

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
Boston, Massachusetts

REPORTS REQUIRED BY UNIFORM GUIDANCE
AND GOVERNMENT AUDITING STANDARDS
Year ended June 30, 2023

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
Boston, Massachusetts
Year ended June 30, 2023

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**INDEPENDENT AUDITOR'S 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**

Board of Directors
Massachusetts Bay Transportation Authority
Boston, Massachusetts

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), a component unit of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2023, and related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 22, 2023.

Report on 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2023-002 and 2023-003 to be significant deficiencies.

(Continued)

Report on 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 financial statements. 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*.

The Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.


Crowe LLP

Boston, Massachusetts
December 22, 2023

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Massachusetts Bay Transportation Authority
Boston, Massachusetts

Report on Compliance for Major Federal Program

Opinion on Major Federal Program

We have audited the Massachusetts Bay Transportation Authority's (the Authority), a component unit of the Commonwealth of Massachusetts, compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2023. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2023.

Basis for Opinion on Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Authority's federal programs.

(Continued)

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

(Continued)

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 Authority as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated December 22, 2023, 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.


Crowe LLP

Boston, Massachusetts
February 14, 2024

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2023

<u>Federal agency/cluster or program/pass-through/grant number</u>	<u>ALN number</u>	<u>Program description</u>	<u>Expenditures</u>
U.S. Department of Justice:			
Federal Equitable Sharing Program:			
MA-03-2500	16.922	Federal Equity Sharing Program	\$ 198,890
Total U.S. Department of Justice			<u>198,890</u>
U.S. Department of Transportation:			
Highway Planning and Construction Cluster:			
Federal Highway Administration			
MA-70-0002	20.205		325,062
Total Highway Planning and Construction Cluster			<u>325,062</u>
Federal Transit Cluster:			
Federal Transit - Capital Investment Grants Program:			
MA-03-0295	20.500	GLX-FTA/FFGA Funds	39,948,449
MA-03-0296	20.500	COVID-19 GLX-FTA/FFGA Funds	103,554,165
MA-04-0026	20.500	Ferry System Improvements	95,326
MA-04-0052	20.500	Hingham Ferry Dock	240,556
MA-05-0103	20.500	FY07 Station Management Project	34,298
MA-05-0105	20.500	FY07 Comm. Rail Vehicle Service	463,829
MA-05-0109	20.500	Green Line #7 Car	25,990
MA-05-0121	20.500	MBTA Power Program	1,323,954
Subtotal 20.500 Direct Program			<u>145,686,567</u>
Passed through the Rhode Island Department of Transportation:			
90-RI-12-X001 (90R112)	20.500	Pawtucket Inspection Pit	1,339,284
Total 20.500			<u>147,025,851</u>
State of Good Repair Grants Program:			
MA-54-0001	20.525	Green Line No. 8 Car Enhancements	462,726
MA-54-0002	20.525	FY 14 Bridge Program	541,842
MA-54-0005	20.525	MBTA Winter Resiliency Program	(53)
MA-54-0006	20.525	MBTA Bridge and Tunnel Program	2,256,191
MA-54-0010	20.525	2016 Kawasaki Coach Overhaul	42,938
MA-54-0011	20.525	2016 Columbia Junction	4,829,206
MA-54-0012	20.525	Green Line No. 7 Selective System Overhaul	149,447
MA-54-0016	20.525	2017 Stations & Facilities	6,469,586
MA-54-0017	20.525	2017 Supplemental Bridge Program	3,963,716
MA-54-0021	20.525	MA-2018-029 5337 Funds	8,269
MA-54-0022	20.525	MA-2018-033 5337 Funds	6,648,323
MA-54-0023	20.525	MA-2019-008 5337 Funds	36,425,046
MA-54-0026	20.525	MA-2019-023 5337 Funds	7,011,917
MA-54-0027	20.525	MA-2020-006 5337 Funds	7,171,274
MA-54-0029	20.525	MA-2020-041 5337 Funds	13,659,197
MA-54-0030	20.525	MA-2021-047 5337 Funds	6,735,644
MA-54-0032	20.525	MA-2022-034 5337 Funds	31,108,482
Total 20.525			<u>127,483,751</u>
Bus and Bus Facilities Program:			
MA-34-0028	20.526	MA-2018-029 5339 Funds	29,734
MA-34-0071	20.526	MA-2022-030 Bus Procurement	11,290,340
Total 20.526			<u>11,320,074</u>

(Continued)

See accompanying Notes to Schedule of Expenditures of Federal Awards.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2023

Federal agency/cluster or program/pass-through/grant number	ALN number	Program description	Expenditures
Federal Transit Formula Grants Program:			
MA-90-0079	20.507	2017 Stations & Facilities	93,154
MA-90-0083	20.507	MA-2018-029 5307 Funds	2,518,590
MA-90-0085	20.507	MA-2018-033 5307 Funds	7,521,753
MA-90-0087	20.507	MA-2019-008 5307 Funds	31,081,565
MA-90-0091	20.507	MA-2019-023 5307 Funds	16,873,968
MA-90-0093	20.507	MA-2020-006 5307 Funds	5,494,250
MA-90-0096	20.507	MA-2020-041 5307 Funds	106,474
MA-90-0098	20.507	MA-2020-041 5307 Funds	2,293,955
MA-90-0108	20.507	MA-2021-047 5307 Funds	59,369,357
MA-90-0120	20.507	MA-2022-033 Bus Procurement	17,583,562
MA-90-0121	20.507	MA-2021-047 5307 Funds	383,806
MA-90-0519	20.507	Automated Fare Collection	221,470
MA-90-0591	20.507	FY 2010 Loco & Coach Procurement	(3,250,576)
MA-90-0600	20.507	MBTA Power Program	4,111,444
MA-90-0609	20.507	FY 2012 Bridge Program	571,259
MA-90-0631	20.507	Orient Heights Station	18,427
MA-90-0644	20.507	FY 2013 Infr Improvements	1,428,411
MA-90-0711	20.507	Red Line Signals Upgrade	572,726
MA-90-0712	20.507	FY 2015 Preventive Maintenance	67,162
MA-90-0735	20.507	Green Line Signal Replacement	(554,113)
MA-90-0751	20.507	MBTA 2016 Bus Procurement	1,786,761
MA-90-0763	20.507	FY2017 Revenue Vehicle Program	3,791,187
MA-95-0003	20.507	GLX FTA/CMAQ Funds	1,620,272
MA-95-0005	20.507	MA-2018-029 Bus Earmark	184,239
MA-95-0014	20.507	Locomotive Procurement CMAQ Flex	3,380,398
Total 20.507			<u>157,269,501</u>
Total Federal Transit Cluster			<u>443,099,177</u>
Public Transportation Research:			
MA-26-0064	20.514	MBTA LoNo Project	67,389
Total 20.514			<u>67,389</u>
Public Transportation Emergency Relief Program:			
MA-44-3002	20.527	MBTA Resiliency Project	937,685
Total 20.527			<u>937,685</u>
Federal Railway Administration:			
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)	352,861
Total 20.319			<u>352,861</u>
Federal-State Partnership for State of Good Repair:			
21FRA1	20.326	Tower 1 Interlocking Early Act	3,980,314
22FRA1	20.326	Worcester Union Station Access	8,641,452
Total 20.326			<u>12,621,766</u>
Total U.S. Department of Transportation			<u>457,403,940</u>
U.S. Department of Homeland Security:			
Federal Emergency Management Association:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)			
DRMAP-4496	97.036	COVID-19 Public Assistance	10,288,866
Total 97.036			<u>10,288,866</u>
Rail and Transit Security Program:			
EMW2017RA00020	97.075	FY 2017 Transit Security (J17001)	25,611
EMW2018RA00015	97.075	FY 2018 Transit Security (J18001)	663,020
EMW2019RA00044	97.075	FY 2019 Transit Security (J19001)	(376,204)
EMW2020RA00031	97.075	FY 2020 Transit Security (J20001)	982,840
EMW2021RA00047	97.075	FY 2021 Transit Security (J21001)	1,595,505
EMW2022RA00054	97.075	FY 2022 Transit Security (J22001)	45,623
Total 97.075			<u>2,936,395</u>
Total U.S. Department of Homeland Security			<u>13,225,261</u>
Grant Total			<u>\$ 470,828,091</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2023

NOTE 1 – DEFINITION OF THE REPORTING ENTITY

The Massachusetts Bay Transportation Authority (the Authority) is a component unit 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.

NOTE 2 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Authority, for the year ended June 30, 2023. The information in this schedule 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Expenditures reported on the Schedule are reported on the cash basis of accounting and are recognized when paid.

The Authority has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 – SUBRECIPIENTS

For the year ended June 30, 2023, the Authority did not provide federal awards to subrecipients.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2023

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes No

Significant deficiency(ies) identified?

Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

Yes No

Significant deficiencies identified not considered to be material weaknesses?

Yes None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Identification of major federal programs:

Assistance Listing Numbers
20.500 / 20.507 / 20.525 / 20.526

Federal Transit Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$ 3,000,000

Auditee qualified as low-risk auditee?

Yes No

(Continued)

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2023-001 – Preparation of the Schedule of Expenditures of Federal Awards (SEFA) – Material Weakness

Criteria:

2 CFR 200.508 states in part:

"The auditee must: . . .

(b) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"Schedule of Expenditures of Federal Awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

(1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within a cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

(2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.

(3) Provide total Federal awards expended for each individual Federal program and the assistance listing number or other identifying number when the assistance listing number information is not available. For a cluster of programs also provide the total for the cluster.

(4) Include the total amount provided to subrecipients from each Federal program.

(5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.

(6) Include notes that describe that significant accounting policies used in preparing the schedule and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) Costs."

(Continued)

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2023-001 (Continued)

Condition: During our testing of the SEFA, we identified approximately \$103.6 million of Federal expenditures from the Federal Transit Cluster that were not included in the schedule.

Context: Costs related to the Green Line Extension Project were all incurred between March and October 2020. The costs were originally covered from non-grant dollars as a local match for a state grant, however, in 2023 the Authority received American Rescue Plan (ARP) Act funding from the FTA to supplant the local share of \$103.6 million. Although the costs were initially incurred in a prior year, they were recovered in fiscal year 2023 through this Federal grant and therefore became Federal expenditures in fiscal year 2023.

Effect: There were \$103.6 million of Federal expenditures not originally included on the SEFA. Without a proper system of internal control over the SEFA reporting, a significant misstatement of the SEFA remained undetected until discovered through the audit. This could have a material impact on the major program determination and, thus the Single Audit testing and auditors' opinion.

Cause: Management had not established a proper system of internal control to prevent, or detect and correct, errors on the SEFA.

Identification as a Repeat Finding: No

Recommendation: We recommend that the Authority establish a formal review process over the SEFA to ensure amounts reported are complete and accurate. This review should include a detailed tie out to the Federal grant revenue recorded within the general ledger and to Federal cash drawdowns, as well as a review of non-financial information including Assistance Listing Numbers and Pass-Through Entities.

View of Responsible Officials and Planned Corrective Actions: Management agreed with the finding and agreed to adjust the SEFA.

The Authority will plan to reconcile two separate Grant reports in the Capital Management System:

1. Grant report for Cash Report Number CMS-CP-45 (Grant by LOC – FTA Scope and Suffix) – Capital Management System
2. Grant report for Expenditure Report CMS-CP-47 (Workorder Activity and Budget by Grant) – Capital Management System

The purpose of reconciling the two separate reports is to cross-reference all grants with cash received during the fiscal year with grants that had expenditures recorded during the fiscal year and life to date cash and expenditures. Preparation and review of the reports and reconciliation will be evidenced via independent review and approval.

(Continued)

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2023-002 – Grant Revenue Recognition – Significant Deficiency

Criteria: According to Note 2 to the Financial Statements, the Authority applies U.S. generally accepted accounting principles (GAAP) as prescribed by GASB. The financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting.

GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*, states:

“The accrual basis of accounting requires recognition in the financial statements of events that affect the operating results or financial position of a reporting unit when the event occurs, rather than only when the resulting cash inflow or outflow occurs.”

Condition: During our testing of the Federal and state capital grants and contributions, it was determined that management was recording revenue upon receipt of the funds rather than during the period in which the funds were earned.

Context: On the Federal side, management did record a partial accrual to recognize revenue for the Federal expenditures that had been incurred, but not yet paid or drawn down. However, there was no accrual for the Federal expenditures incurred and paid, but not yet drawn down. For the state grants, there was no accrual recorded at all.

Effect: Management was not properly recording revenue according to the accrual basis of accounting. As a result, fiscal year 2023 Federal and state grant revenue and the corresponding receivables were overstated by approximately \$79 million and \$44 million, respectively, for funds that were earned in fiscal year 2022 but not received and recorded as revenue until during fiscal year 2023. Conversely, fiscal year 2023 Federal and state grant revenue and the corresponding receivables were understated by approximately \$69 million and \$44 million, respectively, for funds that were earned in fiscal year 2023 but not yet received or recorded as revenue.

The prior year impact of both the Federal and state grants were waived and that revenue was recorded in fiscal year 2023. At the end of fiscal year 2023, an audit adjustment was posted for the state grant revenue accrual, however, due to timing, the audit adjustment for the Federal grant revenue was waived. There was no effect on the SEFA as they present the SEFA on the cash basis.

Cause: Management had not established a proper system of internal control over grant revenue to prevent and detect errors in revenue recognition.

Identification as a Repeat Finding: No

Recommendation: We recommend that the Authority record all revenue when the funds are earned in accordance with the accrual basis of accounting.

(Continued)

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2023-002 (Continued)

View of Responsible Officials and Planned Corrective Actions: Management agreed with the finding and agreed to post the proposed audit adjustment for state grant revenue accrual. Management also agreed with the Federal grant revenue accrual audit adjustment but chose to waive it since it was identified later in the audit process.

Beginning in fiscal year 2024, the Authority will establish a process of reviewing all Federal and State reimbursable expenditures that occurred during the fiscal year and compare that list to a listing of revenue received related to the reimbursement of these expenditures; this will identify the amount of revenue to accrue. Preparation and review of the expense-to-revenue tie out will be evidenced via independent review and approval of the analysis and corresponding journal entry.

Finding 2023-003 – Pension Deferred Inflows and Outflows – Significant Deficiency

Criteria: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, indicates that employers should report deferred outflows of resources or deferred inflows or resources for:

1. Differences between expected and actual experience in the measurement of the total pension liability
2. Changes of assumptions or other inputs
3. Net difference between projected and actual earnings on pension plan investments
4. If the employer has a special funding situation, changes in the employer proportion and differences between the employer's contributions and the employer's proportionate share of contributions
5. The employer's contributions to the pension plan subsequent to the measurement date of the net pension liability

Condition: During our testing of the net pension liability, it was determined that the deferred inflows and outflows recorded in the general ledger did not agree to the actuarial valuation report for the MBTA Retirement Fund and Police Association Retirement Plan.

Context: When recording the impact of the net difference between projected and actual earnings, management recorded the adjustment in the wrong direction, which resulted in an error in the ending balances.

Effect: Deferred outflows related to pension were understated by approximately \$191 million, and deferred inflows related to pension were overstated by approximately \$103 million. As a result, the pension expense was overstated by approximately \$294 million. An audit adjustment was posted as a result to correct the balances.

Cause: The calculation and resulting journal entries were not reviewed in sufficient detail to detect and correct the error. Management had not established a proper system of internal control over the review of the pension journal entries to prevent and detect errors in the calculation.

(Continued)

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2023-003 (Continued)

Identification as a Repeat Finding: No

Recommendation: We recommend that the Authority establish a formal review of the pension journal entries, which includes a reconciliation and tie-out to the actuarial valuation report.

View of Responsible Officials and Planned Corrective Actions: Management agreed with the finding and agreed to post the proposed audit adjustment.

Beginning in fiscal year 2024, the Authority will utilize a procedural document which will include all detail processes for the preparation of the OPEB and Pension journal entries and related footnote. In addition, the Authority will establish internal controls over the preparation and review of the journal entries and related footnote with evidence of sign-off.

(Continued)

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Commonwealth of Massachusetts)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2023

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.



MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN OF CURRENT AUDIT FINDINGS

June 30, 2023

FINDING 2023-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards (SEFA)
Audit Findings: Material Weakness

Condition: During our testing of the SEFA, we identified approximately \$103.6 million of Federal expenditures from the Federal Transit Cluster that were not included in the schedule.

Context: Costs related to the Green Line Extension Project were all incurred between March and October 2020. The costs were originally covered from non-grant dollars as a local match for a state grant, however, in 2023 the Authority received American Rescue Plan (ARP) Act funding from the FTA to supplant the local share of \$103.6 million. Although the costs were initially incurred in a prior year, they were recovered in fiscal year 2023 through this Federal grant and therefore became Federal expenditures in fiscal year 2023.

Views of Responsible Officials and Planned Corrective Actions: We concur with the finding.

Description of Corrective Action Plan: The MBTA will reconcile two separate Grant reports in the Capital Management System:

1. Grant report for Cash Report Number CMS-CP-45 (Grant by LOC- FTA Scope and Suffix) – Capital Management System
2. Grant report for Expenditure Report CMS-CP-47 (Workorder Activity and Budget by Grant) – Capital Management System

The purpose of reconciling the two separate reports is to cross-reference all grants with cash received during the fiscal year with grants that had expenditures recorded during the fiscal year and life to date cash and expenditure.

The MBTA will have a Senior Accountant prepare the reports for the Director of Capital Accounting to reconcile and address any issues. The Deputy CFO of the Capital Finance and Accounting Department will approve, prior to submission of the SEFA to the external auditors.

Responsible Party and Timeline for Completion: The responsible parties are DuJuan Browder (Senior Accountant), Traci Bateman (Director of Capital Accounting), and Barbara Bates (Deputy CFO, Capital Finance and Accounting). The timeline to complete this new process will be April 30, 2024.

FINDING 2023-002

Subject: Grant Revenue Recognition
Audit Findings: Significant Deficiency

Condition: During our testing of the Federal and state capital grants and contributions, it was determined that management was recording revenue upon receipt of the funds rather than during the period in which funds were earned.

Context: On the Federal side, management did record a partial accrual to recognize revenue for the Federal expenditures that had been incurred, but not yet paid or drawn down. However, there was no accrual for the Federal expenditures incurred and paid, but not yet drawn down. For the state grants, there was no accrual recorded at all.

Views of Responsible Officials and Planned Corrective Actions: We concur with the finding.

Description of Corrective Action Plan: The Authority will establish a process of reviewing all Federal and State reimbursable expenditures that occurred during the fiscal year and compare that list to a listing of revenue received related to the reimbursement of these expenditures; this will identify the amount of revenue to accrue. Preparation and review of the expense to revenue tie out will be evidenced via independent review and approval (via email or signoff) of the analysis and corresponding journal entry.

Responsible Party and Timeline for Completion: The responsible parties are James D'Arcangelo (MBTA Supervisor of General Accounting), Phoebe Tseng (Assistant Controller), and/or Joe Pagliuca (Controller), and the changes will be implemented by June 30, 2024.

FINDING 2023-003

Subject: Pension Deferred Inflows and Outflows
Audit Findings: Significant Deficiency

Condition: During our testing of the net pension liability, it was determined that the deferred inflows and outflows recorded in the general ledger did not agree to the actuarial valuation report for the MBTA Retirement Fund and Police Association Retirement Plan.

Context: When recording the impact of the net difference between projected and actual earnings, management recorded the adjustment in the wrong direction, which resulted in an error in the ending balances.

Views of Responsible Officials and Planned Corrective Actions: We concur with the finding.

Description of Corrective Action Plan: Beginning in fiscal year 2024, the Authority will utilize a procedural document which will include detail processes on the preparation of the OPEB and Pension journal entries and related footnote. In addition, the Authority will establish controls over the preparation and review of the journal entries and related footnote with evidence of sign off.

Responsible Party and Timeline for Completion: The responsible parties are Phoebe Tseng (Assistant Controller) and/or Joe Pagliuca (Controller), and the changes will be implemented by June 30, 2024