



Massachusetts Bay Transportation Authority

Report to the Control Board

Year ended June 30, 2016

December 2016

kpmg.com



Audit overview

- KPMG Audit Objectives
- Overview of 2016 Audit Results
 - Financial Statements
 - Internal Control Environment
 - Federal Programs
- Auditor Required Communications with the Control Board

KPMG audit objectives

Audit Objectives

- Conduct an independent audit of the MBTA's financial statements in accordance with auditing standards generally accepted in the United States of America
- Provide the Board an opinion as to whether the MBTA's financial statements as of and for the year ended June 30, 2016 are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles
- Provide the Board with additional information regarding our audit and the MBTA's accounting and financial reporting processes as required under Statement of Auditing Standards (SAS) No. 114, *The Auditor's Communication With Those Charged With Governance*
- Conduct independent audits for the following:
 - Massachusetts Bay Transportation Authority financial statements
 - MBTA's compliance with federal funding requirements
- Perform agreed upon procedures for the following:
 - National Transportation Database (NTD) Report

Overview of 2016 audit results

Independent Auditors' Report – Financial statements

The financial statement audit report for June 30, 2016 will include:

- A description of the financial statements being audited
- Management's responsibility for the preparation and accuracy of the financial statements
- Our responsibility to express an opinion on the financial statements
- A statement that we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*
- A description on an audit/the audit process
- An unmodified (clean) opinion indicating that the 2016 financial statements are presented fairly in accordance with U.S. GAAP
- A description of the Supplementary and Required Supplementary Information
 - MD&A (new for 2016)
 - Pension and OPEB historical funding schedules
 - MBTPC Debt Coverage
- A description of the separately issued report on internal control and compliance as required by *Government Auditing Standards*

Overview of 2016 audit results

Internal Control Environment

- Nature, timing and extent of our procedures determined by:
 - Our understanding of the internal control system
 - Our tests of control effectiveness
 - Discussions with management regarding risks and strategies
 - Results of analysis of risk profile and primary business processes
 - Assessment of the risk of fraud
- Conclusions reached regarding the internal control environment:
 - We noted the following matters involving the internal control environment and its operations that we consider to be significant deficiencies or material weaknesses
 - Succession planning
 - Lack of planning for transition of key roles
 - Number of resources with requisite skills
 - Process documentation
 - Financial reporting
 - Retirement/benefit plans

Overview of 2016 audit results

Independent Audit – Federal Programs

The Federal program audit report for June 30, 2016 will include:

- Supplemental opinion on the 2016 SEFA
- Unmodified opinion on the MBTA's compliance with the requirement of its major programs
 - Federal Transit Cluster
 - Public Transportation Emergency Relief Program
- Report on internal control over the MBTA's major programs
 - Control deficiencies Payroll system – PeopleSoft HCMS and TKS
 - Impact of deficiencies on payroll charged to federal programs

Auditor required communications with Control Board

Topic	Response
Our responsibility under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i>	Audit designed to: <ul style="list-style-type: none"> — Obtain reasonable assurance that the financial statements are free of material misstatement — Determine that the MBTA complied with laws and regulations with respect to expenditures of federal funds
Significant accounting policies	<ul style="list-style-type: none"> — Discussions with management on the quality and acceptability of the MBTA's accounting principles
Management judgments and accounting estimates	<ul style="list-style-type: none"> — Accounting estimates are an integral part of the financial statements — We have evaluated the key factors and assumptions used to develop management's estimates (such as valuation of investments, accruals of expenses, valuation of derivatives) and found them to be reasonable in relation to the financial statements taken as whole
Significant audit adjustments and unadjusted audit differences affecting the financial reporting process	<ul style="list-style-type: none"> — To date, one unadjusted audit difference noted related to forward delivery agreements

Auditor required communications with Control Board (continued)

Topic	Response
Other information in documents containing audited financial statements	We have not been asked to read or review other MBTA documents (including bond official statements) containing the audited financial statements
Disagreements with management	None
Consultation with other accountants	None of which we are aware
Difficulties encountered in performing the audits	No difficulties that impacted reporting timeline significantly
Representation Letter	Available from management



kpmg.com/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. NDPPS 605148

The KPMG name and logo are registered trademarks or trademarks of KPMG International.