

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Single Audit Report

Year ended June 30, 2005

(With Independent Auditors' Report Thereon)

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Single Audit Report

Year ended June 30, 2005

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**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Directors
Washington Metropolitan Area Transit Authority:

We have audited the financial statements of Washington Metropolitan Area Transit Authority (the Authority) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005. We conducted our audit in accordance with 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by an error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the Authority in a separate letter dated September 30, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.



This report is intended solely for the information and use of the audit committee, the board of directors, management, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

F. S. Taylor & Associates, P.C.

September 30, 2005



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2001 M Street, NW
Washington, DC 20036

F.S. TAYLOR & ASSOCIATES, P.C.
Certified Public Accountants

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Directors
Washington Metropolitan Area Transit Authority:

Compliance

We have audited the compliance of Washington Metropolitan Area Transit Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the Authority's compliance with these requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs, as item 2005-1.

Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended June 30, 2005 (not presented herein), and have issued our report thereon dated September 30, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information of the audit committee, the board of directors, management, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

F. S. Taylor & Associates, P.C.

September 30, 2005

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

Major Programs	CFDA Number	Total Expenditures
Federal expenditures:		
U.S. Department of Defense:		
Emergency Preparedness Funding	12.002	\$ 6,621,729
U.S. Department of Transportation:		
Highway Planning and Construction	20.205	519,442
Job Access Reverse Commute	20.516	49,741
Federal Transit Cluster:		
Federal Transit Administration:		
Capital improvement grants	20.500	128,491,148
Capital and operating assistance grants	20.507	107,379,503
U.S. Department of Justice:		
State Domestic Preparedness Funding	97.004	437,887
Urban Areas Security Cluster	97.008	1,019,813
Total federal expenditures		\$ <u>244,519,263</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

(1) Single Audit Reporting Entity

All federal award programs administered by the Washington Metropolitan Area Transit Authority (the Authority) are included in the accompanying schedule of expenditures of federal awards.

(2) Basis of Accounting

The schedule of expenditures of federal awards has been presented on the accrual basis of accounting. Expenditures are recorded, accordingly, when incurred rather than when paid.

(3) Relationship to Financial Statements

The categorization of expenditures by program included in the schedule of expenditures of federal awards is based on the Catalog of Federal Domestic Assistance (CFDA).

Federal grant expenditures are reported in the Authority's financial statements as follows:

- Metrorail and Metrobus capital grant expenditures are recorded as construction in progress when expended.
- Operating assistance grant expenditures are recognized in the Authority's statement of revenue, expenses, and changes in net assets.
- State and local expenses are the nonfederal portion of the grant expenditures for which stipulated percentages are identified in each grant document.

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Schedule I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:		<u>Unqualified</u>
Internal control over financial reporting:	Yes	No
• Material weakness(es) identified?	_____	X
• Reportable condition(s) identified that are not considered to be material weakness(es)?	_____	X
Noncompliance material to financial statements noted?	_____	X

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	_____	X
• Reportable condition(s) identified that are not considered to be material weakness(es)?	_____	X
Type of auditors’ report issued on compliance for major programs:		<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section 510(a))?	X	_____

Identification of Major Programs:

CFDA number	Name of federal program
12.002	DOD Emergency Preparedness Funding
20.500	FTA Capital Improvement Grants
20.507	FTA Capital and Operating Assistance Grants

Dollar threshold used to determine Type A programs: \$3,000,000

Auditee qualified as low-risk auditee?	Yes	No
	_____	X

Schedule II – Financial Statement Findings

No findings were reported.

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Schedule III – Federal Award Findings and Questioned Costs

General

2005-1 Highway Planning and Construction – CFDA No. 20.205; Grant No. DC-90-0061

Condition and Criteria

The Northern Bus Division lacks certain security controls to prevent or detect unauthorized entry to the facility and/or access to federally funded property. OMB Circular A-102 requires the existence of an appropriate control system to ensure that equipment purchased with federal funds is adequately safeguarded to prevent loss, damage, or theft of equipment.

Effect

Federally funded equipment may not be adequately safeguarded to prevent loss, damage, or theft.

Cause

Although the Authority provides systematic patrol at the bus division (once per eight hour shift), it has not implemented and installed security controls such as perimeter fencing, surveillance equipment, video monitors, restrictive entry equipment, and/or security guards that would enable it to appropriately safeguard and monitor federally funded equipment.

Questioned Costs

Not ascertainable.

Auditors' Recommendation

This is a repeat comment from fiscal years 2003 and 2004. We continue with the recommendation that the Authority update and modify the security controls at the bus divisions.

Management Response

The Office of Auditor General has in conjunction with Metro Police Department, completed a review of security conditions at the bus garages and is currently awaiting management responses to the recommendations. The report was issued on November 21, 2005. In addition, on September 8, 2005, WMATA staff presented to the Planning and Development Committee WMATA's Status Report on the Metrobus Capital Improvement Program for fiscal years 2006–2011. The plan included certain unfunded items that were recommended in the APTA Bus Peer Review to improve security. These items included facility improvements at the bus garages to include improved lighting, rehabilitation of facilities, replacement of bay doors and facilities security enhancements such as guard booths, closed circuit TV and alarm systems.

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

In response to the audit report, WMATA staff has formed a working group that will further evaluate the security conditions at the bus garages and make recommendations for improving security conditions at each of the divisions. The group will evaluate both long term and short term solutions that will address security concerns raised in the Single Audit Report. Short term solutions should be implemented or completed within six months of recommendations. The working group is expected to have its analysis and fieldwork completed by December 31, 2005.

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Summary Schedule of Prior Audit Findings

Year ended June 30, 2005

We reviewed the status of the Authority's implementation of the recommendations on the audit findings reported in the fiscal year 2004 single audit report and noted the following:

Finding 2004-1

The Authority's FY 2004 Cost Allocation Plan submittal was based on FY 2001 financial results. The FTA requires the grantee to update the plan annually.

Comments

We recommended that the Authority update the Cost Allocation Plan annually with the most recent financial data.

In fiscal year 2005, there was no similar finding noted.

Finding 2004-2

The fixed asset system was not updated for all capital assets purchased under grant DD02. Property records for equipment purchased under grant DD02 do not include the individual serial number or other identification numbers for each item purchased or the unit prices as required by 49 CFR 18.(d)l.

Comments

We recommended that the Authority revise the property transaction records to include the serial number and unit cost of each item purchased and update the fixed asset management system accordingly.

In fiscal year 2005, there was no similar finding noted.

Finding 2004-3

Inspection of Northern Bus Division revealed a lack of certain security controls to prevent or detect unauthorized entry to the facility and/or access to federally funded property. OMB Circular A-102 requires the existence of an appropriate control system to ensure that equipment purchased with federal funds is adequately safeguarded to prevent loss, damage, or theft of equipment.

Comments

We recommend that the Authority update and modify the security controls at the bus divisions. In fiscal year 2005, there was a similar finding noted as Finding 2005-1 for the lack of certain security controls.