

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

☒ Action ☐ Information

MEAD Number:
201786

Resolution:
☒ Yes ☐ No

TITLE:

FY2016 External Audit Deliverables

PRESENTATION SUMMARY:

RSM US LLP submitted FY2016 external audit reports & related materials for acceptance.

PURPOSE:

To request acceptance by the Audits & Investigations Committee and receipt by the Board of the FY2016 External Audit Deliverables submitted by RSM US LLP.

DESCRIPTION:

Key Highlights:

- An audit of Metro's financial statements was conducted by RSM US LLP for the period of July 1, 2015, through June 30, 2016.
 - RSM US LLP issued an Unmodified Opinion.
- A Single Audit was conducted by RSM US LLP for the period of July 1, 2015, through June 30, 2016.
 - RSM US LLP issued an Unmodified Opinion.

Background and History:

The WMATA Compact, Section 70, states that an audit shall be made of the financial accounts of the Authority, shall be prepared in accordance with generally accepted accounting principles, and shall be filed with the Chairman and other officers as the Board shall direct.

Discussion:

This action item supports Metro's strategic goal to ensure financial stability and invest in our people and assets by having RSM US LLP conduct an audit of Metro's financial statements in accordance with Government Auditing Standards for the period of July 1, 2015, through June 30, 2016. WMATA received an Unmodified Opinion. Also, RSM US LLP conducted a Single Audit in compliance with the types of compliance requirements described in the 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, 2016. WMATA received an Unmodified Opinion and complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each major federal program for the year ended June 30, 2016. There were two material weaknesses, three significant deficiencies, and one finding which relates to both a significant deficiency and an identified matter of non-compliance.

RSM US LLP submitted the following Fiscal Year 2016 External Audit reports for acceptance by the Audits & Investigations Committee and receipt by the Board:

- Independent Auditor's Report on the Basic Financial Statements
- Single Audit Report
- 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
- Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

FUNDING IMPACT:

No impact on funding.	
Project Manager:	Joseph Wilson III
Project Department/Office:	Office of Inspector General

TIMELINE:

Previous Actions	<p>December 2015</p> <ul style="list-style-type: none"> • Board acceptance of the FY2015 Financial Statement Audit Deliverables
Anticipated actions after presentation	<p>October 2016</p> <ul style="list-style-type: none"> • Committee acceptance of FY2016 Financial Statement Audit Deliverables • Board vote on the receipt of FY2016 External Audit Deliverables

RECOMMENDATION:

The Audits & Investigations Committee accepts the FY2016 External Audit Deliverables submitted by RSM US LLP followed by receipt of the FY2016 External Audit Deliverables by the Board.

THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING



WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Report to the Audits & Investigations Committee
regarding the Results of the 2016 Audit

October 13, 2016

Table of Contents

	Page
Status of the Audit	1-2
Summary of Findings	3-6
Other Reporting Matters	7
Significant Matters Addressed During the Audit	8-13

This presentation is intended for the information and use of the Management and the Audits & Investigations Committee of the Board of Directors of the Washington Metropolitan Area Transit Authority and is not intended to be and should not be used by anyone other than these intended parties.

Status of the Audit

- We have completed our audit of the financial statements of the Washington Metropolitan Area Transit Authority (WMATA) as of and for the year ended June 30, 2016 in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and *Government Auditing Standards* (“Yellow Book”) issued by the Comptroller General of the United States.
- Our opinion on those financial statements is unmodified and will be dated as of the date approved by the Board of Directors.

Status of the Audit (continued)

- We have also completed all of the testing necessary to satisfy the requirements of the Yellow Book and the Office of Management and Budget (OMB) Uniform Guidance.
 - Our report in accordance with Yellow Book is unmodified.
 - Our report in accordance with OMB Uniform Guidance is also unmodified.
 - Major programs tested:
 - Federal Transit Cluster,
 - Passenger Rail Investment and Improvement Act, and
 - Transportation Investments Generating Economic Recovery.

Summary of Findings

- Our reports in accordance with the Yellow Book and OMB Uniform Guidance report 6 findings.
- These findings are comprised of
 - 2 material weaknesses (MW),
 - 3 significant deficiencies (SD), and
 - 1 finding which relates to both a significant deficiency, and an identified matter of non-compliance (NC).
- There are 0 new findings identified in the current year.

Summary of Findings (continued)

- In our audit of the June 30, 2015 financial statements, we identified 15 findings (5 MW, 5 SD, 5 NC).
 - Of these 15 findings, 8 have been resolved and 7 are repeated in the current year (two prior year findings are combined as one in 2016).

Summary of Findings (continued)

- Areas of findings are summarized below:
 - Fixed assets – 1 (MW)
 - Schedule of Expenditures of Federal Awards – 1 (MW)
 - Inventory – 1 (SD)
 - Journal entry reporting – 1 (SD)
 - Special test: Wage Rate - Davis-Bacon – 1 (SD/NC)
 - Equipment and Real Property Management - 1 (SD)

Summary of Findings (continued)

- In addition to the matters identified on the previous slides which represent required communications under professional standards, we will provide a separate management letter which summarizes other observations from the audit process. This letter will communicate recommendations for improvements and best practices.

Other reporting matters

- **Agreed-Upon Procedures Results**
 - The National Transit Database report - the report filing deadline is October 31. Work on this engagement is ongoing.
- **Reconciliation of Expenses of RCSC and RSMA for years 2016**
 - Work scheduled to be performed subsequent to completion of the audit.
- **Calendar Year Report of Payments for Determinations of Assessment Under the Longshore and Harbor Workers' Compensation Act and Extensions – US DOL Form LS-513**
 - If necessary, work will be scheduled subsequent to completion of the audit.

Required Communications

- **Auditors' Responsibility Under Generally Accepted Auditing Standards and Yellow Book:**

- The financial statements are the responsibility of management. Our responsibility is to perform an audit of the financial statements for the purpose of forming an opinion as to whether the financial statements are fairly stated in all material respects in accordance with Generally Accepted Accounting Principles (GAAP).

- **Preferability of Accounting Policies and Practices**

- Under GAAP, in certain circumstances, management may select among alternative accounting practices. There have been no instance where alternative accounting treatments were selected during fiscal year 2016.

- **Significant or Unusual Transactions**

- Silver Spring Transit Center

Required Communications (continued)

- **Adoption of, or Change in, Accounting Policies**

- Management has the ultimate responsibility for the appropriateness of the accounting policies used by WMATA. The following is a summary of new accounting policies adopted during the year:
- WMATA adopted GASB 72, *Fair Value Measurements*: This Statement addresses accounting and financial reporting issues related to fair value measurements, and is applicable to assets and liabilities measured at fair value. It defines fair value, defines an investment and generally requires investments to be measured at fair value, provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments, changes the measurement guidance for donated capital assets, donated works of art, historical treasures and similar assets, and capital assets received in a service concession agreement (on a prospective basis), and requires disclosures to be made about fair value measurement, the level of fair value hierarchy, and valuation techniques. The adoption of this Statement resulted in expanded note disclosures regarding the Authority's fair value measurements. The adoption of this standard had no significant impact on the financial statements of WMATA.

Required Communications (continued)

- **Management's Judgments and Accounting Estimates:**
 - The preparation of the financial statements requires certain estimates and judgments be made by management. These judgments and estimates include:
 - Unearned revenues
 - Pension benefit assumptions
 - Benefits other than pensions assumptions
 - Liability for injury and damage claims
 - Management estimates considered to have been developed based on reasonable and consistently applied approach.
- **Significant Issues Discussed With Management Prior to Retention:**
 - There were no significant issues discussed with management prior to our retention as the Authority's auditors.
- **Consultations With Other Accountants:**
 - We were informed by management that they made no consultations on the application of GAAP and GAAS.

Required Communications (continued)

- **Difficulties Encountered in Performing the Audit:**
 - We received full cooperation from management.
 - Information available is often difficult to obtain in a form that allows for an effective audit (refer to findings).
- **Representations from Management:**
 - The representation letter will be signed by management.
- **Disagreements with Management:**
 - There were no disagreements with management.

Required Communications (continued)

Audit Adjustments

A \$77,004,494 adjusting entry was proposed by RSM and agreed to by management. This entry reclassified capital assets from depreciable to non-depreciable.

Required Communications (continued)

Uncorrected Misstatements

Description	Effect — Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expenditure
Reversed opening equity misstatement	\$ -	\$ -	\$ (8,943,308)	\$ -	\$ 8,943,308
Non-reversed opening equity misstatements	384,077		(384,077)		-
Projected misstatement related to physical inventory test count procedures	(9,714,911)	-	-	-	9,714,911
Understatement of workers compensation and 3rd party injury estimated loss	-	6,300,000	-	-	6,300,000
Overstatement of depreciation expense	14,113,232	-	-	-	(14,113,232)
Income Statement Effect				\$ -	\$ 10,844,987
Equity Effect			(9,327,385)		
	\$ 4,782,398	\$ 6,300,000	\$ (9,327,385)		

THANK YOU FOR
YOUR TIME AND
ATTENTION





RSM US LLP

80 City Square
Boston, Massachusetts
+1 617 912 9000

+1 800 274 3978
www.rsmus.com

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person.

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International.

RSM® and the RSM logo are registered trademarks of RSM International Association. The power of being understood® is a registered trademark of RSM US LLP.

© 2016 RSM US LLP. All Rights Reserved.

SUBJECT: RECEIPT OF FISCAL YEAR 2016 EXTERNAL AUDIT DELIVERABLES

RESOLUTION
OF THE
BOARD OF DIRECTORS
OF THE
WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

WHEREAS, RSM US LLP, has submitted the Fiscal Year 2016 external audit reports and related materials for acceptance and has presented them to the Board of Directors; and

WHEREAS, The Audit & Investigations Committee has accepted these reports and related materials; now, therefore be it

RESOLVED, That the Board of Directors receives the following:

- Independent Auditor's Report on the Basic Financial Statements
- Single Audit Reports
 - 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.
 - Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance; and be it finally

RESOLVED, That this Resolution shall be effective 30 days after adoption in accordance with § 8(b) of the WMATA Compact.

Reviewed as to form and legal sufficiency,



Patricia Y. Lee
General Counsel