

# THE POWER OF BEING UNDERSTOOD

# WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Report to the Board of Directors regarding the Results  
of the 2020 Audit



October 22, 2020



# Introduction

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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, 2020. 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 and Management, and is not intended to be, and should not be, used by anyone other than these specified parties. We appreciate the opportunity to continue to be of service to WMATA. It will be our pleasure to respond to any questions you have regarding this report.



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# Status of the audit

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- We have completed our audit of the financial statements of WMATA as of and for the year ended June 30, 2020 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.
- We have also completed the testing necessary to satisfy the requirements of the Yellow Book and the Office of Management and Budget (OMB) Uniform Guidance.
- As a result of COVID-19, OMB has had a delay in providing audit guidance relating to CARES Act funding, as such the Uniform Guidance reporting will be delayed until further guidance by OMB.
  - Major programs tested:
    - Federal Transit Cluster (inclusive of \$228M CARES Act funding);
    - Passenger Rail Investment and Improvement Act;
    - Emergency Transit Relief Program; and
    - National Infrastructure Investments

# Scope of the audit

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

- Our responsibilities under generally accepted auditing standards and Yellow Book, have been described to you in our engagement letter dated April 27, 2020. 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

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Our audit approach includes a risk assessment process to identify issues and areas on which we focus our audit efforts. Summarized on the following pages are certain significant matters that were addressed during our 2020 audit of the Authority that are complex, non-routine transactions or require significant estimates or judgments by management. In addition to the matters addressed in this section, we have performed procedures on all areas in the Authority's financial statements on which we report. 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)

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- The preparation of the financial statements requires certain estimates and judgments be made by management. These judgments and estimates include:
  - Unearned Fare Revenues
  - Capital Asset Useful Lives and Depreciation
  - Compensated Absences
  - Self Insurance Liability
  - Net Pension Liability
  - Net OPEB Liability
- 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.



# Overall areas of audit focus

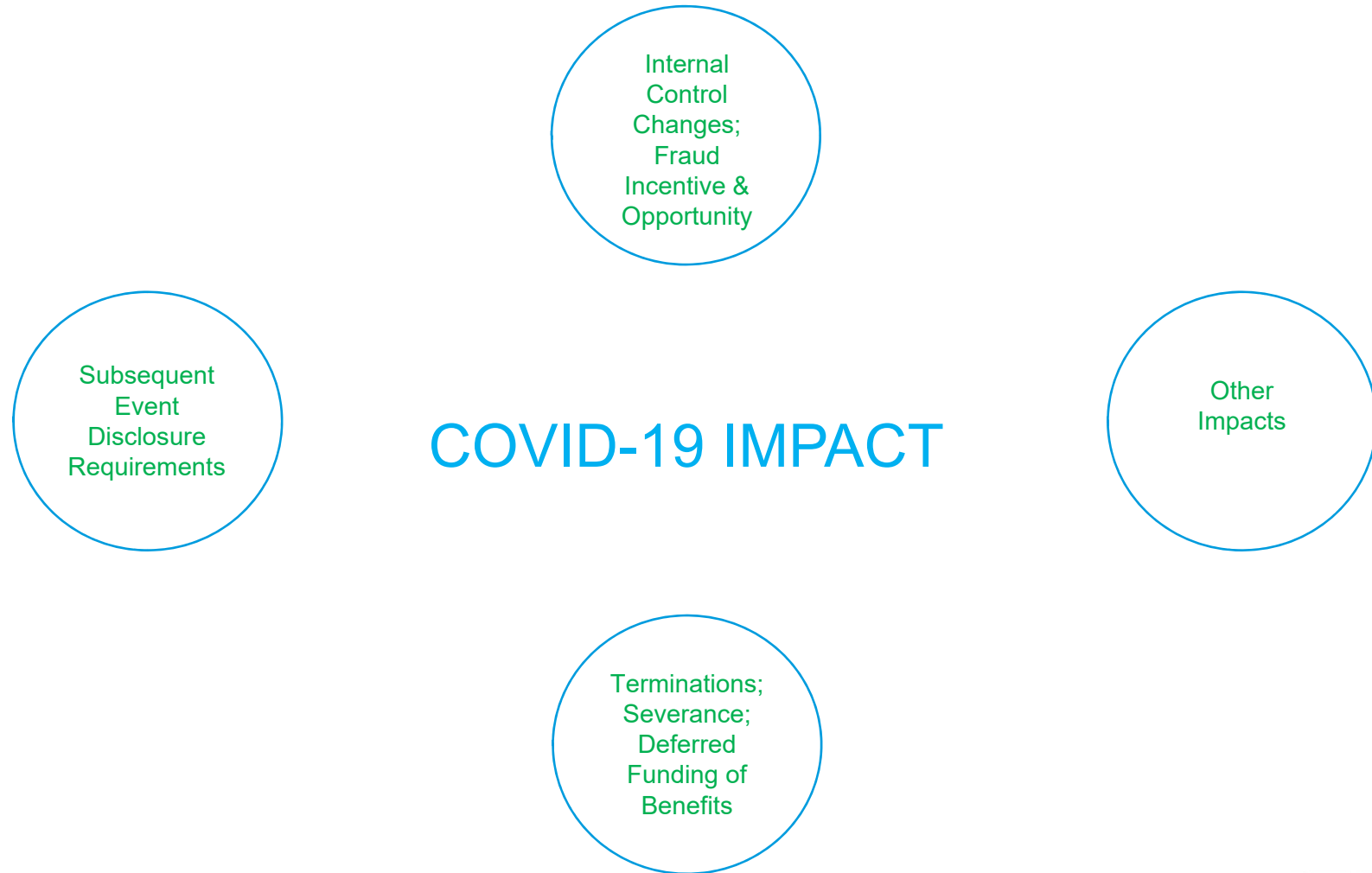
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- Internal accounting and financial reporting controls
- Impact of COVID-19 on the Authority
- Cash and investment disclosures
- Accounts receivable, including assessment of the allowances\*, and related revenue recognition
- Capital assets and related depreciation calculations (including impact of fire)
- Proper cut-off of accounts payable and accrued expenses
- Valuation and disclosures of net OPEB and pension liabilities\*
- Debt payable and covenant compliance
- Payroll and expenditure classification and accuracy
- Proper net position classification
- Litigation and other contingencies\*
- Compliance with requirements pursuant to *Government Auditing Standards*
- *Compliance with* Federal awards including grant reimbursements and proper revenue recognition
- Financial reporting – assessment of disclosures

5 \*Denotes area of significant management judgment or estimate

# COVID-19 Impact procedures

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## Audit adjustments

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No recorded audit adjustments identified as a result of the audit procedures performed by RSM. Additional financial statement disclosures were added as a result of audit procedures performed by RSM.

# Summary of uncorrected misstatements

**Washington Metropolitan Area Transit Authority**  
**Summary of Unrecorded Audit Adjustments**  
**Year Ended June 30, 2020**

Appendix 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
Non-Reversed opening equity misstatement; Lease revenue misstatement due to omission of deferred revenue and overstatement of 2018 revenue	\$ -	\$ (5,911,508)	\$ 5,800,667	\$ 110,841	\$ -
Current year adjustment for underaccrued worker's compensation and third-party liability	-	(4,900,000)	-	-	4,900,000
Statement of Revenues, Expenses, and Changes in Net Position Effect				\$ 110,841	\$ 4,900,000
Opening Net Position Effect			\$ 5,800,667		
Statement of Net Position Effect	\$ -	\$ (10,811,508)			

# 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>	<ol style="list-style-type: none"><li>1) OPEB fiduciary fund reporting,</li><li>2) Actuarial mortality tables,</li><li>3) Proper financial statement disclosures</li><li>4) Schedule of Expenditures of Federal Awards Reporting</li><li>5) COVID – 19 impact on the Authority</li></ol>

## Other communications required by generally accepted auditing standards (continued)

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### **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 will provided to us written representations that the Authority is required to provide to its independent auditors under generally accepted auditing standards at the end of the audit.

## Summary of findings

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- 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 2020 based on the procedures performed to date. We will complete our assessment once OMB provides further guidance relating to the audit of CARES act funding.

## Summary of findings (continued)

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- In our prior year audit of the June 30, 2019 financial statements and Uniform Guidance audit, we identified 2 findings (2 Significant Deficiencies).
  - Both have been addressed and are no longer audit findings. The findings not repeated relate to reporting errors within the compensated absence balance and changes to the schedule of expenditure of federal awards. In our status of prior year findings, we have included a recommendation to aggressively manage these balances as well as the future planned implementation of the payroll system which was a noted FY2018 finding.



# Impact of GASB Standards for consideration

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The following is a summary of new accounting pronouncements adopted during the year:

- GASB 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*:
  - Statement No. 84, *Fiduciary Activities*
  - Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct placement*
  - Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
  - Statement No. 90, *Majority Equity Interests*
  - Statement No. 91, *Conduit Debt Obligations*
  - Statement No. 92, *Omnibus 2020*
  - Statement No. 93, *Replacement of Interbank Offered Rates*
  - GASB 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*

The implementation of these new standards had no significant impact.

Important upcoming GASB Pronouncements to keep in mind:

- GASB 84 – *Fiduciary Activities*
- GASB 87 – *Leases*

## Other reporting matters

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- **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 Regional Customer Service Center and Regional Software Maintenance Agreement for Fiscal Years 2020**
  - Work scheduled to be performed subsequent to completion of the audit.
- **Agreed-Upon Procedures relating to the Dedicated Funding**
  - Work scheduled to be performed subsequent to completion of the audit.

## How to reach us

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# QUESTIONS AND ANSWERS

THANK YOU FOR  
YOUR TIME AND  
ATTENTION

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