



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, 2017

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)
Year ended June 30, 2017

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KPMG LLP
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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, 2017. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of 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, 2017.



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 2017-004, 2017-005 and 2017-006. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's responses to the findings identified in our audit is 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 compliance and, accordingly, we express no opinion on the responses.

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 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-004 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-005 and 2017-006 to be significant deficiencies.

The Authority's responses to the internal control over compliance findings identified in our audit is 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 compliance and, accordingly, we express no opinion on the responses.



Exhibit I

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 basic financial statements of the Authority as of and for the year ended June 30, 2017, and have issued our report thereon dated November 21, 2017, 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
March 27, 2018

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
 (A Component Unit of the Massachusetts Department of Transportation)
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2017

Grant number	Federal catalog number	Program description	Expenditures
U.S. Department of Justice:			
Federal Equitable Sharing Program:			
MA-03-2500	16.922	Federal Equity Sharing Program	\$ 64,607
Total U.S. Dept. of Justice			<u>64,607</u>
U.S. Department of Transportation:			
Passed through the MassDOT:			
Federal Highway Administration (S13005)			
FHWA – Section 130:	20.205	Longfellow Bridge Support	794,365
S14001	20.205	Knowledge Corridor-Grade Crossings	<u>55,358</u>
Total Highway Planning and Construction Cluster			<u>849,723</u>
Federal Transit – Capital Investment Grants Program:			
MA-03-0292	20.500	Fitchburg CR Improvements	2,275,401
MA-04-0019	20.500	Hingham Intermodal & Harbor Park	35,473
MA-04-0025	20.500	Quincy High Speed Catamaran	1,224,664
MA-04-0026	20.500	Ferry System Improvements	369,927
MA-04-0048	20.500	Hingham Intermodal Center	1,094,165
MA-04-0051	20.500	Commonwealth Ave Green Line Station	49,640
MA-04-0052	20.500	Hingham Ferry Dock	261,133
MA-04-0053	20.500	Auburndale Station Design	136,101
MA-04-0054	20.500	Rockport Comm. Rail Station	294,179
MA-04-0064	20.500	Auburndale Fiber Optic Cable Installation	95,858
MA-04-0068	20.500	Ferry System Repairs and Upgrades	484,002
MA-04-0077	20.500	FY 13 Bus Procurement	866,874
MA-05-0103	20.500	FY07 Station Management Proj.	466,118
MA-05-0105	20.500	FY07 Comm. Rail Vehicle Service	14,353,087
MA-05-0106	20.500	FY07 Coach Reliability & Safety Program	3,222,480
MA-05-0109	20.500	Green Line #7 Car	10,995,199
MA-05-0115	20.500	FY 10 Red Line # 2 Car Overhaul	340,018
MA-05-0119	20.500	FY10 Loco & Coach Procurement	301,329
MA-05-0120	20.500	Coach Reliability & Safety Prog.	2,870,730
MA-05-0121	20.500	MBTA Power Program	2,812,902
MA-05-0124	20.500	Mansfield Station Impvs.	91,254
MA-05-0128	20.500	FY 2013 Infrastructure Impvs.	368,946
MA-05-0129	20.500	Positive Train Control Ph. 1	358,150
MA-55-0005	20.500	Worcester-Boston Rail Corridor Improvement	<u>975,820</u>
Total #20.500			<u>44,343,450</u>
Federal Transit – State of Good Repair Grants Program:			
MA-54-0001	20.525	Green Line No. 8 Car Enhancements	425,524
MA-54-0002	20.525	FY 14 Bridge Program	1,235,052
MA-54-0003	20.525	FY 13 AFC IT Upgrades	455,840
MA-54-0005	20.525	MBTA Winter Resiliency Program	11,824,138
MA-54-0006	20.525	MBTA Bridge and Tunnel Program	27,274,482
MA-54-0011	20.525	2016 Columbia Junction	6,775,408
MA-54-0012	20.525	Green Line No. 7 Selective System Overhaul	1,470,914
MA-54-0013	20.525	MBTA Floating Slabs	<u>1,751,620</u>
Total # 20.525			<u>51,212,978</u>
MA-34-0015	20.526	MBTA 2016 Bus Procurement (5339)	<u>7,710,794</u>
Total # 20.526			<u>7,710,794</u>
Federal Transit Formula Grants Program:			
MA-90-0331	20.507	FY99 Sec 5307 Infrastructure	20,386
MA-90-0513	20.507	310 ECD Bus Procurement	1,175,098
MA-90-0515	20.507	New Blue Line Cars	3,657,321
MA-90-0516	20.507	Public Address/Electronic Sign	918
MA-90-0519	20.507	Automated Fare Collection	776,812
MA-90-0552	20.507	Orange Line Upgrades	208,400
MA-90-0576	20.507	Orange Line Journal Bearing Replacement	167,142
MA-90-0577	20.507	175 Buses/Fairmount Line (GANS)	244,433
MA-90-0589	20.507	Everett Shop Equipment	72,194
MA-90-0590	20.507	IT System/NR Vehicle GL PTC	244,718
MA-90-0591	20.507	FY 2010 Loco & Coach Procurement	457,673
MA-90-0600	20.507	MBTA Power Program	10,396,242
MA-90-0609	20.507	FY 2012 Bridge Program	9,939,578
MA-90-0617	20.507	Science Park Station Project	(1,958)
MA-90-0618	20.507	Haverhill Line Double Track	1,778,630
MA-90-0621	20.507	Red & Orange Line Vehicle Prev. Maint.	3,728,190
MA-90-0622	20.507	Orient Heights Station	32,229
MA-90-0631	20.507	Orient Heights Station	744,385
MA-90-0641	20.507	192 ECD Bus Midlife Overhaul	317,191
MA-90-0644	20.507	FY 2013 Infr Improvements B	5,440,560
MA-90-0649	20.507	Government Center Reconstruction	12,375,822
MA-90-0711	20.507	Red Line Signals Upgrade	5,420,384
MA-90-0713	20.507	FY 2015 Bridge Program	1,181,253
MA-90-0735	20.507	Green Line Signal Replacement	2,393,534

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Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

Grant number	Federal catalog number	Program description	Expenditures
MA-90-0736	20.507	MBTA Ferry Program	\$ 614,886
MA-90-0739	20.507	MBTA 2016 Bus Procurement	102,364,661
MA-90-0751	20.507	MBTA 2016 Bus Procurement (5307)	68,780,894
MA-95-0014	20.507	Locomotive Procurement CMAQ Flex	276,416
MA-95-0022	20.507	Wachusett Extension Project	738,841
MA-96-0001	20.507	Back Bay Vent/RIDE Vans (ARRA)	7,948
<i>Total # 20.507</i>			<u>233,554,781</u>
Total Federal Transit Cluster			<u>336,822,003</u>
Federal Transit – Public Transportation Research:			
MA-26-0063	20.514	Fairmount/Indigo Line TSCP Program	9,820
MA-26-0064	20.514	MBTA LoNo Project	23,546
<i>Total # 20.514</i>			<u>33,366</u>
Public Transportation Emergency Relief Program:			
MA-44-3002	20.527	MBTA Resiliency Project	2,451,293
<i>Total # 20.527</i>			<u>2,451,293</u>
Federal Transit – Transportation Investment Generating Economic Recovery Program:			
MA-78-0002	20.932	Fitchburg Wachusett Ext. Tiger (ARRA)	3,923,302
<i>Total #20.932</i>			<u>3,923,302</u>
Federal Railroad Administration:			
Passed through the Comm. Of Massachusetts:			
S10007	20.319	Knowledge Corridor – HSIPR-(ARRA)	9,750,274
Passed through the NNEPRA:			
90-FRA1	20.319	Downeaster MBTA Track Improvement Project	7,023,774
<i>Total #20.319</i>			<u>16,774,048</u>
National Infrastructure Investments:			
MA-79-0001	20.933	Merrimack River Bridge – TIGER (ARRA)	3,625,921
MA-79-0002	20.933	Ruggles Station Improvements – TIGER	1,037,543
<i>Total # 20.933</i>			<u>4,663,464</u>
Total U. S. Dept. of Transportation			<u>365,517,199</u>
U.S. Department of Homeland Security:			
Urban Areas Security Initiatives:			
HSTS02-06-H-MLS110 (J10002)	97.072	TSA Natl. Explosives Canine Prog.	(1,078)
HSTS02-10-H-CAN632 (J11002)	97.072	TSA Natl. Explosives Canine Prog.	(467)
<i>Total #97.072</i>			<u>(1,545)</u>
Direct Award:			
EMW2011RA00035	97.075	FY 2011 Transit Security (J11001)	451
EMW2013RA00054	97.075	FY 2013 Transit Security (J13001)	(5,824)
EMW2014R00055	97.075	FY 2014 Transit Security (J14001)	1,434,970
EMW2016RA00025	97.075	FY 2016 Transit Security (J16001)	156,641
<i>Total #97.075</i>			<u>1,586,238</u>
Total of U. S. Dept. of Homeland Security			<u>1,584,693</u>
Grand total			<u>\$ 367,166,499</u>

See accompanying notes to schedule of expenditures of federal awards.

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

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

(1) Definition of the Reporting Entity

The Massachusetts Bay Transportation Authority (the Authority) is a component unit of the Massachusetts Department of Transportation (MassDOT) 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, 2017 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, Massachusetts and East Brookfield, Massachusetts. Through MassDOT, the Authority also received \$10.9 million of Federal Highway Administration (FHWA) Section 130 funding, also passed through the Commonwealth of Massachusetts, to rehabilitate 19 grade crossings along the Knowledge Corridor project. 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 Authority 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.

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

Year ended June 30, 2017

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 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) Subrecipient

For the year ended June 30, 2017, the Authority did not provide federal awards to subrecipients.

(5) Indirect Costs

For the year ended June 30, 2017, the Authority did not elect to use the 10% 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), which comprise the statement of net position as of June 30, 2017, and the related statement 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 November 21, 2017.

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.

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.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2017-001 through 2017-003 to be material weaknesses.

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*.



The Authority's Response 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
November 21, 2017

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
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Schedule of Findings and Questioned Costs

June 30, 2017

(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): **Yes**
 - Significant deficiency(ies): **None reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weakness(es): **Yes**
 - 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 – State of Good Repair Grants Program	20.525, 20.526
Federal Transit – Capital Investment Grants Program	20.500
Federal Transit – Formula Grants Program	20.507
High-Speed Rail Corridors and Intercity Passenger Rail Service	
Capital Assistance	20.319
Surface Transportation Discretionary Grants for Capital Investment	20.932

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee: **No**

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
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Schedule of Findings and Questioned Costs

June 30, 2017

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

Finding 2017-001 – Succession Planning

Finding

The MBTA like many other government entities is facing the need to do appropriate succession planning for key individuals throughout the organization. The over reliance on certain employees, unexpected employee absence or turnover and the ongoing retirement of the baby boomer generation contributes to the need to properly prepare and plan for transition.

During the current year, the Authority's Accounting and Finance Department was able to produce accurate and timely financial statements for June 30, 2017, despite a significant amount of turnover in Department. However, the turnover was significant and resulted in additional pressure on the Department's remaining personnel and again highlighted the need to ensure that a sufficient number of skilled resources following well documented processes are in place to mitigate the impact of employee turnover.

Over the next decade, as more MBTA employees reach retirement age, the Authority will be faced with a tremendous loss of institutional knowledge and possibly significant deficiencies in highly specialized areas and functions. As such, management needs to consider the need to implement an appropriate personnel succession plan throughout the Authority.

A similar material weakness was noted in the prior year, 2016-001.

Recommendation

We recommend that the Authority, in the short-term, address the vacancies in the Accounting and Finance Department and follow that up action by adopting a formal succession plan for key personnel throughout the Authority. Such a plan, at a minimum, should include identifying key personnel, retirement timeline and potential replacements.

Views of Responsible Officials

In the second half of calendar year 2017 continued to replace key strategic positions within the hierarchy to enhance operations and reporting. The Authority will continue address a formalized succession planning analysis and work towards implementation of a comprehensive succession plan in fiscal year 2018. This plan will reach across all entity related disciplines, such as transit operations, financial and administrative departments and have the full support of the Financial and Management Control Board. The plan will address the succession planning exposure and steps needed on an annual basis to remediate each individual opportunity with documented baseline for each case. This implementation process will lend itself to a living document which will meet the changing needs of the Authority.

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

Schedule of Findings and Questioned Costs

June 30, 2017

Finding 2017-002 – Process Documentation

Finding

Documentation of the Authority's key business processes is important to ensure that those processes are not "key person" dependent, but rather can survive extended employee absences or turnover. Such documentation is also important for consistency when temporary personnel need to be deployed.

With the upcoming implementation of the GASB's Other Postemployment Benefits (OPEB) standards, the complexity of the Authority's financial accounting and reporting responsibilities will continue to increase significantly. Management needs to ensure that the process documentation is prepared in conjunction with the implementation of any new standards to help ensure the standards are applied consistently each year after implementation.

A similar material weakness was noted in the prior year audit, 2016-002.

Recommendation

We recommend that the Authority add resources in the financial accounting and reporting areas who possess the critical skills needed to ensure that the process is documented, managed and executed effectively and efficiently. We also recommend that these business processes be documented immediately to leverage the extensive knowledge of the individually currently working in key areas. Should the knowledge not be transferred prior to a personnel change, the Authority will face a significant risk of errors occurring and not being detected in a timely fashion.

Views of Responsible Officials

The Authority will develop written business process documents for each functional area to address this issue in fiscal 2018. The Authority has begun to compile a summary of individual processes which will render a clear concise narrative and allow another staff member to effectively complete the necessary work should cases of extended or short term absences or retirement occur. This business process documentation will be the backbone planning design document for system upgrades commencing in fiscal year 2018 so that all new processes/ systems. This documentation will be made available as a training device as new employees go through the onboarding process upon joining the Authority.

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

Schedule of Findings and Questioned Costs

June 30, 2017

Finding 2017-003 – Retirement Plans

Finding

The MBTA sponsors several retirement plans for its employees including six defined benefit plans and one defined contribution plan.

During fiscal 2015, as a result of a new pronouncement from the Governmental Accounting Standards Board (GASB), the Authority was required to record the unfunded plan liability on its balance sheet rather than presenting it in the notes to the financial statements.

As a result of implementing this standard, a material weakness in internal control was identified and reported as part of the June 30, 2015 and 2016 audits. While management has taken some steps to begin the process of addressing portions of the control weaknesses, the material weakness in this area continued throughout fiscal 2017.

A similar material weakness was noted in the prior year, 2016-003.

Recommendation

Management continues to implement initiatives around the Authority to improve operations. However, the risks associated with control deficiencies in the benefits administration area continue to be high and we recommend that correcting these deficiencies be considered a high priority for management and the Board.

Views of Responsible Officials

The Authority continues to address this issue. An independent contractor has been retained to provide a framework and cost estimates for a comprehensive review of the plans that compares administrators in the marketplace. The final report will provide a comparison of recordkeeping service platforms, compliance, enrollment processing, website, employee education, plan capabilities and sponsorship, as well as cost. Responses to requests for proposals are being evaluated by a selections committee, to be followed by verbal interviews and completion of the selection process. The targeted date for completion is late fiscal year 2018 or the beginning of fiscal year 2019.

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

Schedule of Findings and Questioned Costs

June 30, 2017

(3) Findings and Questioned Costs Relating to Federal Awards

Reference Number: 2017-004 – Material Weakness and Compliance: Equipment Management

Federal Programs: Federal Transit Cluster CFDA# 20.500, 20.507, 20.525 and 20.526
TIGER – Surface Transportation CFDA# 20.932

Federal Agency: U.S. Department of Transportation

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 2016-006

Criteria

Equipment Management

FTA Circular C 5010.1D, Chapter IV, 3. Equipment, Supplies and Rolling Stock, states that certain management standards apply to equipment, supplies, and rolling stock purchased with Federal funds. The term, project property, as used in this section, includes equipment, supplies, and rolling stock. Light duty vehicles such as vans, sedans, and pick-up trucks employed in administrative and maintenance purposes are considered equipment. Light duty vehicles employed to transport passengers are considered rolling stock. The following requirements are for the acquisition, use, management, and disposition of project property:

Project Property Management. Rolling stock and equipment management procedures include the following minimum requirements:

- (1) Equipment records must be maintained by the grantee. Records must include:
 - (a) a description of the asset,
 - (b) identification number,
 - (c) source of property (the grant project number under which it was procured),
 - (d) acquisition date,
 - (e) cost,
 - (f) percentage of Federal participation in the cost,
 - (g) location,

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- (h) use and condition,
 - (i) useful life,
 - (j) any disposition data, including the date of disposal and sale price, or, where applicable, method used to determine its fair market value, and
 - (k) who holds title to the equipment including rolling stock.
- (2) A physical inventory of 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.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of project property. Any loss, damage, or theft must be investigated and documented by the grantee.
- (4) Tagging or otherwise identifying property as government property.
- (5) Adequate maintenance procedures must be developed and implemented to keep the project property in good condition. These procedures should be consistent with the maintenance plan required of grantees for equipment funded under 49 U.S.C. 5309 and 5307 and should be documented and available during an audit or triennial review.

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 the Authority personnel. The policy also does not include procedures to verify that the tangible asset values are reconciled to the financial statements/general ledger and disposals are recorded completely and accurately. During our equipment management testwork, we noted that disposals and additions did not appear to be recorded completely and accurately in the system throughout the year as documented in the following:

Further, we noted that during our testwork:

- One (1) purchase tested during allowability testwork was approved but not coded as an asset thus not included in the equipment records as such we noted that the approval controls are not precise enough to determine coding errors;
- Three (3) equipment purchases were not tagged and not included in the FMIS PeopleSoft Fixed Asset Database properly as the controls to record assets in the Authority's system have failed;
- One (1) disposal identified during equipment testwork was not included in a written request for retirement and the statement of residual value and therefore, not authorized to be retired as such we noted that the approval controls are not precise enough to determine the completeness and accuracy of the required statements.

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- Nine (9) disposals tested during equipment testwork were not properly and completely reflected in the FMIS PeopleSoft Fixed Asset Database, as the controls are not precise enough to ensure that the disposals are approved and recorded completely and accurately.
- The semi-annual journal entries used to record fixed asset retirements/disposals and additions were not initially processed correctly and the balances were overstated as the controls are not precise enough to verify that the amounts are complete and accurate.

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 the required biennial equipment inventory for the period January 1, 2015 through December 31, 2016 was not completed. The latest complete equipment inventory was performed for the period January 1, 2013 through December 31, 2014.

Cause and Possible Asserted Effect

The Authority's policies and procedures need to be reviewed and updated to correctly reflect procedures followed, and 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

None

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.

Views of Responsible Officials

Beginning with July 2017 the Capital Accounting Department has implemented the following:

Review weekly expenses and identify expense over \$5,000 that are fixed assets (identifying Federal purchases verse non Federal purchases). This generates direct communication with the person that made a purchase to obtain the background details on the purpose/use of the asset, life and estimate of residual value. An identification tag number for the item is forwarded to the area supervisor where the item is located, a picture is provided from the location, and the tag is affixed to the asset.

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Effective in February 2018 PeopleSoft (FMIS) system is updated for additions or disposals on a monthly basis through utilization of an upload sheet. The departments have been advised that effective February 2018 all departments are to ensure additions and disposals are communicated to the Capital Accounting Department. The requirements of the National Transit Database process for 2018 mandates assets are validated, and quality controls are in place.

A physical inventory will begin in April 2018 through a coordinated effort of multiple teams to complete a comprehensive and efficient inventory at all locations within three months.

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Reference Number: 2017-005 – Significant Deficiency and Compliance: Wage Rate and Procurement

Federal Programs: High-Speed Rail Corridors CFDA# 20.319

Federal Agency: U.S. Department of Transportation

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

Wage Rate Requirement

All laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC3141-3144,3146,3147).

Nonfederal entities shall include in their construction contracts subject to the Wage Rate Requirements a provision that the contractor or subcontractor comply with those requirements and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR Sections 5.5 and 5.6; the A-102 Common Rule; OMB Circular A-110 (2CFR part 215, Appendix A Contract Provisions); 2 CFR part 176. Subpart C; and 2 CFR Section 200.326).

Suspension and Debarment

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include contracts for goods and services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet criteria as specified in 2CFR Section 180.220.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR Section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/>, (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR Section 180.300).

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Condition

During our testwork of a sample of 42 certified payrolls, we noted for one of the project's subcontractor's two certified payrolls tested, there was no evidence the certified payrolls were received by the Authority weekly as the Resident Engineer did not complete or sign the Resident Engineer's status report. This signature and status report is the control that verifies from the documentation received compliance with the Wage Rate Requirements.

Further, included in the Authority's contract with this project's contractor is a provision that for all third party contractors, suspension and debarment certifications be provided. We did not find evidence the contractor was obtaining nor providing the Suspension and Debarment certifications for its third party contractor reimbursed with federal funds.

Cause and Possible Asserted Effect

The precision of the control in place to ensure certified payrolls exist from a subcontractor prior to reimbursement needs to be strengthened to ensure Wage Rate compliance.

Noncompliance with suspension and debarment federal requirements.

Questioned Costs

None

Recommendations

We recommend management strengthen controls over the federal requirements, specifically ensuring a signed resident engineer status report exists for each certified payroll and ensuring suspension and debarment certifications are obtained for all third party contractors.

Views of Responsible Officials

The two payrolls referenced were certified by senior officials and the Authority will remind all contractors and subcontractors that resident engineers should be involved in the payroll certification process.

Additionally, the Authority will notify all contractors when they enter into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR Section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/>, (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR Section 180.300).

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Reference Number: 2017-006 – Significant Deficiency and Compliance: Reporting

Federal Programs: TIGER Surface Transportation CFDA# 20.932

Federal Agency: U.S. Department of Transportation

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

Reporting

Recipients of federal assistance through the Federal Transit Administration (FTA) are required to report on the progress and financial status of each Award, 2 CFR part 200.

FTA's electronic Federal Financial report (FFR) is consistent with and includes information identified in OMB's Standard Form FFR (SF FFR). A recipient must submit an FFR for each active Award. The FFR is used to monitor the federal assistance awarded. The purpose of the FFR is to provide a current, complete, and accurate financial picture of the Award. This report is submitted electronically through TrAMS and must be prepared on the accrual basis of accounting; that is, income is recorded when earned instead of when received, and expenses are recorded when incurred instead of when paid. The FFR may not be prepared on the cash basis of accounting, even though a recipient may keep its books on the cash basis during its accounting year. If this is the case, at the submission of the FFR, the recipient must prepare the necessary accruals and submit the FFR on the accrual basis of accounting.

Condition

The Authority has established a process similar to the Federal Financial Report preparation, and data for the Close-Out Report is generated from the Capital Management System (CMS), which is fully integrated with the Authority's general ledger. The Close-Out Report is required to be submitted whenever a grant award has ended. The report includes the total amount of expenditures spent on the grant and the amount of funding received throughout the life of the grant and is submitted electronically through TrAMS.

During our testwork, we noted the grant status was not closed out in the CMS system and open work orders remained eleven months after the grant was closed out per the final FFR and closeout memo was sent to the FTA. Additionally, we noted that the amounts per the closeout report did not agree to the amounts in the CMS system and the closeout report was less than the amount recorded in CMS.

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Cause and Possible Asserted Effect

The reporting controls are not precise enough to ensure amounts and project activities are reported completely and accurately.

Questioned Costs

None

Recommendations

We recommend management strengthen controls over the close-out reporting to ensure the required reports are submitted completely, accurately and in accordance with Federal regulations.

Views of Responsible Officials

An inadvertent error was made by the employee preparing the Close-Out Report the grant cited. In addition there was no review by a second employee to reconcile the reported activity on the Close-Out Report. The CMS work orders referenced have been adjusted to transfer the excess charges transferred to other authority sources and the Federal grant work orders all closed to reconciled balances on the Close-Out Report.

A revised policy will be implemented in March 2018 in PeopleSoft requiring all FFRs to be prepared by grant accounting staff and reviewed and approved by either the Director of Capital Accounting, the Assistant Controller or Controller prior to filing.

A complete inventory of all open grants will be conducted in conjunction with the change in policy. The open grant listing will be reviewed and evaluated for all grants open that are in need of completion of the Close-Out Report process.