

Washington Metropolitan Area Transit Authority

## Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:  
202316

Resolution:  
☐ Yes ☒ No

### TITLE:

Acceptance of OIG's Report

### PRESENTATION SUMMARY:

OIG's submittal of the FY2021 Financial Statements

### 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.

#### Key Highlights:

RSM issued unmodified opinions on the Authority's Financial Statements for the years ended June 30, 2021 and 2020.

#### Background and History:

Not applicable for the Financial Statements.

#### Discussion:

Not applicable for the Financial Statements.

### FUNDING IMPACT:

There is no impact on funding.

### TIMELINE:

Anticipated actions after presentation: OIG will post this report on the WMATA OIG website.

**RECOMMENDATION:**

Subsection 70(a) of the WMATA Compact requires that “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.” This does not require Board or committee action.

# THE POWER OF BEING UNDERSTOOD

# WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Report to the Board of Directors regarding the Results of the 2021 Audit

October 28, 2021

# Washington Metropolitan Area Transit Authority

Board of Directors

Washington Metropolitan Area Transportation Authority

We are pleased to present this report related to our audit of the financial statements of the Washington Metropolitan Area Transportation Authority (the Authority) as of and for the year ended June 30, 2021. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Authority'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.

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 the Authority.

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# AUDIT OF WASHINGTON METROPOLITAN AREA TRANSPORTATION AUTHORITY

## Audit status

- We are complete with the audit of the financial statements and have issued our opinion on October 22, 2021.
- We are substantially complete with the audit of the Uniform Grant Guidance and awaiting the release of the OMB addendums as it relates to CARES funding audit guidance.

# Auditor's professional responsibilities

- Our responsibilities under auditing standards generally accepted in the United States of America have been described in our arrangement letter dated March 24, 2021.
- Our responsibilities, as stated in our auditor's report, are summarized as follows:
  - Our audits were conducted in accordance with standards generally accepted in the United States of America (GAAS), *Government Auditing Standards* issued by the Comptroller General of the United States (GAS), the provisions of the Single Audit Act; Subpart F of Title 2 U.S. CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; and the U.S. Office of Management and Budget's (OMB) Compliance Supplement.
  - Our audits were designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.
  - An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected and performed are dependent upon our professional judgment based on our assessment of the risks of material misstatement and our consideration of internal control over financial reporting (ICFR).
  - Our consideration of ICFR was for the purpose of designing audit procedures and not for the purpose of expressing an opinion on the effectiveness of ICFR. Accordingly, we express no such opinion.
  - Our audits also included assessing the accounting principles used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

## Overview of the planned scope and timing

- We have issued a separate communication dated June 24, 2021, regarding the planned scope and timing of our audit and identified significant risks.
- We identified the following significant risks of material misstatement:
  - Management Override of Controls
  - Fraudulent Revenue Recognition
  - Self-Insurance Estimates
  - OPEB Liability
  - Pension Liability
  - Labor and Fringe Expenses

## Significant matters discussed with management

- Evaluation and implementation of GASB 84, *Fiduciary Activities*\*
- Restricted net position reclassification\*
- Adoption and implementation of Kronos payroll system
- Coronavirus Aid, Relief, and Economic Security (CARES) Act and Coronavirus Response and Relief Supplemental Appropriations (CRRSAA) Act of 2021
- Adjusting entries received from management

\*consultations with national office

# Adoption of, or change in, accounting policies

- Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Authority. Following is a description of significant accounting policies or their application that were either initially selected or changed during the year:
  - GASB 84, *Fiduciary Activities*: This Statement establishes criteria for identifying and reporting fiduciary activities. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria are reported in one of four fiduciary fund types in the basic financial statements, which are: 1) Pension (or other employee benefit) trust fund, 2) Investment trust fund 3) Private-purpose trust fund, and 4) Custodial fund.
  - The implementation resulted in the identification of the following fiduciary component units: the Retirement Plan, the Local 2 Plan, and the WMATA Healthcare Plan. Accordingly, the Authority has included the financial statements of these plans as fiduciary activities in pension and other employee benefit trust funds in the Authority's financial statements. Our opinion includes an Emphasis of Matter paragraph for this matter.

## Management's judgments and accounting estimates

- Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment.
- The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events.

## Management's judgments and accounting estimates (cont.)

- You may wish to monitor the following noted estimates throughout the year the process used to compute and record these accounting estimates reflected in the Authority's June 30, 2021 financial statements:
  - Capital Asset Useful Lives and Depreciation
  - Compensated Absences
  - Self-Insurance Estimates
  - Net OPEB Liability
  - Net Pension Liability
  - Unearned Fare revenue

# Summary of recorded audit adjustments

Description	Recorded Audit Entries - Debits (Credits)				
	Statement of Net Position Effect			Statement of Revenues, Expenses, and Changes in Net Position Effect	
	Assets	Liabilities	Net Position	Revenue	Expense
Adjustment to properly record prepaid expenses as of June 30, 2021	\$ (4,612,690)	\$ 4,612,690	\$ -	\$ -	\$ -
Statement of Revenues, Expenses, and Changes in Net Position Effect				\$ -	\$ -
Opening Net Position Effect			\$ -		
Statement of Net Position Effect	\$ (4,612,690)	\$ 4,612,690			

## Summary of uncorrected misstatements

- We accumulated certain uncorrected misstatements that management considered both individually and collectively immaterial and therefore were not made to the financial statements.

## Summary of uncorrected misstatements (cont.)

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
Non-Reversed opening equity misstatement; Lease revenue misstatement due to omission of deferred revenue and overstatement of 2018 revenue	\$ -	\$ (5,800,668)	\$ 5,689,827	\$ 110,841	\$ -
Adjustment to record prior year depreciation expense recorded during fiscal year 2021	-	-	7,595,558	-	(7,595,558)
To record unrecorded liabilities identified by management as of June 30, 2021	-	(4,320,141)	-	-	4,320,141
Statement of Revenues, Expenses, and Changes in Net Position Effect				\$ 110,841	\$ (3,275,417)
Opening Net Position Effect			\$ 13,285,385		
Statement of Net Position Effect	\$ -	\$ (10,120,809)			

## Summary of uncorrected misstatements (cont.)

- Within the fiscal year 2020 financial statements, the restricted cash and cash equivalents held with fiscal agent in the current assets category for \$15.7 million held in escrow to pay fiscal year 2021 interest on the Series 2020A Bonds and the other noncurrent assets consisting of restricted cash and cash equivalents held with fiscal agent for \$39.7 million held in escrow to pay fiscal years 2022 and 2023 interest on the Series 2020A Bonds were noted as restricted net position, when they should have been netted against the related debt.

## Summary of uncorrected misstatements (cont.)

- The Society of Actuaries released public-sector mortality tables, Pub-2010, in January, 2019. They are based on the most recent relevant mortality experience and, absent evidence to the contrary, may be presumed to provide a better estimate of expected future mortality for public sector plans. We have quantified the effect of using the most recently published public sector mortality base table in the valuation, the PubS-2010 Tables. Using the limited participant information provided in the current valuation report, we estimated the change in liability that may occur if the mortality assumption were changed to the PubS-2010 mortality tables projected generationally for mortality improvements using the MP-2020 scale.
- If this change in assumptions were made, the increase in the WMATA Police Retirement Plan liability would be approximately 4.0%, or approximately \$12.7 million at the December 21, 2020 measurement date.

## Other communications required by generally accepted auditing standards

Area	Comments
<b>Preferability of Accounting Policies and Practices</b>	Under GAAP, in certain circumstances, management may elect among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.
<b>Alternative Treatments Discussed With Management</b>	Other than the items included in the Uncorrected Misstatements schedule, 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.

## Communication of control deficiencies and best practices

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

## Summary of findings

- Our report in accordance with the Yellow Book, reports no findings (matters not related to Federally funded programs).
- There are no compliance findings related to OMB Uniform Guidance (Federally funded programs) for FY 2021 based on the procedures performed to date.

THANK YOU FOR  
YOUR TIME AND  
ATTENTION

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