



**Executive Committee**

**Information Item III-A**

**October 25, 2018**

**FY2018 Financial Statement Audit  
and Single Audit**

Washington Metropolitan Area Transit Authority  
**Board Action/Information Summary**

Action  Information

MEAD Number:  
202037

Resolution:  
 Yes  No

**TITLE:**

FY2018 Financial Statement Audit & Single Audit

**PRESENTATION SUMMARY:**

OIG's submittal of the FY2018 Financial Statement Audit and Single Audit Reports.

**PURPOSE:**

To respond to subsection 70(a) of the WMATA Compact that requires "The report of [the annual independent] audit shall be prepared in accordance with generally accepted auditing principles and shall be filed with the Chairman and other officers as the Board shall direct."

**DESCRIPTION:**

OIG retained RSM US LLP (RSM) to conduct the annual audit of the Authority's Financial Statements and Single Audit.

**Key Highlights:**

- RSM issued an unmodified opinion on the Authority's Financial Statements as of and for the years ended June 30, 2018 and 2017.
- RSM issued an unmodified opinion on the Authority's Single Audit for the period July 1, 2017, through June 30, 2018.

**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:**

- Independent Auditor's Report on the Financial Statements as of and for the years ended June 30, 2018 and 2017.

•Single Audit, which includes:

- Independent Auditor’s 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 as of and for the year ending June 30, 2018.
- There were two significant deficiencies.
- Independent Auditor’s 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 as of and for the year ending June 30, 2018.

**FUNDING IMPACT:**

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

**TIMELINE:**

There is no timeline.

# WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Report to the Executive Committee regarding the  
Results of the 2018 Audit

October 25, 2018

# Introduction

We are pleased to present this report related to our audit of the financial statements of the Washington Metropolitan Area Transit Authority (WMATA) as of and for the year ended June 30, 2018. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for WMATA's financial reporting process, as well as other matters that we believe may be of interest to you. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

This report is intended solely for the information and use of the Board of Directors, Business Oversight Committee, and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to WMATA.



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# Status of the Audit

- We have completed our audit of the financial statements of WMATA as of and for the year ended June 30, 2018 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 dated October 22, 2018
- 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 OMB Uniform Guidance is also unmodified.
    - Major programs tested:
      - Federal Transit Cluster,
      - Passenger Rail Investment and Improvement Act, and
      - Rail and Transit Security Grant Program

# Scope of the Audit

## **The Respective Responsibilities of the Auditor and Management**

- Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described to you in our engagement letter dated April 2, 2018. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.

## **Overview of the Planned Scope and Timing of the Financial Statement Audit**

- We previously issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.
- There have been no significant scope changes in the execution of this audit plan.

# Significant Accounting Practices, Including Policies, Estimates and Disclosures

In our meeting with you today, we will discuss our views about the qualitative aspects of the Authority's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures. The following is a list of the matters which include the significant estimates which you may wish to monitor for your oversight responsibilities of the financial reporting process:

# Significant Accounting Practices, Including Policies, Estimates and Disclosures (continued)

- The preparation of the financial statements requires certain estimates and judgments be made by management. These judgments and estimates include:
  - Unearned fare revenues
  - Pension benefit assumptions
  - Post-employment benefits other than pensions assumptions
  - Liability for injury and damage claims
- Management estimates considered to have been developed based on a reasonable and consistently applied approach.
- Management has the ultimate responsibility for the appropriateness of the accounting policies used by WMATA. The following is a summary of new accounting pronouncements adopted during the year:
  - *GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*
  - *GASB 81, Irrevocable Split Interest Agreements*
  - *GASB 85, Omnibus 2017*
  - *GASB 86, Certain Debt Extinguishment Issues*
  - *GASB 89, Accounting for Interest Cost Incurred Before the End of a Construction Period*

# Audit Adjustments

## Recorded Audit Adjustments

Washington Metropolitan Area Transit Authority  
 Summary of Audit Adjustments  
 Year Ended June 30, 2018

Description	Audit Adjustments - Debits (Credits)				
	Statement of Net Position Effect			Statement of Revenues, Expenses, and Changes in Net Position Effect	
	Assets	Liabilities	Net Position	Revenue	Expense
Depreciation expense understatement related to 5000 series accelerated depreciation	\$ (45,575,189)	\$ -	\$ -	\$ -	\$ 45,575,189
Statement of Revenues, Expenses, and Changes in Net Position Effect				\$ -	\$ 45,575,189
Statement of Net Position Effect	\$ (45,575,189)	\$ -	\$ -		

# Summary of Uncorrected Misstatements

## Uncorrected Misstatements

Washington Metropolitan Area Transit Authority  
 Summary of Unrecorded Audit Adjustments  
 Year Ended June 30, 2018

Attachment A

Description	Passed Correcting Entries - Debits (Credits)				
	Statement of Net Position Effect			Statement of Revenues, Expenses, and Changes in Net Position Effect	
	Assets	Liabilities	Net Position	Revenue	Expense
Reversed opening equity misstatements; Overstatement of current year bad debt expense to account for amounts that should've been accounted for in prior years	\$ -	\$ -	\$ 1,542,568	\$ -	\$ (1,542,568)
Reversed opening equity misstatement; Overstatement of current year worker's compensation expense to account for amounts that should've been accounted for in prior years	-	-	1,600,000	-	(1,600,000)
Reversed opening equity misstatements; Overstatement of current year depreciation expense to account for amounts that should've been accounted for in prior years related to accelerated retirement of 4k series railcars	-	-	6,800,000	-	(6,800,000)
Overstatement of current year depreciation expense related to catch-up depreciation of prior year balances	-	-	4,627,258	-	(4,627,258)
Lease revenue misstatement due to omission of deferred revenue and overstatement of current year revenue	-	(6,022,349)	-	6,022,349	-
Statement of Revenues, Expenses, and Changes in Net Position Effect				\$ 6,022,349	\$ (13,027,258)
Opening Net Position Effect			\$ 13,027,258		
Statement of Net Position Effect	\$ -	\$ (6,022,349)			

# Other Communications Required by Generally Accepted Auditing Standards

Area	Comments
<b>Alternative Treatments Discussed With Management</b>	We noted no alternative treatments within GAAP for accounting policies and practices related to material items that were discussed with management during the current period.
<b>Disagreements With Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
<b>Consultations With Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Difficulties Encountered in Performing the Audit</b>	We encountered no difficulties in dealing with management when performing the audit.
<b>Significant Items Discussed with Management</b>	We noted no significant items required to be discussed with management when performing the audit.

# Other Communications Required by Generally Accepted Auditing Standards (continued)

## Letters Communicating Internal Control Deficiencies

- In addition to the matters identified in this presentation which represent required communications under professional standards, we will provide separate summary of observations to management which summarizes other observations from the audit process. This summary will communicate recommendations for improvements and best practices.

## Written Communication between Management and Our Firm

- Management has provided to us the written representations that the Authority is required to provide to its independent auditors under generally accepted auditing standards. A copy of that letter is included as Appendix A.

# Summary of Findings

- Our report in accordance with the Yellow Book, reports 2 findings.
- There are no compliance findings related to OMB Uniform Guidance for FY 2018.
- These findings are comprised of
  - 2 significant deficiencies (SD) related to internal controls over financial reporting.
  - There were no material weaknesses (MW) and no reportable instances of non-compliance (NC)

# Summary of Findings (continued)

- Areas of findings are summarized below:
  - Schedule of Expenditures of Federal Awards – 1 (SD)
  - Payroll System Implementation – 1 (SD)

## Summary of Findings (continued)

- In our audit of the June 30, 2017 financial statements, we identified 7 unique findings (1 MW, 3 SD, 1 SD/NC, & 2 NC).
  - Of the 7 control findings, 6 have been resolved and 1 has been repeated in the current year. The 1 repeat deficiency has been improved from a MW to an SD.

# Summary of Findings (continued)



## FY2018 FINANCIAL AUDIT

October 10, 2018

SUMMARY	FY2014	FY2015	FY2016	FY2017	FY2018
<b>Timeliness</b>	Late	Late	On-time	On-time	On-time
<b>Opinion</b>					
Financial Statement Single Audit (A-133)	Modified Modified	Unmodified Modified	Unmodified Unmodified	Unmodified Unmodified	Unmodified Unmodified
<b>Findings</b>					
Financial Statement (Yellow Book) Single Audit (A-133)	13 13	4 (4 repeats) 11 (7 repeats)	4 (4 repeats) 2 (2 repeats)	3 (2 repeats) 4 (2 repeats)	2 (1 repeat) 0
Total	26	15 (11 repeats)	6 (6 repeats)	7 (4 repeats)	2 (1 repeat)
<b>Management Letter Comments</b>	N/A	4	10	5	4
<b>NTD Report</b>	1 Finding	No Findings	No Findings	No Findings	Due 11/30/18
<b>CAFR (GFOA Certification)</b>	Not Submitted	Received	Received	Received	Due 12/31/18

# Other Reporting Matters

- **Agreed-Upon Procedures Results**
  - The National Transit Database report - the report filing deadline is November 30 (includes an automatic 30 day extension).  
Work on this engagement is ongoing.
- **Reconciliation of Expenses of RCSC and RSMA for years 2018**
  - Work scheduled to be performed subsequent to completion of the audit.

# How to Reach Us

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# Appendices

# Appendix A – Management Representation Letter



# QUESTIONS AND ANSWERS?

THANK YOU FOR  
YOUR TIME AND  
ATTENTION



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