



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

Independent Auditors' Reports as Required by Title 2 U.S. Code of
Federal Regulations Part 200, *Uniform Administrative Requirements, Cost
Principles, and Audit Requirements for Federal Awards*
(Uniform Guidance) and *Government Auditing Standards*
and Related Information

Year Ended June 30, 2020

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)
Year ended June 30, 2020

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KPMG LLP
Two Financial Center
60 South Street
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Exhibit I

Independent Auditors' 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

Fiscal and Management Control Board
Massachusetts Bay Transportation Authority:

Report on Compliance for Each Major Federal Program

We have audited the Massachusetts Bay Transportation Authority's (the Authority or MBTA), 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) *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, 2020. 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 federal statutes, regulations, and terms and conditions of its federal awards 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 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, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2020-003 and 2020-004. Our opinion on each major federal program is not modified with respect to these matters.



Exhibit I

The Authority's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Authority's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

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 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 a 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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Findings 2020-003 and 2020-004 that we consider to be significant deficiencies.

The Authority's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Authority's responses and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses or the corrective action plan.

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 Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended June 30, 2020 and have issued our report thereon dated January 29, 2021 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 the Uniform Guidance 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.

KPMG LLP

Boston, Massachusetts
April 1, 2021

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2020

Federal agency/cluster or program/pass-through/grant number	CFDA number	Program description	Expenditures
U.S. Department of Justice:			
Equitable Sharing Program:			
MA-03-2500	16.922	Federal Equity Sharing Program	\$ 19,550
Total U.S. Dept. of Justice			<u>19,550</u>
U.S. Department of Transportation:			
Federal Transit Cluster:			
Federal Transit – Capital Investment Grants Program:			
MA-03-0292	20.500	Fitchburg CR Improvements	41,395
MA-03-0295	20.500	GLX-FTA/FFGA Funds	220,861,633
MA-04-0025	20.500	Quincy High Speed Catamaran	26,092
MA-04-0026	20.500	Ferry System Improvements	16,038
MA-04-0048	20.500	Hingham Intermodal Center	165,866
MA-04-0052	20.500	Hingham Ferry Dock	35,533
MA-04-0064	20.500	Auburndale Fiber Optic Cable Installation	158,780
MA-05-0103	20.500	FY07 Station Management Project	9,517
MA-05-0105	20.500	FY07 Comm. Rail Vehicle Service	4,226,903
MA-05-0109	20.500	Green Line #7 Car	202,248
MA-05-0120	20.500	Coach Reliability & Safety Prog.	1,028,548
MA-05-0121	20.500	MBTA Power Program	6,917,864
MA-05-0128	20.500	FY 2013 Infrastructure Improvements	2,695,514
MA-05-0129	20.500	Positive Train Control Ph. 1	10,330
MA-55-0005	20.500	Worcester-Boston Rail Corridor Improvement	937,088
Subtotal #20.500 Direct Program			<u>237,333,349</u>
Passed through the Rhode Island Department of Transportation:			
90 RI-12-X001 (90R112)	20.500	Pawtucket Inspection Pit	2,960,684
Total # 20.500			<u>2,960,684</u>
State of Good Repair Grants Program:			
MA-54-0001	20.525	Green Line No. 8 Car Enhancements	1,581,629
MA-54-0002	20.525	FY 14 Bridge Program	9,404,968
MA-54-0003	20.525	FY 13 AFC IT Upgrades	1,074,712
MA-54-0005	20.525	MBTA Winter Resiliency Program	1,912,699
MA-54-0006	20.525	MBTA Bridge and Tunnel Program	14,692,850
MA-54-0010	20.525	2016 Kawasaki Coach Overhaul (32 Units)	9,402,398
MA-54-0011	20.525	2016 Columbia Junction	260,708
MA-54-0012	20.525	Green Line No. 7 Selective System Overhaul	4,327,305
MA-54-0013	20.525	MBTA Floating Slabs	889,497
MA-54-0016	20.525	2017 Stations & Facilities	23,564,367
MA-54-0017	20.525	2017 Supplemental Bridge Program	4,828,775
MA-54-0021	20.525	MA-2018-029 5337 Funds	2,832,492
MA-54-0022	20.525	MA-2018-033 5337 Funds	23,181,712
MA-54-0023	20.525	MA-2019-008 5337 Funds	27,756,624
MA-54-0026	20.525	MA-2019-008 5337 Funds	11,555,208
Total # 20.525			<u>137,265,944</u>
Bus and Bus Facilities Formula Program			
MA-34-0012	20.526	MBTA LoNo Project Supplementary	166,451
MA-34-0028	20.526	MA-2018-029 5339 Funds	1,460,832
MA-34-0031	20.526	MA-2019-008 5339 Funds	13,011,562
Total # 20.526			<u>14,638,845</u>
Federal Transit Formula Grants Program:			
MA-90-0079	20.507	2017 Stations & Facilities	1,343,326
MA-90-0083	20.507	MA 2018-029 5307 Funds	23,243,915
MA-90-0085	20.507	MA 2018-033 5307 Funds	16,787,937
MA-90-0087	20.507	MA-2019-008 5307 FUNDS	69,180,821
MA-90-0091	20.507	MA-2019-023 5307 FUNDS	3,971,187
MA-90-0093	20.507	MA-2020-006 5307 FUNDS	11,411,641
MA-90-0095	20.507	COVID-19 – MA-2020-009 5307-6 CARES	221,779,620
MA-90-0516	20.507	Public Address/Electronic Sign	172,789
MA-90-0519	20.507	Automated Fare Collection	15,799
MA-90-0590	20.507	IT System/NR Vehicle GL PTC	902,681
MA-90-0591	20.507	FY 2010 Loco & Coach Procurement	4,533,126
MA-90-0600	20.507	MBTA Power Program	1,437,651

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2020

Federal agency/cluster or program/pass-through/grant number	CFDA number	Program description	Expenditures
MA-95-0003	20.507	GLX FTA/CMAQ Funds	\$ 30,028,552
MA-95-0005	20.507	MA 2018-029 Bus Earmark	538,474
MA-95-0014	20.507	Locomotive Procurement CMAQ Flex	896,213
MA-90-0609	20.507	FY 2012 Bridge Program	7,589,769
MA-90-0577	20.507	175 Buses/Fairmount Line (GANS)	61,079
MA-90-0631	20.507	Orient Heights Station	2,483
MA-90-0736	20.507	MBTA Ferry Program	97
MA-95-0022	20.507	Wachusett Extension Project	524,131
MA-96-0001	20.507	Back Bay Vent/RIDE Vans (ARRA)	100
MA-90-0621	20.507	Red & Orange Line Vehicle Prev. Maint.	2,340,217
MA-90-0641	20.507	192 ECD Bus Midlife Overhaul	1,026,831
MA-90-0644	20.507	FY 2013 Infr Improvements B	1,653,199
MA-90-0649	20.507	Government Center Reconstruction	340,906
MA-90-0711	20.507	Red Line Signals Upgrade	1,219,732
MA-90-0712	20.507	FY 2015 Preventive Maintenance	2,446,849
MA-90-0713	20.507	FY 2015 Bridge Program	11,754
MA-90-0735	20.507	Green Line Signal Replacement	1,765,023
MA-90-0739	20.507	MBTA 2016 Bus Procurement	270,586
MA-90-0751	20.507	MBTA 2016 Bus Procurement (5307)	4,542,094
MA-90-0763	20.507	FY2017 Revenue Vehicle Program	28,712,875
Total # 20.507			<u>438,751,457</u>
Total Federal Transit Cluster			<u>830,950,279</u>
Public Transportation Research:			
MA-26-0064	20.514	MBTA LoNo Project	404,899
Total # 20.514			<u>404,899</u>
Public Transportation Emergency Relief Program:			
MA-44-3002	20.527	MBTA Resiliency Project	4,763,035
Total #20.527			<u>4,763,035</u>
High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants:			
Passed through the Commonwealth Of Massachusetts:			
S10007	20.319	Knowledge Corridor – HSIPR-(ARRA)	2,600,478
Passed through the NNEPRA:			
90-FRA1	20.319	Downeaster MBTA Track Improvement Project	13,102
Total # 20.523			<u>2,613,580</u>
FY18 CRISI Award-Positive Train Control Systems Testing			
MA-54-0025	20.321	Positive Train Control System Testing	20,262,553
Total #20.321			<u>20,262,553</u>
National Infrastructure Investments:			
MA-79-0002	20.933	Ruggles Station Improvements – TIGER	3,252,177
Total #20.933			<u>3,252,177</u>
Total U.S. Dept. of Transportation			<u>862,246,523</u>
U.S. Department of Homeland Security:			
Rail and Transit Security Grant Program:			
EMW2016RA00025	97.075	FY 2016 Transit Security (J16001)	1,127,658
EMW2017RA00020	97.075	FY 2017 Transit Security (J17001)	2,086,862
EMW2018RA00015	97.075	FY 2018 Transit Security (J18001)	829,108
EMW2019RA00044	97.075	FY 2019 Transit Security (J19001)	43,391
Total #97.075			<u>4,087,019</u>
Total of U.S. Dept. of Homeland Security			<u>4,087,019</u>
Grand total			<u>\$ 866,353,092</u>

See accompanying notes to schedule of expenditures of federal awards.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2020

(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 expenditures.

(3) Approved Federal Grant Programs

The Authority's Federal Transit – Capital Investment Grants and Formula Grants Programs, Public Transportation Emergency Relief Program, and the Transportation Investment Generating Economic Recovery Program (TIGER) for the year ended June 30, 2020 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.

In 2015, a Full Funding Grant Agreement (FFGA), between the MBTA and the U.S. Department of Transportation Federal Transit Administration (FTA) was signed to establish the scope of federal participation in the Green Line Extension (GLX) project. Under the FFGA, federal dollars will fund approximately \$996 million of the newly revised budget of \$2.3 billion. The GLX project will extend the existing MBTA Green Line north of its current terminus at Lechmere Station to further service the communities of Somerville, Cambridge, and Medford and involves construction of six new Green Line stations along two branches (the Medford Branch and Union Square Branch) along with the relocation and reconstruction of Lechmere Station.

According to the terms of the FTA contracts, the Authority will be reimbursed from 75% 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 Coronavirus Aid, Relief and Economic Security ("CARES") Act, is a \$2.2 trillion economic stimulus bill passed by Congress and signed into law resulting in the CARES Act as a means to protect the American people from the public health and economic impacts of COVID-19. The CARES Act, through the Federal

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2020

Transit Administration's ("FTA"), provided \$25 billion grant to transit agencies to help to prevent, prepare for and respond to the COVID-19 pandemic. The CARES Act is providing approximately \$876 million to the MBTA and is available to support the Authority's revenue loss as well as all operating expenses generally eligible under the program. Transit entities nationwide could receive funding for approved costs incurred beginning on January 20, 2020. As of June 30, 2020, a total of \$221.8 million has been received by the MBTA for operating assistance that occurred from January 20, 2020 through June 30, 2020.

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, 2020 the Authority did not provide federal awards to subrecipients.

(5) Indirect Costs

For the year ended June 30, 2020, the Authority did not elect to use the de minimis indirect cost rate.



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Exhibit III

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*

Fiscal and Management Control Board
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 or MBTA), a component unit of the Massachusetts Department of Transportation, which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2021.

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) as a basis for designing our 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 items 2020-001 and 2020-002 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*.



Exhibit III

The Authority's Responses to the 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 the responses.

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

Boston, Massachusetts
January 29, 2021

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
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Schedule of Findings and Questioned Costs

June 30, 2020

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weakness(es): **No**
 - Significant deficiency(ies): **Yes**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weakness(es): **No**
 - Significant deficiency(ies): **Yes**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**
- (g) Major programs:

<u>Federal program or cluster</u>	<u>CFDA number</u>
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants Program	20.500
Federal Transit – Formula Grants Program	20.507
State of Good Repair Grants Program	20.525
Bus and Bus Facilities Formula Program	20.526
Railroad Safety Technology Grants	20.321
Rail and Transit Security Grant Program	97.075

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee: **Yes**

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Schedule of Findings and Questioned Costs

June 30, 2020

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

Finding 2020-001 – Financial Reporting

Finding

The Authority experienced delays in closing its fiscal 2020 books and records and preparing its annual financial statements. While COVID-19 was a significant factor in this year's delay, the Authority has experienced similar delays in the past. One of the historical, non-COVID-19 factors contributing to the delays is system(s) limitations, which require several manual spreadsheets to convert and/or expand general ledger accounts to support financial statement amounts and related footnote disclosures, in particular those related to capital assets. We also continue to note draft financial statements that are incomplete and inaccurate compounding the timeliness of the financial reporting process.

We reported a similar finding in previous audits.

Recommendation

We recommend that the Authority assess its financial reporting process and develop a detailed action plan, with measurable milestones, to ensure its financial statements are completed timely and accurately.

Views of Responsible Officials

First, the COVID-19 pandemic, which arrived in Massachusetts in March, significantly impacted the normal operating closing procedures. For a three-week period in March/April, the Authority transitioned accounting staff from an in-person to a telecommuting model. Subsequently, much of the accounting staff's focus in the first six weeks of working in a remote environment, was to confirm that there was no change in the efficacy and efficiency of the Authority's internal controls over financial reporting. This review process ultimately confirmed that telecommuting had no impact on internal controls over financial reporting.

In August 2020, the accounting team implemented a new preliminary flash report (month and YTD results) issued on business day five and final monthly close completed on business day 10. Furthermore, the Authority is in the process of ensuring that there is evidence of review and reconciliation for balance sheet accounts within forty-five days subsequent to the close with reconciling variances and necessary adjustments. Each section of the financial statement will be assigned to an accountant for preparation and the controller will review and approve. This process will be fully implemented and a draft financial statement with disclosures will be provided to the auditors during their final audit field work.

In the preceding annual audits, the Authority has issued its financial statements prior to November 30th of each of the last twenty years with the exception of fiscal year 2016.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
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Schedule of Findings and Questioned Costs

June 30, 2020

Finding 2020-002 – Capital Assets

Finding

The Authority's net capital assets have increased by approximately \$3 billion since fiscal 2015 and total approximately \$11.9 billion as of June 30, 2020. The Authority's accounting process to manage and report upon its capital asset activity (both internally and externally) needs improvement, particularly in the areas of automation and managing its construction-work-in-progress or CWIP activity.

For external financial reporting, the Authority compiles its capital asset activity primarily with excel spreadsheets rather than an automated process. For CWIP, the Authority needs to better integrate the capital planning process with the financial reporting process to ensure that individual CWIP projects are properly valued and timely transferred to completed projects with an appropriately assigned useful life.

Recommendation

We recommend that the Authority assign a "working group" to assess the reporting of its capital assets and devote the necessary resources both in terms of technology improvements as well as personnel assigned to properly account for and report upon its largest financial statement asset.

Views of Responsible Officials

The Authority's construction work in process (CWIP) from 2017 to 2020 detailed a significant increase in the completion of major construction projects and improvements in progress, from \$856M in FY17 to \$1.7B in FY20. The Authority had also begun a financial system upgrade, which among other benefits will modernize and integrate financial systems, resulting in enhanced and more efficient financial reporting.

A consolidated review of the CWIP will be prepared on a monthly basis by the Capital Oversight, Capital Delivery and Capital Accounting teams (the working group). The analysis will be presented to the Chief Financial Officer monthly, and included in the budget deck, which is reviewed by the Chief Administrative Officer and General Manager. The working group will review written procedures and criteria for the transfer of CWIP to fixed assets. The working group and Information Technology will design an interim solution that automates the manual worksheets in order to minimize errors.

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

Schedule of Findings and Questioned Costs

June 30, 2020

(3) Findings and Questioned Costs Relating to Federal Awards Reference Number:

Reference Number 2020-003 Equipment Management

Federal Programs: 97.075 Rail and Transit Security Grant Program

Federal Agency: United States Department of Homeland Security (DHS)

Federal Award Year: Various

Pass-through Entity: None

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample.

Repeat Finding: Yes, prior year finding #2019 – 003

Criteria

Equipment and Real Property Management

FTA Circular C 5010.1E, Chapter IV, 1, Real property including facilities purchased or constructed under the Award, equipment including rolling stock, and supplies must be managed, used, and disposed of in accordance with applicable laws and regulations.

2.i. (5), Recipients must maintain adequate records on the status of real property in which the Federal Government retains an interest. FTA requires that recipients maintain a real property inventory on file for review upon request by FTA to satisfy the requirements of 2 CFR § 200.329, which requires recipients to submit reports on an annual basis for real property in which the Federal Government retains an interest. In instances where the federal interest in the real property will extend for a period of 15 years or more, a recipient may request FTA's permission to report at multi-year frequencies, not to exceed a five-year reporting period.

A Real Property Inventory must include: property location/physical address; use and condition of the property; summary of conditions on the title; brief description of improvements, expansions, and retrofits; corresponding useful life for the assets; date placed in service; original acquisition cost; sources of funding; federal and nonfederal participation ratios; federal award identification number; appraised value and date; anticipated disposition or action proposed; date of disposal; and sale price of the property. If the property is excess, identify the reasons for having excess property, such as purchase to a logical boundary. This inventory is necessary in order to accurately account for assets, and determine an equitable valuation of federal interest retained in the property.

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4.n., Management of Federally Assisted Property requires that rolling stock and equipment management procedures include the following minimum requirements:

- (1) Equipment records must be maintained by the recipient. Records must include the following:
 - (a) A description of the asset;
 - (b) The identification number or serial number;
 - (c) The entity or individual that holds title to the asset;
 - (d) The source of funding (the FAIN number under which it was procured);
 - (e) The acquisition date;
 - (f) The cost of the asset;
 - (g) The percentage of Federal participation in the cost;
 - (h) The location;
 - (i) The use and condition;
 - (j) The useful life; and
 - (k) The disposition data, including the date of the disposal and sale price, or, where applicable, method used to determine fair market value.
- (2) A physical inventory of the equipment must be taken and the results reconciled with equipment records at least once every two years. Any differences must be investigated to determine the cause of the difference. Property should be tagged or otherwise identified as Federally assisted property.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of Federally assisted property. The recipient must investigate and document any loss, damage, or theft.

Further, in accordance with 45 CFR section 75.303(a), Non-Federal entities must 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 the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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Condition

The Authority has established and implemented an equipment inventory policy. However, based on our review, the policy and procedures appear to be outdated and not followed by Authority personnel. The policy also does not include procedures to verify that the equipment values are reconciled to the financial statements/general ledger and disposals are recorded completely and accurately, nor does the Authority have a formal process in place to document the reconciliation. During our review we noted that a portion of the inventory was physically inspected, however, the reconciliation to the financial statements was not documented.

Additionally, the Authority's Accounting Policies and Procedures Manual, Capital Accounting, Fixed Asset Management policy requires Capital Accounting conduct an equipment inventory at each Authority location every two years, with the assistance of departmental designees. During our equipment testwork, we noted that there was a physical inventory done over approximately half the capital assets in November 2018 in conjunction with the NTD report. The physical inventory noted certain assets weren't located, yet, this was not reflected as such in the Authority's books and records.

Finally, we noted the controls over equipment were not operating effectively during the fiscal year.

Cause and Possible Asserted Effect

The Authority's policies and procedures, including controls, need to be reviewed and updated to correctly reflect procedures followed, and ensure federal compliance. The policies and procedures to perform a biennial equipment inventory are not designed or implemented to ensure that the inventory is completed every two years. The effect is noncompliance with federal equipment regulations.

Questioned Costs

Not determinable

Recommendations

We recommend management strengthen the equipment management policy and procedures to help ensure that the Authority manages equipment in accordance with the Federal regulations. We further recommend the Authority strengthen controls over the management and accounting of disposals and additions.

We recommend the Authority develop policies and procedures for monitoring the outsourcing contract for the tracking of real estate.

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Views of Responsible Officials

A complete physical inventory began in November 2019 with a scheduled completion date of June 30, 2020. The completion of the physical inventory and serialized tagging of assets were to be reconciled to fixed asset register and any and all adjustments made. This process continued until May of 2020 until COVID protocol made completion of the process difficult. At the time of suspension, 29% of the physical process was completed. Complete inventory and reconciliation to be completed no later than end of calendar year 2021.

The Authority's policies and procedures, including controls, will be reviewed and updated to correctly reflect procedures followed, and ensure federal compliance. The policies and procedures to perform a biennial equipment inventory are not designed or implemented to ensure that the inventory is completed every two years. This process will be completed by December of 2021.

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Reference Number: 2020-004 – Allowable Costs

Federal Programs: 97.075 Rail and Transit Security Grant Program

Federal Agency: United States Department of Homeland Security (DHS)

Federal Award Year: Various

Pass-through Entity: None

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample.

Repeat Finding: No

Criteria

Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award. In accordance with 2 CFR 200.430, costs of compensation are allowable to the extent that the total compensation for individual employees: is reasonable for the services rendered, conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities and is determined and supported.

Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- a. Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- b. Be incorporated into the official records of the non-Federal entity;
- c. Comply with the established accounting policies and practices of the non-Federal entity

Condition

Since 2017, the Authority has used HRCMS as the payroll system of record to approve time worked and pay employees. The police, within the MBTA, utilize a separate system, Larimore, for scheduling and recording hours worked. The hours are then manually entered in to HRCMS. Only overtime police hours are charged to the transit security program.

We selected 25 employees charged to the Transit Security grant. All employees had time recorded in Larimore to support the amount charged to the grant, however, the hours entered in to HRCMS were not approved by their immediate supervisors and not easily reconcilable between the systems.

Cause and Possible Asserted Effect

The manual process could lead to incorrect reporting or payment of payroll charged to the grant.

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Questioned Costs

Not determinable

Recommendations

We recommend police utilize the MBTA system of record HRCMS for supervisory approval and enter hours into the system on the day worked.

Views of Responsible Officials

The police department payroll personnel enter scheduled hours and overtime hours worked into the Larimore software on a weekly basis. The Larimore software gives the command staff flexibility to schedule, monitor and invoice officers overtime hours and details categorized by location and type of work. This also enables monitoring of labor hours worked for safety protocols of the officers and customers. All time entered into Larimore is then reviewed for accuracy and completeness. Only overtime police hours are charged to the transit security program. The summary of Larimore payroll records are then manually entered in to HRCMS for processing with the Authority's payroll. All time entered into the HRCMS system is approved by the Chief or the Superintendent on a weekly basis. A reconciliation process from the hours and days worked as recorded in Larimore to HRCMS records will be formally documented and reviewed by the Assistant Controller, instituted and followed in the spring of 2021.