



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, 2018

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)
Year ended June 30, 2018

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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, 2018. 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, 2018.

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 2018-003 and 2018-004. Our opinion on each major federal program is not modified with respect to these matters.



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'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 did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses 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 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 Finding 2018-003 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2018-004 to be a significant deficiency.

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's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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, 2018, and have issued our report thereon dated October 5, 2018 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
October 5, 2018

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

Schedule of Expenditures of Federal Awards
 Year ended June 30, 2018

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	\$ (170,296)
Total U.S. Dept. of Justice			<u>(170,296)</u>
U.S. Department of Transportation:			
Passed through the MassDOT:			
Federal Highway Administration (S13005)			
FHWA – Section 130:	20.205	Longfellow Bridge Support	3,450,147
S14001	20.205	Knowledge Corridor-Grade Crossings	—
Total Highway Planning and Construction Cluster			<u>3,450,147</u>
Federal Transit – Capital Investment Grants Program:			
MA-03-0292	20.500	Fitchburg CR Improvements	841,582
MA-03-0295	20.500	GLX-FTA/FFGA Funds	76,373,857
MA-04-0019	20.500	Hingham Intermodal & Harbor Park	6,194
MA-04-0025	20.500	Quincy High Speed Catamaran	5,011,567
MA-04-0026	20.500	Ferry System Improvements	476,598
MA-04-0051	20.500	Commonwealth Ave Green Line Station	112,087
MA-04-0052	20.500	Hingham Ferry Dock	178,667
MA-04-0054	20.500	Rockport Comm. Rail Station	779,115
MA-04-0064	20.500	Auburndale Fiber Optic Cable Installation	35,324
MA-05-0103	20.500	FY07 Station Management Proj.	120,356
MA-05-0105	20.500	FY07 Comm. Rail Vehicle Service	16,404,574
MA-05-0106	20.500	FY07 Coach Reliability & Safety Program	1,590,480
MA-05-0109	20.500	Green Line #7 Car	12,258,581
MA-05-0115	20.500	FY 10 Red Line # 2 Car Overhaul	90,354
MA-05-0120	20.500	Coach Reliability & Safety Prog.	805,710
MA-05-0121	20.500	MBTA Power Program	489,983
MA-05-0124	20.500	Mansfield Station Impvs.	32,688
MA-05-0128	20.500	FY 2013 Infrastructure Impvs.	574,132
MA-05-0129	20.500	Positive Train Control Ph. 1	36,463
MA-05-0133	20.500	Assembl Square Project	1,325,903
MA-55-0005	20.500	Worcester-Boston Rail Corridor Improvement	405,072
Subtotal #20.500 Direct Program			117,949,287
Passed through the Rhode Island Department of Transportation:			
RI-12-X001 (90R112)	20.500	Pawtucket Inspection Pit	2,641,572
Total #20.500			<u>120,590,859</u>
Federal Transit – State of Good Repair Grants Program:			
MA-54-0001	20.525	Green Line No. 8 Car Enhancements	428,933
MA-54-0002	20.525	FY 14 Bridge Program	2,301,610
MA-54-0003	20.525	FY 13 AFC IT Upgrades	220,508
MA-54-0005	20.525	MBTA Winter Resiliency Program	4,034,473
MA-54-0006	20.525	MBTA Bridge and Tunnel Program	13,238,089
MA-54-0010	20.525	2016 Kawasaki Coach Overhaul (32 Units)	1,223,373
MA-54-0012	20.525	Green Line No. 7 Selective System Overhaul	2,626,315
MA-54-0013	20.525	MBTA Floating Slabs	675,011
MA-54-0014	20.525	MBTA Silver Line Courthouse Station	80,654
MA-54-0016	20.525	2017 Stations and Facilities	30,531,551
MA-54-0017	20.525	2017 Supplemental Bridge Program	8,924,800
MA-54-0018	20.525	MBTA Floating Slabs	7,815,905
Total # 20.525			<u>72,101,222</u>
MA-34-0012	21.000	MBTA LoNo Project Supplementary	472
MA-34-0015	20.526	MBTA 2016 Bus Procurement (5339)	4,254,749
Total # 20.526			<u>4,255,221</u>
Federal Transit Formula Grants Program:			
MA-90-0079	20.507	2017 Stations & Facilities	2,577,365
MA-90-0331	20.507	FY99 Sec 5307 Infrastructure	30,498
MA-90-0515	20.507	New Blue Line Cars	210,632
MA-90-0519	20.507	Automated Fare Collection	1,047,918
MA-90-0552	20.507	Orange Line Upgrades	9,749
MA-90-0576	20.507	Orange Line Journal Bearing Replacement	230,715
MA-90-0577	20.507	175 Buses/Fairmount Line (GANS)	11,030
MA-90-0590	20.507	IT System/NR Vehicle GL PTC	281
MA-90-0591	20.507	FY 2010 Loco & Coach Procurement	(26,087)
MA-90-0600	20.507	MBTA Power Program	6,846,765
MA-90-0609	20.507	FY 2012 Bridge Program	2,751,512
MA-90-0618	20.507	Haverhill Line Double Track	241
MA-90-0621	20.507	Red & Orange Line Vehicle Prev. Maint.	2,992,709
MA-90-0622	20.507	Orient Heights Station	169,902
MA-90-0631	20.507	Orient Heights Station	894,138
MA-90-0641	20.507	192 ECD Bus Midlife Overhaul	482,002
MA-90-0644	20.507	FY 2013 Infr Improvements B	1,579,965
MA-90-0649	20.507	Government Center Reconstruction	2,136,121
MA-90-0711	20.507	Red Line Signals Upgrade	806,744
MA-90-0712	20.507	FY 2015 Preventive Maintenance	389,179
MA-90-0713	20.507	FY 2015 Bridge Program	704,384
MA-90-0735	20.507	Green Line Signal Replacement	1,674,105

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Grant number	Federal catalog number	Program description	Expenditures
MA-90-0739	20.507	MBTA 2016 Bus Procurement	\$ 1,330,367
MA-90-0751	20.507	MBTA 2016 Bus Procurement (5307)	37,166,866
MA-90-0763	20.507	FY2017 Revenue Vehicle Program	25,293,134
MA-95-0003	20.507	GLX FTA/CMAQ Funds	45,515,468
MA-95-0014	20.507	Locomotive Procurement CMAQ Flex	1,009,032
MA-95-0022	20.507	Wachusett Extension Project	107,632
MA-96-0001	20.507	Back Bay Vent/RIDE Vans (ARRA)	7,893
Total #20.507			<u>135,950,260</u>
Total Federal Transit Cluster			<u>332,897,562</u>
Federal Transit – Public Transportation Research:			
MA-26-0064	20.514	MBTA LoNo Project	110,326
Total #20.514			<u>110,326</u>
Public Transportation Emergency Relief Program:			
MA-44-3002	20.527	MBTA Resiliency Project	6,128,984
Total #20.527			<u>6,128,984</u>
Federal Railroad Administration:			
Passed through the Comm. Of Massachusetts:			
S10007	20.319	Knowledge Corridor – HSIPR-(ARRA)	3,263,433
Passed through the NNEPRA:			
90-FRA1	20.319	Downeaster MBTA Track Improvement Project	3,527,761
Total #20.319			<u>6,791,194</u>
National Infrastructure Investments:			
MA-79-0002	20.933	Ruggles Station Improvements – TIGER	3,372,415
Total #20.933			<u>3,372,415</u>
Total U.S. Dept. of Transportation			<u>352,750,628</u>
U.S. Department of Homeland Security:			
Direct Award:			
EMW2013RA00054	97.075	FY 2013 Transit Security (J13001)	(1,517)
EMW2014R00055	97.075	FY 2014 Transit Security (J14001)	210,123
EMW2016RA00025	97.075	FY 2016 Transit Security (J16001)	1,032,867
EMW2017RA00020	97.075	FY 2017 Transit Security (J17001)	81,693
Total #97.075			<u>1,323,166</u>
Total of U.S. Dept. of Homeland Security			<u>1,323,166</u>
Grand total			\$ <u>353,903,498</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

June 30, 2018

(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, 2018 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 \$3.3 million in federal funding for the reconstruction of the historic "Knowledge Corridor" rail line between Springfield, Massachusetts and East Brookfield, Massachusetts.

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 \$2.28 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.

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Notes to Schedule of Expenditures of Federal Awards

June 30, 2018

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) Subrecipients

For the year ended June 30, 2018 the Authority did not provide federal awards to subrecipients.

(5) Indirect Costs

For the year ended June 30, 2018, 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), which comprise the statement of net position as of June 30, 2018, 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 October 5, 2018.

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 2018-001 and 2018-002 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*.



Exhibit III

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
October 5, 2018

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

June 30, 2018

(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
Federal Transit – Capital Investment Grants Program	20.500
Federal Transit – Formula Grants Program	20.507
Highway Planning and Construction	20.205
National Infrastructure Investments_Transportation Investment Generating Economic Recovery (TIGER)	20.933

- (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**

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Notes to Schedule of Expenditures of Federal Awards

June 30, 2018

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

Finding 2018-001 – Succession Planning

Finding

As noted in previous years, 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.

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 implement an appropriate personnel succession plan throughout the Authority.

We reported a similar finding in previous audits.

Recommendation

We recommend that the Authority consider adopting a formal succession plan. Such a plan, at a minimum, should include identifying key personnel, retirement timeline and potential replacements.

Views of Responsible Officials

The Authority made a concerted effort and progress during fiscal year 2018. Strategic vacant positions were filled in individual departments within the organizational structure to address management's immediate functional and operational needs.

In fiscal year 2019 the Authority will address a formalized succession planning analysis and begin to work towards implementation of a comprehensive succession plan. 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
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Notes to Schedule of Expenditures of Federal Awards

June 30, 2018

Finding 2018-002 – Process Documentation

Finding

Documentation of key business processes is important to ensure that performance is consistent especially when personnel changes occur or as upgrades to/replacements of IT systems are planned.

With the increasing complexity of the Authority's financial accounting and reporting responsibilities, 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.

We recommend that the Authority add resources in the financial accounting and reporting areas who possess the critical skills needed to ensure that all key processes are documented, managed and executed effectively and efficiently. Evaluating the current processes and personnel and supplementing the resources in these areas is critical to ensure that all internal and external accounting and reporting duties are performed properly.

We reported a similar finding in previous audits.

Recommendation

We recommend that, to the extent possible, the business processes be documented immediately to leverage the extensive knowledge of the individually currently working in this area. Should the knowledge not be transferred and a personnel change occur, the Authority will face a significant risk of errors occurring and not be detected in a timely fashion.

Views of Responsible Officials

The Authority has conducted a series of business process sessions which focused on a variety of work flow and operational processes during the fourth quarter of fiscal year of 2018. An experienced third party contractor was retained to facilitate these sessions to maximize the results of this effort.

The Authority will develop written business process documents for each functional area to address this issue. A summary of individual processes will be developed in a clear concise narrative which will 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 also be utilized as a training device in with a new employee as they join the Authority.

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

June 30, 2018

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

Reference Number 2018-003 Equipment Management

Federal Programs: Federal Transit Cluster CFDA# 20.500, 20.507, 20.525 and 20.526

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, prior year finding #2017 – 004

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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Notes to Schedule of Expenditures of Federal Awards

June 30, 2018

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.

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 of the year end journal entries, we noted the disposals were calculated incorrectly and recorded inaccurately in the system. Based on our review of the year end journal entry, we noted that calculation of the disposals was incorrect and only two assets were disposed and recorded as such, when 18 assets should have been disposed. However, the Authority corrected the journal entry and subsequently recorded the disposals correctly.

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Also, we noted inconsistencies during our testwork over the reporting of fixed assets in the FMIS PeopleSoft Fixed Asset Database and the Fixed Asset Additions schedule/depreciation schedule. We noted instances where the asset codes and useful life of an asset were included differently in both systems and of the 16 asset classifications reviewed, four were not in agreement.

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.

Further, the Authority has procured the Massachusetts Real Estate Group for the tracking of real estate which is performed using the LandTracking system. However, it does not appear that the real estate property is being tracked in accordance with Federal regulations and the funding source or the Federal and non-Federal participation is not included. Additionally, we determined properties are sold prior to obtaining or determining whether federal approval is required. It was also noted that there does appear to be a formal process to monitor the outsourcing of this service.

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

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.

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

Views of Responsible Officials

The Authority completed a partial inventory of fixed assets in the third quarter of calendar of 2017 and has started a comprehensive inventory of the fixed asset inventory as of November of 2018. An internal, and collaborative effort with our realty contractor, to include all required informational requirements for compliance with FTA Circular C 5010.1E, Chapter IV in the ensuing fiscal year is underway.

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Reference Number: 2018-004 – Reporting

Federal Programs: Federal Transit Cluster (FTC) CFDA# 20.500, 20.507, 20.525 and 20.526
National Infrastructure Investments_Transportation Investment Generating Economic
Recovery (TIGER) CFDA# 20.933

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, prior year finding # 2017-006

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 accompanies the MPR (described below) and 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 FFR preparation for the close out report. Data for the close-out reporting and Federal financial reporting 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 how much funding was received throughout the life of the grant and is submitted electronically through TrAMS. The Federal financial report (FFR) – SF-425 is required to be submitted quarterly and include the Federal share of expenditures.

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During our FTC reporting testwork, we noted one of the three close-out reports tested did not agree to the amounts in the CMS system. The closeout report was less than the amount presented from CMS as it did not include the final cash drawdown and the final related project expenditures totaling \$1,572,736.

Additionally, during our TIGER reporting testwork, we noted two of the quarterly FFR's tested were reported with the Federal share of 80% but the approved Federal share is 67%. However, after further testing performed during our cash management testwork, we noted that the Federal funds were requested using the approved Federal share.

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 and the FFR reporting to ensure that the required reports are submitted in accordance with the Federal regulations and agree with supporting documentation.

Views of Responsible Officials

This is an isolated clerical error. Training and instruction has been provided to staff on proper preparation of FFRs has taken place and someone other than the preparer will review and approve the release of the documents after reconciliation.