

SAFETY, RELIABILITY AND FINANCIAL RESPONSIBILITY

SINGLE AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018



Single Audit Report issued in
Accordance with Title 2 U.S. Code of
Federal Regulations Part 200,
*Uniform Administrative Requirements,
Cost Principles, and Audit
Requirements for Federal Awards*

Washington Metropolitan Area Transit Authority
Washington, D.C.



SAFETY, RELIABILITY AND FINANCIAL RESPONSIBILITY

SINGLE AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018



Dennis Anosike, Chief Financial Officer
La Toya Thomas, Comptroller
Prepared by the Office of Accounting

Washington Metropolitan Area Transit Authority
Washington, D.C.



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Special thanks to all Department of Finance and support personnel whose inputs contributed to the preparation of this document.

**Washington Metropolitan Area Transit Authority
Single Audit Report
For the Fiscal Year Ended June 30, 2018**

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RSM US LLP

**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***

Independent Auditor's Report

To the Board of Directors
Washington Metropolitan Area Transit Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Washington Metropolitan Area Transit Authority (the Authority), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 22, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as 2018-001 and 2018-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Responses to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Washington, District of Columbia
October 22, 2018

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

Independent Auditor's Report

To the Board of Directors
Washington Metropolitan Area Transit Authority

Report on Compliance for Each Major Federal Program

We have audited Washington Metropolitan Area Transit Authority's (the Authority) 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, 2018. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the business-type activities of the Authority as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated October 22, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

RSM US LLP

Washington, District of Columbia
October 22, 2018

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2018

(continued)

| Federal Grantor/ Program or Cluster Title | CFDA Number | Grant Contract Number | Federal Expenditures |
|--|----------------|--------------------------|-------------------------|
| U.S. Department of Transportation - Federal Transit Administration: | | | |
| Direct Awards | | | |
| Passenger, Rail, Investment and Improvement Act (PRIIA): | 20.524 | | |
| FY2013 PRIIA Appropriation | | DC-75-0004 | \$ 6,003,694 |
| FY2015 PRIIA Appropriation | | DC-75-0006 | 2,123,123 |
| FFY2016 PRIIA Appropriation | | DC-2016-010 | 7,507,254 |
| FFY2017 PRIIA Appropriation | | DC-2017-006 | 127,013,488 |
| Total PRIIA | | | 142,647,559 |
| Federal Transit Cluster: | | | |
| Federal Transit Capital Investment Grants: | 20.500 | | |
| FY10 SGR Asset Management | | DC-04-0007 | 426,652 |
| Bus Livability: Bus Stop Improve | | DC-04-0008 | 736,886 |
| Total Federal Transit Capital Investment Grants | | | 1,163,538 |
| Federal Transit Formula Grants: | 20.507 | | |
| FFY2013 and FFY2014 5307/5340 Formula | | DC-90-X088 | 1,827,281 |
| FFY2015 5307/5340 Formula | | DC-90-X089 | 1,710,881 |
| VA CMAQ Bus Purchase/VA Projects | | DC-95-X004 | (65,071) |
| FY16 5307/5340 Formula Funding | | DC-2016-008 | 10,714,636 |
| FFY17 5307/5340 Formula Funding | | DC-2017-014 | 137,631,352 |
| VA RSTP Replacement Buses | | DC-2017-009 | 646,395 |
| Total Federal Transit Formula Grants | | | 152,465,474 |
| State of Good Repair Grants Program: | 20.525 | | |
| FFY15 SOGR Grant | | DC-54-0002 | 1,171,189 |
| FFY16 5337 State of Good Repair | | DC-2016-009 | 15,973,807 |
| WMATA Safety Preventative Maintenance | | DC-2017-005 | 61,823,374 |
| FFY17 5337 State of Good Repair | | DC-2017-007 | 131,469,533 |
| Total State of Good Repair Grants Program | | | 210,437,903 |
| Bus and Bus Facilities Formula Program: | 20.526 | | |
| FFY17 5339 Bus Program | | DC-2017-004 | 8,323,739 |
| Total Federal Transit Cluster | | | 372,390,654 |
| Public Transportation Emergency Relief Program: | 20.527 | | |
| FFY2013 Hurricane Sandy Resilience | | DC-44-0001 | \$ 1,744,486 |

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018**

(concluded)

| Federal Grantor/ Program or Cluster Title | CFDA Number | Grant Contract Number | Federal Expenditures |
|--|------------------------|----------------------------------|---------------------------------|
| U.S. Department of Transportation - Federal Transit Administration (continued): | | | |
| Direct Awards (continued) | | | |
| Transit Services Programs: | | | |
| Enhanced Mobility of Seniors and Individuals with Disabilities: | 20.513 | | |
| Section 5310 - Metro Access Fleet Replacement Vehicles | | DC-2018-002 | \$ 87,881 |
| New Freedom Program: | 20.521 | | |
| New Freedom - Bus Stop Improvements | | DC-57-X007 | (16,783) |
| Total Transit Services Programs | | | 71,098 |
| Public Transportation Research, Technical Assistance, and Training: | 20.514 | | |
| Energy Storage Demonstration For Rail | | DC-26-7209 | (5,449) |
| Track Inspector Location Awareness With Enhanced Transit Worker Program | | DC-2017-011 | 1,263,671 |
| Transit Works: 2012 Workforce Grant | | DC-26-7363 | (52,267) |
| Total Public Transportation Research, Technical Assistance, and Training | | | 1,205,955 |
| Total U.S. Department of Transportation - Federal Transit Administration | | | 518,059,752 |
| U.S. Department of Homeland Security: | | | |
| Direct Awards | | | |
| Rail and Transit Security Grant Program: | 97.075 | | |
| FY2015 Transit Security Grant Program | | EMW-2015-RA-00030 | 3,567,391 |
| FY2016 Transit Security Grant Program | | EMW-2016-RA-00034 | 4,059,336 |
| FY2017 Transit Security Grant Program | | EMW-2017-RA-00025 | 217,375 |
| Total Rail and Transit Security Grant Program | | | 7,844,102 |
| Total U.S. Department of Homeland Security | | | 7,844,102 |
| Total Expenditures of Federal Awards | | | \$ 525,903,854 |

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies

a) Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant award activity of the Washington Metropolitan Area Transit Authority (Authority) under programs of the federal government for the year ended June 30, 2018. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.

b) Basis of Accounting

The SEFA is reported using the accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized when the liability is incurred, regardless of the timing of the related cash flows. Such expenditures are recorded following, as applicable, either the cost principles in Office of Management and Budget Circular A-87, *Cost Principles for Local, and Indian Tribal Governments*, for grant awards prior to December 26, 2014 or cost principles contained in the Uniform Guidance for grant awards after December 26, 2014, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Negative amounts reported in the SEFA represent adjustments or credits made in the normal course of business to amounts reported as federal expenditures in prior years.

The categorization of expenditures by program included in the SEFA is based on the Catalog of Federal Domestic Assistance (CFDA) number.

Federal grant expenditures are reported in the Authority's basic financial statements as follows:

- a) Grant expenditures that meet capitalization criteria are recorded as capital assets on the Statements of Net Position.
- b) All other grant expenditures are reported in the Statements of Revenues, Expenses, and Changes in Net Position.

c) Indirect Costs

The Authority does not use the 10% de minimus indirect cost rate discussed in Section 200.414 of the Uniform Guidance.

2. Reconciliation of Federal Expenditures Reported in the SEFA to the Authority's Basic Financial Statements

The following is a reconciliation of the federal expenditures reported in the fiscal year 2018 SEFA to the amounts reported in the basic financial statements:

| | <u>Total</u> |
|---|-----------------------|
| Total federal expenditures included in the basic financial statements | \$ 538,250,304 |
| Adjustments to expenditures reported in prior years' SEFAs | (12,346,450) |
| Total federal expenditures reported in the current year SEFA | <u>\$ 525,903,854</u> |

The differences between the federal expenditures reported in the SEFA and the basic financial statements are primarily due to billed and unbilled expenditure adjustments. Unbilled adjustments represent realignments to different grants for various management reasons until the costs are billed. Adjustments to billed expenditures represent costs that were removed from the federal grants due to disallowance by the federal granting agency.

Prior Year Costs Reported on the Current Year SEFA

Below is a summary of the net adjustments made by federal program or cluster, to expenditures reported in prior years' SEFAs by year:

| Program/ Cluster Title | Fiscal Year | | | | | Total |
|--|------------------|-----------------------|---------------------|------------------------|---------------------|------------------------|
| | 2013 and Prior | 2014 | 2015 | 2016 | 2017 | |
| Passenger, Rail, Investment and Improvement Act | \$ 811,902 | \$ - | \$ (22,786) | \$ (4,636,217) | \$ (13,223,640) | \$ (17,070,741) |
| Federal Transit Cluster | (799,544) | (3,430,480) | (155,858) | (9,726,462) | 20,044,621 | 5,932,277 |
| Public Transportation Emergency Relief Program | - | - | 10,770 | (1,109,169) | - | (1,098,399) |
| New Freedom Program | - | - | (5,072) | (46,798) | - | (51,870) |
| Public Transportation Research, Technical Assistance, and Training | - | (29,049) | (28,549) | (119) | - | (57,717) |
| Total | <u>\$ 12,358</u> | <u>\$ (3,459,529)</u> | <u>\$ (201,495)</u> | <u>\$ (15,518,765)</u> | <u>\$ 6,820,981</u> | <u>\$ (12,346,450)</u> |

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes ___X___ No
- Significant deficiencies identified? ___X___ Yes _____ None Reported
- Noncompliance material to financial statements noted? _____ Yes ___X___ No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____ Yes ___X___ No
- Significant deficiencies identified? _____ Yes ___X___ None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? _____ Yes ___X___ No

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program and Clusters</u> |
|--------------------|---|
| | Federal Transit Cluster: |
| 20.500 | Federal Transit Capital Investments Grants |
| 20.507 | Federal Transit Formula Grants |
| 20.525 | State of Good Repair Grants Program |
| 20.526 | Bus and Bus Facilities Formula Program |
| 20.524 | Passenger, Rail, Investment and Improvement Act |
| 97.075 | Rail and Transit Security Grant Program |

Dollar threshold used to distinguish between Type A and type B programs: \$ 3,000,000

Auditee qualified as low-risk auditee? _____ Yes ___X___ No

II. Financial Statement Findings

A. Internal Control over Financial Reporting

2018-001: Reporting Schedule of Expenditures of Federal Awards (SEFA) – Significant Deficiency

Criteria: The Code of Federal Regulations (CFR) Section 200.303 (b) requires non-Federal entities to establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and terms and conditions of the Federal award. CFR Section 200.502(a) states that the determination of when a Federal award is expended should be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as expenditure/expense transactions associated with grant awards. The Authority reports expenditures on the SEFA when the expenditure has been incurred, or on the accrual basis of accounting, in accordance with generally accepted accounting principles. CFR Section 200.510 (b) requires the auditee to prepare a SEFA for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with CFR Section 200.502(a), as stated above, and must reconcile amounts reported in the SEFA to the amounts reported in the auditee's financial statements.

Condition: We noted the SEFA for the fiscal year ended June 30, 2018 included a significant amount of expenditures and funding adjustments for unbilled expenditures which were incurred in prior fiscal years. The details of these amounts are included in the Notes to the SEFA.

The Authority identifies the funding source for project expenditures at the time the expenditure is incurred and reported in the Authority's basic financial statements. The funding source applied to project expenditures may be adjusted throughout the life of a project, which can cross more than one of the Authority's fiscal years. As funding sources are adjusted to project expenditures, the Authority's funds management module automatically adjusts other project expenditures to accommodate the funding source change, i.e. the "waterfall" effect. As a result, the expenditures reported in the SEFA can include:

- Expenditures incurred and reported in prior fiscal years in the Authority's financial statements, but applied to a grant and reported in the SEFA in the current fiscal year
- Expenditures applied to a grant and reported in the SEFA and the Authority's financial statements in a prior fiscal year, but moved to a different grant and reported in the SEFA in the current fiscal year
- Expenditures incurred and reported in the Authority's financial statements and the SEFA in a prior fiscal year, but moved to a non-Federal funding source and reported as a negative adjustment in the SEFA in the current fiscal year.

Lastly, the audit trail for those changes in funding sources were not readily available.

II. Financial Statement Findings (continued)

A. Internal Control over Financial Reporting (continued)

2018-001: Reporting Schedule of Expenditures of Federal Awards (SEFA) – Significant Deficiency (continued)

Context: The Office of Management and Budget Services (OMBS) manages and administers grants for the Authority and prepares the Federal Financial Reports (FFRs). The Office of Accounting (ACCT) prepares the SEFA based on amounts reported in the FFRs.

There are two potential opportunities for funding source changes relating to prior period expenditures:

- Unbilled expenditures – funding source changes can be realigned multiple times to different grants for various management reasons until the costs are billed.
- Billed expenditures – funding source changes can be removed from federal grants if they have been disallowed by the federal granting agency.

The net impact of the prior year expenditure adjustments resulted in a reduction of the current year expenditures totaling approximately \$12.3 million.

Effect: The inclusion of prior year Federal expenditures or processing funding source changes to prior year federal expenditures could potentially cause inaccurate amounts reported in the current period SEFA. This could result in duplicate reporting of the same federal expenditure on different grants and an inaccurate major program determination for the yearend audit, which could result in noncompliance with the Single Audit Act and the Uniform Guidance.

Cause: The Authority does not have effective systems and/or processes in place to prevent expenditure adjustments relating to prior year costs (based on the original transaction dates) from being included on the SEFA in the current period.

Recommendation: We recommend:

1. OMBS continue to eliminate the backlog of all prior period unbilled expenditures and consider implementing performance benchmarks for more timely billing of Federal expenditures (e.g., all incurred expenditures should be billed within 90 days).
2. ACCT and OMBS assess their systems and processes and:
 - a. Implement effective internal controls that would prevent or minimize prior period expenditures from being reported on the current period SEFA, and
 - b. Improve audit trail reporting which substantiates the appropriateness of all funding source changes to prior period expenditures.

II. Financial Statement Findings (continued)

A. Internal Control over Financial Reporting (continued)

2018-001: Reporting Schedule of Expenditures of Federal Awards (SEFA) – Significant Deficiency (continued)

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding.

Management in OMBS and ACCT will assess its financial systems and processes and develop a root cause analysis to determine why prior period costs are being reported in the current period FFRs and the SEFA. Further, we will review existing system/reporting configurations to determine and implement controls where further enhancements can be made to automate the SEFA and generate exception reports that can be monitored to identify potential costs which could be inappropriately included on the SEFA.

Over the last few years, OMBS has made significant process improvements relating to the timeliness of its billing practices and will continue to streamline our processes to reduce the length of time between when costs are originally incurred and billed, which will minimize opportunity for funding source changes to expenditures which cross reporting periods.

II. Financial Statement Findings (continued)

A. Internal Control over Financial Reporting (continued)

2018-002: Kronos® System Implementation – Significant Deficiency

Criteria: Internal control is defined as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. The COSO Internal Control - Integrated Framework (Framework), which was adopted by the Authority, is comprised of five components and seventeen principles, which, when operating together, provides an effective internal control system that provides reasonable assurance of achievement of an entity's objectives. The fourth component of the Framework contains principles relating to information and communication, and the thirteenth principle included in that component addresses how the organization obtains or generates and uses relevant, quality information to support the functioning of internal control. A point of focus of this principle is that the information systems should produce information that is timely, current, accurate, complete, accessible, protected, and verifiable and retained.

Condition: The Authority lacks sufficient internal controls to ensure information systems are producing information that is accurate. The Authority implemented a new automated timekeeping solution, Kronos®, which was rolled out in phases beginning in February of 2018 through June 10, 2018. Throughout the roll-out period, parallel systems were not maintained, and errors caused by the configuration of Kronos® were found in the calculation of payroll that were not identified and corrected during the user acceptance testing prior to going live. To address these issues, changes were made to the configuration, however some of those changes were not fully tested, thus causing other processing errors. Accordingly, the Authority was forced to suspend the final wave of the implementation and revert to the original timekeeping system.

Context: Prior to the Federal Transit Administration (FTA) Financial Management Oversight (FMO) review in fiscal year 2014, the Authority had over 19 methods of capturing time, of which 17 were different paper-based timesheets. In response to the FTA's recommendations for a standardized and auditable timekeeping system, the Authority attempted to implement a new automated timekeeping solution, Kronos®, that would enable conformance to industry acceptable timekeeping standards and practices, the Authority's timekeeping policies, and the time and labor clauses of the collective bargaining agreements.

The Kronos® implementation, led by the Department of Information Technology, was scheduled to deploy with a pilot group on February 4, 2018, followed by five additional waves with the final implementation scheduled for June 24, 2018. Shortly after the initial rollout, issues began to be reported indicating that there were inaccuracies in the amount that employees were being paid. These issues continued for a period of months as the rollout moved forward, which led to the decision to suspend the implementation of the fifth and final wave, and ultimately, to revert to using paper-based timesheets and PeopleSoft effective July 22, 2018. Reverting to the PeopleSoft timekeeping system gave the Authority the ability to address pay calculation and expense distribution challenges dating back to February 4, 2018 that could not be manually fixed in Kronos®.

Effect: The configuration errors resulted in labor costs being expensed as opposed to being capitalized, and payroll overpayments and underpayments to employees. The Authority estimated the potential errors impacting the amounts reported in the financial statements to be approximately \$0.7 million relating to incorrect pay calculations and approximately \$4.9 million in labor that was incorrectly expensed but should have been capitalized.

II. Financial Statement Findings (continued)

A. Internal Control over Financial Reporting (continued)

2018-002: Kronos® System Implementation – Significant Deficiency (continued)

Cause: The Authority did not adhere to an effective implementation and risk mitigation plan for the Kronos® implementation. An effective systems implementation, particularly when parallel systems are not maintained, requires a thorough vetting of the system requirements and the system configuration to identify all potential issues and deficiencies while in the development and implementation phases, as well as a disciplined and controlled change management process to ensure that changes made do not adversely impact other system functionality. In addition, adequate internal controls and business processes were not established surrounding the implementation to detect and correct errors timely.

Recommendation: We recommend management implement and follow leading practices for system implementations, which should include:

1. A comprehensive implementation plan which encompasses, at a minimum, these basic steps:
 - a. A business needs assessment;
 - b. Business processes mapping to the functional and technical requirements of the system;
 - c. Configuration and installation of the software requirements analysis;
 - d. Software testing to ensure it is functioning appropriately;
 - e. Involving appropriate user groups and stakeholders in the user acceptance testing;
 - f. Ensuring system integrations with other software and systems within and outside of the organization are appropriate (interfaces);
 - g. Providing effective user training; and
 - h. Including specific deliverables and milestones, a clear definition of the scope of each step, the resources needed for each step, and risk mitigation and contingency plans that can be put into action should the schedule begin to slip or other challenges arise.
2. Conducting an independent verification and validation (IV&V) of the system implementation throughout the process. An IV&V includes independent procedures that are used together for checking that a system meets requirements and specifications that fulfill its intended purposes.

II. Financial Statement Findings (continued)

A. Internal Control over Financial Reporting (continued)

2018-002: Kronos® System Implementation – Significant Deficiency (continued)

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the finding and the related recommendations.

Management will assess its system implementation and project management processes. Additionally, management will perform a system capability assessment and will conduct an evaluation of the implementation. Lastly, all 70,000 timesheets processed in Kronos® since implementation will be reviewed and corrected to ensure pay and expense distribution accuracy.

B. Compliance Findings

No matters to report.

III. Findings and Questioned Costs for Federal Awards

A. Internal Control over Compliance

No matters to report.

B. Compliance and Other Matters

No matters to report.

IV. Summary of Prior Year Audit Findings

A. Financial Statement Findings

1. Internal Control over Financial Reporting

2017-001: Reporting Schedule of Expenditures of Federal Awards (SEFA) – Material Weakness

Audit finding: The SEFA included a significant number of expenditures relating to fiscal years prior to 2017. Procedures were not performed in a timely manner to assign capital grant proceeds to capital projects. The failure to record these amounts in a timely manner resulted in the failure to report balances in the SEFA in the proper reporting period. Additionally, federal expenditures previously reported on the Authority's SEFA in fiscal years 2016 and prior, were deobligated from federal grants in fiscal year 2017 due to a lack of available supporting documentation and were moved to a nonfederal funding source. The amounts were not reimbursed by the federal awarding agency. In addition, there were significant delays in being able to obtain a final completed SEFA and related supporting documentation.

Status of finding: The fiscal year 2018 SEFA included a significant amount of expenditures relating to fiscal years 2017 and prior. That portion of the audit finding repeated as 2018-001.

2017-002: Capital Assets – Significant Deficiency

Audit finding: Acquisition costs and accumulated depreciation balances maintained in the PeopleSoft Asset Management sub-ledger (PSAM) are not consistent with how those assets are reported in the general ledger. As a result, management is required to perform steps to reconcile balances between these sources, which required an adjustment to the financial statements at year-end. In addition, depreciation expense pertaining to the 4000 series rail car is estimated to be understated by approximately \$6.8 million for the year-end financial statements.

Status of finding: Corrective action has been taken.

2017-003: Overtime Payments – Significant Deficiency

Audit Finding: Certain departmental supervisors within the Authority did not approve their respective employees' timesheets for some of the samples selected in accordance with the established procedures. In addition, certain timesheets in the sample reported what appeared to be excessive amounts of overtime hours being charged by employees and paid by the Authority.

Status of finding: Corrective action has been taken.

2. Compliance Findings

No open matters to address.

IV. Summary of Prior Year Audit Findings (continued)

B. Findings and Questioned Costs for Federal Awards

1. Internal Control over Compliance

2017-004: Equipment and Real Property Management – Significant Deficiency

Audit finding: Management does not maintain sufficient documentation in the property records to support the funding source of the property or the percentage of federal participation in the cost of the property.

Status of finding: Corrective action has been taken.

2017-005: Disaster Grants – Period of Performance Significant Deficiency

Audit finding: Five out of 21 non-payroll sample items submitted to the Federal Emergency Management Agency (FEMA) for reimbursement were outside of the approved 48-hour period for this grant program.

Status of finding: Corrective action has been taken.

2. Compliance and Other Matters

2017-006: Special Test – Wage Rate Requirements

Audit finding: Two out of 44 weekly payroll support packages submitted by the contractor were not signed indicating a statement of compliance.

Status of finding: Corrective action has been taken.

2017-007: Equipment and Real Property Management – Disposals

Audit finding: The proceeds of 2 out of 3 fully depreciated assets selected for disposal testing, exceeded \$5,000, and the Authority sold them prior to receiving the formal approval from the Federal Transit Administration as required by the program.

Status of finding: Corrective action has been taken.

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M System Map

wmata.com
 Customer Information Service: 202-637-7000
 TTY Phone: 202-962-2033
 Metro Transit Police: 202-962-2121

- ### Legend
- **RD** Red Line • Glenmont / Shady Grove
 - **OR** Orange Line • New Carrollton / Vienna
 - **BL** Blue Line • Franconia-Springfield / Largo Town Center
 - **GR** Green Line • Branch Ave / Greenbelt
 - **YL** Yellow Line • Huntington / Mt Vernon Sq / Fort Totten
 - **SV** Silver Line • Wiehle-Reston East / Largo Town Center

Station Features

- Bus to Airport
- Parking
- Hospital
- Airport

Connecting Rail Systems

- AMTRAK
- VRE
- MARC

Transfer Station

Station in Service

Under Construction

Full-Time Service

Service operates
 Monday-Friday
 10:00am - 3:00pm
 7:30pm - Close
 All day Saturday & Sunday



Metro is accessible.

N
 Map is not to scale





Washington Metropolitan Area Transit Authority
600 5th Street, NW
Washington, D.C. 20001



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