MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Independent Auditors’ Reports as Required by Office of Management and Budget (OMB) Circular A-133 and Government Auditing Standards and Related Information

Year ended June 30, 2014
MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Independent Auditors’ Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2014

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The Board of Directors
Massachusetts Bay Transportation Authority:

Report on Compliance for Each Major Federal Program

We have audited the Massachusetts Bay Transportation Authority’s (the Authority), a component unit of the Massachusetts Department of Transportation, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 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, 2014. The Authority’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of current year findings and questioned costs (Exhibit IV).

Management’s Responsibility

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

Auditors’ 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.
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, 2014.

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 compliance requirements that could have a direct and material effect on a 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 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-01 that we consider to be a significant deficiency.

The Authority’s response to the internal control over compliance finding identified in our audit is 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 financial statements of the Authority as of and for the year ended June 30, 2014, and have issued our report thereon dated October 21, 2014, which contained an unmodified 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.

December 18, 2014
<table>
<thead>
<tr>
<th>Grant number</th>
<th>Program description</th>
<th>Cumulative Expenditures, net of transfers to Federal Transit to July 1, 2013</th>
<th>Cumulative Expenditures, net of transfers to Federal Transit to June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>MA-03-2500</td>
<td>Federal Equity Sharing Program</td>
<td>Total U. S. Dept. of Justice 2,783,520 39,944 2,823,464</td>
<td>Total U. S. Dept. of Justice 2,783,520 39,944 2,823,464</td>
</tr>
</tbody>
</table>

### U.S. Department of Transportation:

#### Federal Transit – Highway Planning and Construction:
- **MA-70-0001**
  - **20.205** Winthrop Ferry Demo Proj. 426,740...
  - **Total 20.205** 426,740... 146,000,869 979,140,869 33,759,569 51,531,015 20.507
- **MA-04-0054**
  - **20.500** Rockport Comm. Rail Station 7,174...
  - **Total 20.500** 7,174...
- **MA-04-0056**
  - **20.500** Boston Bike Share Program 2,919,492...
  - **Total 20.500** 2,919,492...
- **MA-04-0064**
  - **20.500** Hingham Ferry Dock 138,857...
  - **Total 20.500** 138,857...
- **MA-04-0068**
  - **20.500** Auburndale Station Design 44,105...
  - **Total 20.500** 44,105...
- **MA-04-0053**
  - **20.500** Worcester-Boston Rail Corridor Improvement 16,XXX ...
  - **Total 20.500** 16,XXX ...
- **MA-05-0001**
  - **20.500** New Blue Line Cars 7,344,267...
  - **Total 20.500** 7,344,267...
- **MA-05-0010**
  - **20.500** Blue Line Modernization 69,854,947...
  - **Total 20.500** 69,854,947...
- **MA-05-0013**
  - **20.500** FY07 Station Improvement Proj. 33,759,569...
  - **Total 20.500** 33,759,569...
- **MA-05-0015**
  - **20.500** Expo Line 2 Car Overhaul 27,802,969...
  - **Total 20.500** 27,802,969...
- **MA-05-0019**
  - **20.500** FY07 Green Line 167,484...
  - **Total 20.500** 167,484...
- **MA-05-0020**
  - **20.500** Coach Reliability & Safety Proj. 1,275,044...
  - **Total 20.500** 1,275,044...
- **MA-05-0028**
  - **20.500** South Weymouth Access Proj. 7,344,267...
  - **Total 20.500** 7,344,267...
- **MA-05-0034**
  - **20.500** Assembly Service Project 3,579,012...
  - **Total 20.500** 3,579,012...
- **MA-05-0035**
  - **20.500** West Roxbury-Boston Rail Corridor Improvement 505,753...
  - **Total 20.500** 505,753...
- **MA-56-0001**
  - **20.500** CR Stations, Dudley Square (ARRA) 42,107,411...
  - **Total 20.500** 42,107,411...

**Exhibit II (Continued)**
### Federal Transit Investment Generating Economic Recovery Program:

<table>
<thead>
<tr>
<th>Grant number</th>
<th>Federal catalog number</th>
<th>Program description</th>
<th>Cumulative to June 30, 2013</th>
<th>Expenditures, net of transfers to July 1, 2013 – June 30, 2014</th>
<th>Cumulative to June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>MA-78-0001</td>
<td>20.932</td>
<td>Wonderland Plaza Tiger (ARRA)</td>
<td>17,032,690</td>
<td>2,086,310</td>
<td>20,000,000</td>
</tr>
<tr>
<td>MA-78-0002</td>
<td>20.932</td>
<td>Fitchburg-Wachusett Ext. Tiger (ARRA)</td>
<td>10,665,332</td>
<td>9,833,881</td>
<td>20,499,213</td>
</tr>
</tbody>
</table>

Subtotal #20.932 28,599,022 11,900,191 40,499,213

### Federal Railroad Administration:

Passed through the Comm. Of Massachusetts:

<table>
<thead>
<tr>
<th>Grant number</th>
<th>Federal catalog number</th>
<th>Program description</th>
<th>Cumulative to June 30, 2013</th>
<th>Expenditures, net of transfers to July 1, 2013 – June 30, 2014</th>
<th>Cumulative to June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>S10004</td>
<td>20.932</td>
<td>New Bedford 3 Bridges – TIGER (ARRA)</td>
<td>19,790,567</td>
<td>601,682</td>
<td>20,392,249</td>
</tr>
</tbody>
</table>

Subtotal #20.932 48,389,589 1,251,873 60,641,462

### National Infrastructure Investments:

<table>
<thead>
<tr>
<th>Grant number</th>
<th>Federal catalog number</th>
<th>Program description</th>
<th>Cumulative to June 30, 2013</th>
<th>Expenditures, net of transfers to July 1, 2013 – June 30, 2014</th>
<th>Cumulative to June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>MA-79-0001</td>
<td>20.933</td>
<td>ARRA TIGER Merrimack River Bridge</td>
<td>29,776,355</td>
<td>21,045,998</td>
<td>50,822,353</td>
</tr>
</tbody>
</table>

Subtotal #20.933 29,776,355 21,045,998 50,822,353

### FHWA – Section 130:

<table>
<thead>
<tr>
<th>Grant number</th>
<th>Federal catalog number</th>
<th>Program description</th>
<th>Cumulative to June 30, 2013</th>
<th>Expenditures, net of transfers to July 1, 2013 – June 30, 2014</th>
<th>Cumulative to June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>S14001</td>
<td>20.205</td>
<td>Knowledge Corridor-Grade Crossings</td>
<td>—</td>
<td>2,058,390</td>
<td>2,058,390</td>
</tr>
</tbody>
</table>

Total #20.205 2,058,390 2,058,390

Total U. S. Dept. of Transportation 1,657,638,692 418,647,200 2,076,285,892

### U.S. Environmental Protection Agency:

Surveys, Studies, Investigations and Special Purpose Activities Relating to Clean Air Act
Passed through the Commonwealth of Massachusetts (MassDEP):

<table>
<thead>
<tr>
<th>Grant number</th>
<th>Federal catalog number</th>
<th>Program description</th>
<th>Cumulative to June 30, 2013</th>
<th>Expenditures, net of transfers to July 1, 2013 – June 30, 2014</th>
<th>Cumulative to June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEP/DERA CTEQE301011 (90-EPAP)</td>
<td>66.040</td>
<td>—</td>
<td>1,398,921</td>
<td>—</td>
<td>1,398,921</td>
</tr>
</tbody>
</table>

Direct Award:

<table>
<thead>
<tr>
<th>Grant number</th>
<th>Federal catalog number</th>
<th>Program description</th>
<th>Cumulative to June 30, 2013</th>
<th>Expenditures, net of transfers to July 1, 2013 – June 30, 2014</th>
<th>Cumulative to June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>DE-96123801 (90-EPA4)</td>
<td>66.040</td>
<td>—</td>
<td>790,624</td>
<td>—</td>
<td>790,624</td>
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</tbody>
</table>

Total 666,040 2,189,545 — 2,189,545

### U.S. Department of Homeland Security:

Urban Areas Security Initiatives:

<table>
<thead>
<tr>
<th>Grant number</th>
<th>Federal catalog number</th>
<th>Program description</th>
<th>Cumulative to June 30, 2013</th>
<th>Expenditures, net of transfers to July 1, 2013 – June 30, 2014</th>
<th>Cumulative to June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>HST02-06-H-MLSI10 (J10002)</td>
<td>97.072</td>
<td>TSA Natl. Explosives Canine Prog.</td>
<td>550,605</td>
<td>11,014</td>
<td>561,619</td>
</tr>
<tr>
<td>HST02-10-MI-CAN432 (J11002)</td>
<td>97.072</td>
<td>TSA Natl. Explosives Canine Prog.</td>
<td>275,614</td>
<td>290,143</td>
<td>475,757</td>
</tr>
</tbody>
</table>

Total 997,072 826,219 211,159 1,037,378

Passed through the Commonwealth of Massachusetts:

<table>
<thead>
<tr>
<th>Grant number</th>
<th>Federal catalog number</th>
<th>Program description</th>
<th>Cumulative to June 30, 2013</th>
<th>Expenditures, net of transfers to July 1, 2013 – June 30, 2014</th>
<th>Cumulative to June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>J0001</td>
<td>97.075</td>
<td>FY 2008 Transit Security</td>
<td>28,897,283</td>
<td>(17,883)</td>
<td>28,079,400</td>
</tr>
</tbody>
</table>

Direct Award:

<table>
<thead>
<tr>
<th>Grant number</th>
<th>Federal catalog number</th>
<th>Program description</th>
<th>Cumulative to June 30, 2013</th>
<th>Expenditures, net of transfers to July 1, 2013 – June 30, 2014</th>
<th>Cumulative to June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009RAT90013</td>
<td>97.075</td>
<td>FY 2009 Transit Security (J09001)</td>
<td>14,271,566</td>
<td>13,095,882</td>
<td>27,367,448</td>
</tr>
<tr>
<td>2010RATOK045</td>
<td>97.075</td>
<td>FY 2010 Transit Security (J10001)</td>
<td>3,035,525</td>
<td>10,425,428</td>
<td>13,460,953</td>
</tr>
<tr>
<td>EMW2011RA00035</td>
<td>97.075</td>
<td>FY 2011 Transit Security (J11001)</td>
<td>1,704,305</td>
<td>3,450,179</td>
<td>5,154,484</td>
</tr>
<tr>
<td>EMW2012RA000015</td>
<td>97.075</td>
<td>FY 2012 Transit Security (J12001)</td>
<td>3,789</td>
<td>811,316</td>
<td>815,055</td>
</tr>
</tbody>
</table>

Total 997,075 47,912,818 27,764,922 75,677,340

Total of U. S. Dept. of Homeland Security 48,738,637 27,976,081 76,714,718

Grand total $1,711,350,394 446,663,225 2,158,013,619

See accompanying notes to schedule of expenditures of federal awards.
(1) **Definition of the Reporting Entity**

The Massachusetts Bay Transportation Authority (the Authority) is a component unit of the Massachusetts Department of Transportation and political subdivision of the Commonwealth of Massachusetts (the Commonwealth) formed pursuant to Commonwealth law to, among other things, hold and manage mass transportation facilities and equipment, and to enter into agreements for its operation, construction and use.

The U.S. Department of Transportation (DOT) has been designated as the Authority’s cognizant Federal agency for the Single Audit.

(2) **Summary of Significant Accounting Policies**

(a) **Basis of Presentation**

The accompanying schedule of expenditures of federal awards has been prepared on the cash basis of accounting and includes federal, state, and local expenditures.

(b) **Expenditures in Excess of Federal Participation**

Expenditures under the Federal Transit Cluster are stated at their total cost regardless of their source of funding. Under its grant contracts with the federal government, the Authority is reimbursed for a fixed percentage of eligible project costs. The Authority funds the expenditures in excess of the federal share in various ways, including through the issuance of long-term debt and funds received from the Commonwealth and local sources.

(3) **Approved Federal Grant Programs**

The Authority’s Federal Transit – Capital Investment Grants and Formula Grants Programs and the Transportation Investment Generating Economic Recovery Program (TIGER) for the year ended June 30, 2014 consisted primarily of capital grants under contracts with the Federal Transit Administration (FTA). These grants provide for the acquisition of land and equipment, the construction of service extensions, stations, and maintenance facilities, and the improvement of facilities and equipment.

The Authority also received major program funding passed through the Commonwealth of Massachusetts from the Federal Railroad Administration (FRA), for the High-Speed Rail Corridors and Intercity passenger Rail Service (HSIPR). This program will provide approximately $72.8 million in federal funding for the reconstruction of the historic “Knowledge Corridor” rail line between Springfield, MA and East Brookfield, MA. This project will allow restoration of Amtrak’s “Vermont” intercity passenger rail service to a former, more direct route, and improve access to densely populated areas along the Connecticut River. Recognizing that the Knowledge Corridor project is outside of the MBTA service area, a memorandum of agreement was executed with MassDOT, to provide for the Authority’s Design and Construction Department’s oversight of this reconstruction effort.
According to the terms of the FTA contracts, the Authority will be reimbursed from 80% to 100% of the allowable project costs as defined in the grant agreement. The terms of those federal grant contracts require the Authority to, in part, utilize the equipment and facilities for the purpose specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and comply with the Equal Opportunity and Affirmative Action programs as required by the Moving Ahead for Progress in the 21st Century Act (MAP-21).

The Authority also received program funding from the U.S. Department of Homeland Security Office for the Department of Homeland Security’s Rail and Transit Security Grant Program.

According to the terms of the Rail and Transit Security grants, the Authority will be reimbursed for 100% of the allowable project costs as defined in the grant agreements. These grants provide for the acquisition of equipment and other enhancements to the transit system’s security.

Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to their funding agencies. In management’s opinion, no events have occurred which would result in the termination of these grants or which would require the refund of a significant amount of funds received under these grants.

(4) Subrecipients

For the year ended June 30, 2014 the Authority provided approximately $973,000 in federal awards to subrecipients of which approximately 85% was paid to the South Shore Tri Town Development Corporation.

The subrecipient payments are almost entirely in the Federal Transit – Capital Investment Grants Program, CFDA #20.500 and 20.507 expenditures.
Independent Auditors’ 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

The Board of Directors
Massachusetts Bay Transportation 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 Massachusetts Bay Transportation Authority (the Authority), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2014.

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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.
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.

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 Authority’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 Authority’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

October 21, 2014
Exhibit IV

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

(1) **Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes none reported
- Noncompliance material to the financial statements noted? Yes  no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? Yes  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes  no

Type of auditors’ report issued on compliance for major programs: Unmodified

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

**Identification of Major Programs**

<table>
<thead>
<tr>
<th>Federal program or cluster</th>
<th>CFDA number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Transit Cluster:</td>
<td></td>
</tr>
<tr>
<td>Federal Transit – Capital Investment Grants Program</td>
<td>20.500</td>
</tr>
<tr>
<td>Federal Transit – Formula Grants Program</td>
<td>20.507</td>
</tr>
<tr>
<td>Federal Transit and Federal Railroad Administration – Transportation Investment Generating Economic Recovery (TIGER)</td>
<td>20.932</td>
</tr>
<tr>
<td>Federal Railroad Administration – High – Speed Rail Corridors and Intercity Passenger Rail Service (HSIPR)</td>
<td>20.319</td>
</tr>
<tr>
<td>Department of Homeland Security – Rail and Transit Security Grant Program</td>
<td>97.075</td>
</tr>
</tbody>
</table>

Dollar threshold used to distinguish between type A and type B programs: $3,000,000
MASSACHUSETTS BAY TRANSPORTATION AUTHORITY  
(A Component Unit of the Massachusetts Department of Transportation)  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2014

Auditee qualified as low-risk auditee?  
_____ yes  _____ no

(2) Findings Related to the Financial Statements Reported in Accordance with Government Auditing Standards

None

(3) Findings and Questioned Costs Relating to Federal Awards

Finding Number:  Finding 2014-01  
Federal Program:  Federal Transit Cluster:

  CFDA # 20.500 Federal Transit Capital Investment Grants (ARRA)
  CFDA # 20.507 Federal Transit Formula Grants (ARRA)
  Rail and Transit Security Grant Program CFDA # 97.075

Grant Award and Year:  Various

Finding:

Periodic access reviews related to the Peoplesoft Human Capital Management System (HCMS) were not performed on a consistent basis and Information Technology Department (ITD) is not consistently notified of job transfers.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2CFR par 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition:

Our review over the HCMS application in conjunction with the timekeeping system (TKS) indicated that 1.) Periodic HCMS access and access privilege reviews are not performed on a consistent basis, and 2.) Job transfer requirements are not consistently notified to ITD staff charged with providing appropriate access.
1.) Functional management have a key role in ensuring that only authorized individuals have access to critical systems. An absence of periodic review of user access by business management increases the risk that unauthorized users may gain or retain access to an important application, and that authorized users may also retain processing privileges that do not support a prudent segregation of duties.

2.) Job changes often result in a change to computer application functional capability. Without appropriate management review, there is a risk that individuals who change roles may acquire additional functionality without losing the functionality already assigned potentially compromising the segregation of duties anti-fraud control.

While we did not note noncompliance with payroll federal regulations, we were unable to test the payroll approval application controls because the controls identified above were not adequate.

**Cause:**
Ineffective implementation of Information Technology (IT) controls as part of the overall General IT Control structure and need to improve the interaction and communication between the IT and Human Resource (HR) functions.

**Effect:**
Excessive access to application functions and capability with IT increases the risk that segregation of duties controls will be ineffective and that secure access to sensitive data and/or transactions will be compromised leading to increased opportunity for error. The lack of controls has the potential for a significant impact on the administration of Federal funds as payroll charges to individual programs and grants is critical to properly supporting allowable grant expenditures.

Although the lack of controls may impact the administration of federal programs, it is the IT and HR functions that need to remediate the control deficiency.

**Questioned Costs:**
None

**Recommendation:**
We recommend that:

- MBTA Human Resources (quarterly) use reports requested from Information Technology Department (ITD) to review user access and access rights on the PeopleSoft HCMS application.
- Following each review, MBTA Human Resources notify ITD to make any necessary changes to employee access or access rights.
- MBTA Human Resources ensure that job role changes that require a modification to an employee’s HCMS (or other key financial applications) functional access be clearly notified to ITD for review.
- ITD review all job transfer requests to ensure that new functional access requirements are not aggregated with existing functional capability that could result in a compromise of segregation of duties controls.
Exhibit IV

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)
Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Auditee Corrective Action Plan:

To address this control issue, the following actions will be initiated:

1. The Authority’s Human Resources (HR) Department will request quarterly reports from the Informational Technology (IT) Department to review user access and access rights to the PeopleSoft HCMS system. Based on this review, HR will notify IT to make any changes to employee access or access rights. IT will update these access changes within one week of receipt.

2. HR and IT will review the process, identify gaps, and possibilities for process automations associated with the appropriate access rights available on the HCMS system. From this review, titles and protocols will be identified that will be the basis for a report that will be sent to IT when employees have a job role change that requires a modification to an employee’s HCMS (or other key financial application) functional access. Both HR and IT staff will review this report to ensure that new functional access requirements are set up appropriately, old access requirements are removed, and that segregation of duties controls are not compromised.

Responsible Person:

HR – Paul Andruskiewicz, IT – Gowsalan Kanagalingam

Implementation Date:

March 2015