

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:
201920

Resolution:
☐ Yes ☒ No

TITLE:

FY2017 Financial Statements Audit & Single Audit

PRESENTATION SUMMARY:

OIG submitted two FY2017 financial audit reports for the Board's information.

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 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, 2017 and 2016.
- RSM issued an unmodified opinion on the Authority's Single Audit for the period July 1, 2016, through June 30, 2017.

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:

OIG submitted two FY2017 financial audit reports for information to the Board.

- Independent Auditor's Report on the Financial Statements as of and for the years ended June 30, 2017 and 2016.
- 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, 2017.
 - There was one material weakness, three 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, 2017.
 - There were two significant deficiencies relating to internal controls over compliance.
 - There were two compliance findings in which one related to both a significant deficiency and an identified matter of non-compliance.

FUNDING IMPACT:

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

TIMELINE:

No timeline.

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Report to the Board of Directors regarding the Results
of the 2017 Audit



October 26, 2017



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, 2017. 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, Audit & Investigations 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.



Contents

	<u>Page</u>
Status of Audit	1
Scope of Audit	2
Significant Accounting Practices, Including Policies, Estimates and Disclosures	3-4
Audit Adjustments	5
Summary of Uncorrected Misstatements	6
Other Required Communications	7-8
Summary of Findings	9-11
Other Reporting Matters	12
How to Reach Us	13

Appendix A: Representation Letter

Status of the Audit

- We have completed our audit of the financial statements of WMATA as of and for the year ended June 30, 2017 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 20, 2017.
- 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,
 - Public Transit Emergency Relief Program, and
 - Disaster Grants – Public Assistance.

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 arrangement letter dated February 7th, 2017. 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 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 policies adopted during the year:
 - GASB 77, *Tax Abatement Disclosures*
 - GASB 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension*
 - GASB 80, *Blending Requirement for Certain Component Units an Amendment of GASB Statement No. 14*

Audit Adjustments

Recorded Audit Adjustments

Description	Effect — Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expenditure
To remove repairs and maintenance expenses out of capital assets	\$ (8,743,582)	\$ -	\$ -	\$ -	\$ 8,743,582
Income Statement Effect				\$ -	\$ 8,743,582
Equity Effect			-		
	\$ (8,743,582)	\$ -	\$ -		

Summary of Uncorrected Misstatements

Uncorrected Misstatements

Description	Passed Correcting Entries - Debits (Credits)				
	Assets	Liabilities	Equity	Revenue	Expenditure
Reversed opening equity misstatement	\$ -	\$ -	\$ 9,714,911	\$ -	\$ (9,714,911)
Non-reversed opening equity misstatements	14,113,232	-	(14,113,232)	-	-
Non-reversed opening equity misstatements	-	(6,300,000)	6,300,000	-	-
Unbilled jurisdictional accounts receivable	(1,542,568)	-	-	1,542,568	-
Understatement of workers compensation and 3rd party injury estimated loss	-	(1,600,000)	-	-	1,600,000
Understatement of depreciation expense	(6,084,217)	-	-	-	6,084,217
Accelerated depreciation on 4000 series railcars	(6,800,000)	-	-	-	6,800,000
Income Statement Effect				\$ 1,542,568	\$ 4,769,306
Opening Equity Effect			\$ 1,901,679		
Balance Sheet Effect	\$ (313,553)	\$ (7,900,000)			

Other Communications Required by Generally Accepted Auditing Standards

Area	Comments
Alternative Treatments Discussed With Management	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.
Disagreements With Management	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.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Difficulties Encountered in Performing the Audit	We encountered no difficulties in dealing with management when performing the audit.
Significant Items Discussed with Management	We noted no significant item 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 reports in accordance with the Yellow Book and OMB Uniform Guidance for FY 2017 reports 8 findings.
- These findings are comprised of
 - 1 material weaknesses (MW),
 - 4 significant deficiencies (SD), and
 - 3 identified matters of non-compliance, 2 of which relate to both a significant deficiency and an identified matter of non-compliance. (NC).

Summary of Findings (continued)

- In our audit of the June 30, 2016 financial statements, we identified 6 findings (2 MW, 3 SD, 1 finding related to SD and NC).
 - Of the 6 control findings, 3 have been resolved and 3 are repeated in the current year. One of those repeated has been improved from a MW to an SD.

Summary of Findings (continued)

- Areas of findings are summarized below:
 - Schedule of Expenditures of Federal Awards – 1 (MW)
 - Capital Assets – 1 (SD)
 - Payroll Overtime – 1 (SD)
 - Equipment and Real Property Management - 1 (SD/NC)
 - Disaster Grants – Period of Performance - 1(SD/NC)
 - Special test: Wage Rate – 1 (NC)

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 2017**

- Work scheduled to be performed subsequent to completion of the audit.

How to Reach Us

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