                                  |                                 |
| FFY2013 Hurricane Sandy Resilience  |                        | DC-44-0001                       | <u>4,486,053</u>                |
| Transit Services Programs Cluster:  |                        |                                  |                                 |
| Enhanced Mobility of Seniors and Individuals with<br>Disabilities:                  | 20.513                 |                                  |                                 |
| Section 5310- Metro Access Fleet Replacement Vehicles                               |                        | DC-2018-002                      | 1,174,369                       |
| New Freedom Program:  | 20.521                 |                                  |                                 |
| New Freedom - Bus Stop Improvements   |                        | DC-57-X007                       | <u>560,556</u>                  |
| Total Transit Services Programs Cluster   |                        |                                  | <u>\$ 1,734,925</u>             |

# Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2019

(concluded)

| <u>Federal Grantor/ Program or Cluster Title</u>   | <u>CFDA<br/>Number</u> | <u>Grant Contract<br/>Number</u> | <u>Federal<br/>Expenditures</u> |
|--|------------------------|----------------------------------|---------------------------------|
| <b>U.S. Department of Transportation - Federal Transit<br/>Administration (continued):</b> |                        |                                  |                                 |
| <b>Direct Awards (continued)</b>   |                        |                                  |                                 |
| Public Transportation Research, Technical Assistance, and<br>Training:                     | 20.514                 |                                  |                                 |
| Track Inspector Location Awareness with Enhanced<br>Transit Worker Protection              |                        | DC-2017-011                      | \$ 621,320                      |
| Total U.S. Department of Transportation - Federal Transit<br>Administration                |                        |                                  | 483,469,444                     |
| <b>U.S. Department of Homeland Security:</b>   |                        |                                  |                                 |
| <b>Direct Awards</b>   |                        |                                  |                                 |
| Rail and Transit Security Grant Program  | 97.075                 |                                  |                                 |
| FY2015 Transit Security Grant Program  |                        | EMW-2015-RA-00030                | 44,506                          |
| FY2016 Transit Security Grant Program  |                        | EMW-2016-RA-00034                | 4,210,275                       |
| FY2018 Transit Security Grant Program  |                        | EMW-2018-RA-00028                | 453,961                         |
| Total Rail and Transit Security Grant Program  |                        |                                  | 4,708,742                       |
| Total U.S. Department of Homeland Security   |                        |                                  | 4,708,742                       |
| <b>Total Expenditures of Federal Awards</b>  |                        |                                  | <u>\$ 488,178,186</u>           |

See accompanying notes to the Schedule of Expenditures of Federal Awards.



**Notes to the Schedule of Expenditures of Federal Awards****For the Year Ended June 30, 2019****1. Summary of Significant Accounting Policies****a) Reporting Entity**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant award activity of the Washington Metropolitan Area Transit Authority (Authority) under programs of the federal government for the year ended June 30, 2019. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA 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.

**b) Basis of Accounting**

The SEFA is reported using the accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized when the liability is incurred, regardless of the timing of the related cash flows. Such expenditures are recorded following, as applicable, either the cost principles in Office of Management and Budget Circular A-87, *Cost Principles for Local, and Indian Tribal Governments*, for grant awards prior to December 26, 2014 or cost principles contained in the Uniform Guidance for grant awards after December 26, 2014, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

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

- a) Grant expenditures that meet capitalization criteria are recorded as capital assets on the Statements of Net Position.
- b) All other grant expenditures are reported in the Statements of Revenues, Expenses, and Changes in Net Position.

Costs are included in the reported federal expenditures in the SEFA to the extent they are included in the federal financial reports, which is the source for the data presented in the SEFA.

**c) Indirect Costs**

The Authority has elected not to use the 10% de minimus indirect cost rate discussed in Section 200.414 of the Uniform Guidance.

## 2. Reconciliation of Federal Expenditures Reported in the SEFA to the Authority's Basic Financial Statements

The following is a reconciliation of the federal expenditures reported in the SEFA to the amounts reported in the basic financial statements for the fiscal year ended 2019:

|   | <u>Total</u>                 |
|---|------------------------------|
| Total federal expenditures included in the basic financial statements                   | \$ 490,279,222               |
| Net adjustments to expenditures reported in the prior years' basic financial statements | <u>(2,101,036)</u>           |
| Total federal expenditures reported in the current year SEFA                            | <u><u>\$ 488,178,186</u></u> |

The differences between the federal expenditures reported in the current year's SEFA and basic financial statements are primarily due to adjustments to billed and unbilled costs. Unbilled adjustments represent realignments to different grants for various management reasons until the costs are billed. Adjustments to billed expenditures represent costs that were removed from the federal grants due to disallowance by the federal granting agency or for other management reasons.

Further, these adjustments are made to costs that were originally incurred in prior fiscal years and included in the prior year's basic financial statements and that may have been:

- Never reported in prior year SEFAs;
- Reported in prior year SEFAs but moved to a different federal grant during the current fiscal year; or
- Reported in prior year SEFAs but removed from the federal grant during the current fiscal year.

Below is a summary of the net adjustments made to costs by the fiscal year that the costs were originally incurred and reported in the basic financial statements and by the federal grant program or cluster impacted in the current year's SEFA:

| Program/ Cluster Title   | Fiscal Year        |                       |                        |                     | Total                 |
|--|--------------------|-----------------------|------------------------|---------------------|-----------------------|
|  | 2015 and Prior     | 2016                  | 2017                   | 2018                |                       |
| Passenger, Rail, Investment and Improvement Projects               | \$ 473             | \$ (549,617)          | \$ (2,142,442)         | \$ 2,746,191        | \$ 54,605             |
| Federal Transit Cluster  | (49,701)           | (542,009)             | (8,089,648)            | 5,832,697           | (2,848,661)           |
| Public Transportation Emergency Relief Program                     | -                  | -                     | (437,615)              | (197,689)           | (635,304)             |
| New Freedom Program  | -                  | (23,401)              | (60,960)               | (19,271)            | (103,632)             |
| Public Transportation Research, Technical Assistance, and Training | -                  | -                     | -                      | 257,584             | 257,584               |
| Transit Services Programs Cluster                                  | -                  | -                     | 62,742                 | 1,111,630           | 1,174,372             |
| Total net adjustments  | <u>\$ (49,228)</u> | <u>\$ (1,115,027)</u> | <u>\$ (10,667,923)</u> | <u>\$ 9,731,142</u> | <u>\$ (2,101,036)</u> |

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

### I. Summary of Independent Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- |   |                        |                    |               |
|---|------------------------|--------------------|---------------|
| ▪ Material weaknesses identified?                     | ____ Yes               | ____ <u>X</u> ____ | No            |
| ▪ Significant deficiencies identified?                | ____ <u>X</u> ____ Yes | ____ ____          | None Reported |
| Noncompliance material to financial statements noted? | ____ Yes               | ____ <u>X</u> ____ | No            |

#### Federal Awards

Internal control over major programs:

- |  |          |                    |               |
|--|----------|--------------------|---------------|
| ▪ Material weaknesses identified?      | ____ Yes | ____ <u>X</u> ____ | No            |
| ▪ Significant deficiencies identified? | ____ Yes | ____ <u>X</u> ____ | None Reported |

Type of auditor's report issued on compliance for major programs: Unmodified

- |  |          |                    |    |
|--|----------|--------------------|----|
| ▪ Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? | ____ Yes | ____ <u>X</u> ____ | No |
|--|----------|--------------------|----|

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program and Clusters</u>     |
|--------------------|---|
|                    | Federal Transit Cluster:                        |
| 20.507             | Federal Transit Formula Grants                  |
| 20.525             | State of Good Repair Grants Program             |
| 20.526             | Bus and Bus Facilities Formula Program          |
| 20.524             | Passenger, Rail, Investment and Improvement Act |

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

Auditee qualified as low-risk auditee? \_\_\_\_ Yes      \_\_\_\_ X \_\_\_\_ No

## II. Financial Statement Findings

### A. Internal Control over Financial Reporting

#### 2019-001: Federal Financial Reporting – Significant Deficiency

**Criteria:** The Code of Federal Regulations (CFR) Section 200.303(b) requires non-federal entities to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and terms and conditions of the federal award. CFR Section 200.502(a) states that the determination of when a federal award is expended should be based on when the activity related to the federal award occurs. Generally, the activity pertains to events that require the non-federal entity to comply with federal statutes, regulations, and the terms and conditions of federal awards, such as expenditure/expense transactions associated with grant awards.

The Authority reports expenditures in the federal financial reports (FFRs) and Schedule of Expenditures of Federal Awards (SEFA) using the accrual basis of accounting. Under this basis, expenses are recorded when a liability is incurred, regardless of the timing of the cash flows.

**Condition:** We noted the SEFA for the fiscal year ended June 30, 2019 included a significant amount of cost adjustments for unbilled and billed expenditures, which were incurred in prior fiscal years. The details of these amounts are included in the notes to the SEFA. The Authority aligns funding sources to project expenditures at the time the expenditures are incurred. The funding sources applied to project expenditures may be adjusted throughout the life of a project, which can cross more than one of the Authority's fiscal years. As funding sources are adjusted to project expenditures, the Authority's funds management system automatically adjusts other project expenditures to accommodate the funding source changes, i.e., the "waterfall" effect. The funds management system is designed so that expenditures continue to waterfall until they are billed.

**Context:** The Authority manages and administers grants and prepares the FFRs based on data processed in the funds management system and from manual accrual and expenditure adjustments added directly to the FFRs outside of the funds management system. As such, in order to obtain a full population of federal expenditures incurred during the fiscal year, the SEFA must be completed based on amounts reported in the FFRs.

The FFRs report life-to-date expenditures by federal grant program. As such, it does not readily reflect changes or realignments in funding sources during one fiscal period on the face of the report. Funding alignment changes are identified when the current period amounts of the FFRs are isolated to construct the SEFA, which only reports expenditures incurred during one fiscal year.

**Cause:** The Authority designed its business processes and the funds management system in a manner that allows funding adjustments related to prior year costs (based on transaction dates) being included on the FFRs and SEFA in the current period.



## II. Financial Statement Findings (continued)

### A. Internal Control over Financial Reporting (continued)

#### 2019-001: Federal Financial Reporting – Significant Deficiency (continued)

**Effect:** The inclusion of prior year federal expenditures or processing funding source changes to prior year federal expenditures causes inaccurate amounts reported in the current period FFRs and SEFA, which are both on the accrual basis of accounting. This results in duplicate reporting of the same federal expenditure on different grants, testing of expenditures that are not federal in nature, and an inaccurate major program determination for the current year end audit, which could result in noncompliance with the Single Audit Act and the Uniform Guidance. The impact of prior year expenditure adjustments resulted in a net reduction of current year expenditures totaling approximately \$2.1 million.

Additionally, based on the work we performed in the current year audit, we understand that there are significant amounts of unbilled costs incurred in fiscal years 2019 and prior, that is subject to waterfalling. Since these costs will continue to waterfall until they are billed, they are susceptible to realignment to or from federal grant programs and could impact future period FFRs and SEFAs.

**Recommendation:** We recommend the Authority:

1. Reconfigure the business processes and/or parameters of the funds management system, as appropriate, and establish documented policies that minimize prior year expenditure movements to or from federal grants in the current fiscal year during the normal course of business. The system and policies should generally only allow adjustments to prior year federal expenditures on an exception basis. Specifically, in the absence of disallowance or circumstance allowable by established policy, billed or unbilled prior year expenditures should not be adjusted for any other management reasons if the adjustment would impact a federal award in the current period.
2. Establish documented policies and procedures to ensure that federal expenditures reported in the current period FFRs and SEFA are on a full accrual basis and based on amounts aligned to federal grant programs in the funds management system.

**Views of Responsible Officials and Planned Corrective Actions:** Management agrees with the finding:

The Authority acknowledge the current challenges with our funding practices and their related impacts to the FFRs and SEFA. We will assess the configuration of the funds management system and our business processes and establish a remediation plan that, when implemented, will create an environment that minimizes prior year costs from continuing to be reported in the current period FFRs and SEFA. Further, this plan will also address ensuring that all amounts reported in the FFRs and SEFA are properly supported, recorded using the correct basis of accounting, and is in accordance with the Uniform Guidance and other applicable federal reporting requirements.

## II. Financial Statement Findings (continued)

### A. Internal Control over Financial Reporting (continued)

#### 2019-002: Reporting Errors – Significant Deficiency

**Criteria:** Internal control policies and procedures should provide reasonable assurance regarding the reliability of the financial reporting data.

**Condition:** Incorrect balances for compensated absences, net loss on disposal of assets, and capital contributions were reflected in the general ledger balances as of June 30, 2019.

**Context:** Compensated absences are maintained in the Authority's absence management system that is not interfaced with the general ledger. As such, performs a manual journal entry to record these balances in the financial system based on the amounts included in the reports. The reports used to prepare the journal entry was not generated correctly and understated the compensated absence amounts as of June 30, 2019.

The journal entry for amounts owed to the federal government for their interest in retired and sold assets was incorrectly prepared. The entry reduced capital contributions instead of being appropriately recorded as a net loss on disposal of assets.

**Cause:** Supervisory reviews were ineffective in detecting errors in documentation prior to approving the journal entries in the financial system.

**Effect:** The compensated absences liability was understated in the preliminary trial balance and a classification error between capital contributions and net loss on disposal of assets were reported in the financial statements.

**Recommendation:** We recommend the Authority:

1. Ensure that supervisory reviews are performed by staff knowledgeable about compensated absence and asset disposal transactions they are approving. Further, ensure review procedures are designed in a manner that will detect errors in documentation relating to these transactions prior to approving journal entries in the financial system.
2. Assess the absence management module to determine if compensated absence amounts can interface with the general ledger as leave is earned and used.
3. Implement procedures such as year to year analytical comparisons to identify instances of significant changes in reported balances.

## II. Financial Statement Findings (continued)

### A. Internal Control over Financial Reporting (continued)

#### 2019-002: Reporting Errors – Significant Deficiency (continued)

**Views of Responsible Officials and Planned Corrective Actions:** Management agrees with the finding:

The Authority will provide training to all management who perform supervisory reviews to ensure that they have the knowledge needed to effectively review transactions in a manner that will detect errors in documentation prior to approving journal entries in the financial system.

To minimize manual intervention in generating compensated absence reports, the Authority will assess the current system mapping to determine if compensated absence liability amounts can be reported automatically from the absence management module to the general ledger when they earned and used.

In response to the issues noted, the Authority has modified its yearend close schedule to perform variance analyses when the preliminary trial balance is generated to more timely detect and verify unusual fluctuations in balances that may be indicative of an error. This change in timing will allow for follow up to occur on potential errors prior to financial data being provided to the auditors and the financial statements being prepared.

### B. Compliance Findings

No matters to report.

## III. Findings and Questioned Costs for Federal Awards

### A. Internal Control over Compliance

No matters to report.

### B. Compliance and Other Matters

No matters to report.

## IV. Summary of Prior Year Audit Findings

### A. Financial Statement Findings

#### 1. Internal Control over Financial Reporting

##### **2018-001: Reporting Schedule of Expenditures of Federal Awards (SEFA) – Significant Deficiency**

Audit finding: The SEFA included a significant amount of expenditures and funding adjustments for unbilled expenditures which were incurred in prior fiscal years. The funding source applied to project expenditures may be adjusted throughout the life of a project, which can cross more than one of the Authority's fiscal years. As funding sources are adjusted to project expenditures, the Authority's funds management module automatically adjusts other project expenditures to accommodate the funding source change, i.e. the "waterfall" effect. In addition, the audit trail for those changes in funding sources was not readily available.

Status of finding: The fiscal year 2019 FFRs and SEFA included a significant amount of expenditures relating to fiscal years 2018 and prior. That portion of the audit finding is repeated under a new title as 2019-001, Federal Financial Reports.

##### **2018-002: Kronos® System Implementation – Significant Deficiency**

Audit finding: The Authority implemented a new automated timekeeping solution, Kronos®. Throughout the roll-out period, parallel systems were not maintained, and errors caused by the configuration of Kronos® were found in the calculation of payroll that were not identified and corrected during the user acceptance testing prior to going live. To address these issues, changes were made to the configuration, however some of those changes were not fully tested which resulted in labor costs being expensed as opposed to being capitalized, and payroll overpayments and underpayments to employees.

Status of finding: This finding is not repeated in the current year because the Kronos implementation was suspended early in fiscal year 2019 for reassessment. Management is currently in the process of developing a new implementation plan to deploy Kronos at a future date. We recommend that management consider the lessons learned from the failed implementation and consider the recommendations from the Office of the Inspector General as it works through development of this plan.

#### 2. Compliance Findings

No open matters to address.

### B. Findings and Questioned Costs for Federal Awards

#### 1. Internal Control over Compliance

No open matters to address.

#### 2. Compliance and Other Matters

No open matters to address.



# M System Map

wmata.com  
Customer Information Service: 202-637-7000  
TTY Phone: 202-962-2033  
Metro Transit Police: 202-962-2121

## Legend

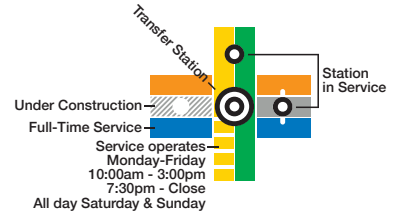
- **RD** Red Line • Glenmont / Shady Grove
- **OR** Orange Line • New Carrollton / Vienna
- **BL** Blue Line • Franconia-Springfield / Largo Town Center
- **GR** Green Line • Branch Ave / Greenbelt
- **YL** Yellow Line • Huntington / Mt Vernon Sq / Fort Totten
- **SV** Silver Line • Wiehle-Reston East / Largo Town Center

## Station Features

- Bus to Airport
- Parking
- Hospital
- Airport

## Connecting Rail Systems

- AMTRAK
- VIRG
- MARC



Metro is accessible.

N  
Map is not to scale



No Smoking



No Eating or Drinking



No Animals (except service animals)



No Audio (without earphones)



No Littering or Spitting



No Dangerous or Flammable Items



Washington Metropolitan Area Transit Authority  
600 Fifth Street, NW  
Washington, D.C. 20001



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