



MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Independent Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2013

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Independent Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2013

Table of Contents

	Exhibit
Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i>	I
Schedule of Expenditures of Federal Awards	II
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	III
Schedule of Current Year Findings and Questioned Costs	IV



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Exhibit I

**Independent Auditors' Report on Compliance for Each Major Program;
Report on Internal Control over Compliance; and Report on the Schedule
of Expenditures of Federal Awards Required by OMB Circular A-133,
*Audits of States, Local Governments, and Non-Profit Organizations***

The Board of Trustees
Massachusetts Bay Transportation Authority:

Report on Compliance for Each Major Federal Program

We have audited the Massachusetts Bay Transportation Authority's (the Authority), a component unit of the Massachusetts Department of Transportation, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 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, 2013. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs (Exhibit IV).

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-01. Our opinion on each major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 compliance requirements that could have a direct and material effect on a 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 program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-01 that we consider to be a significant deficiency.



Exhibit I

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Authority as of and for the year ended June 30, 2013, and have issued our report thereon dated October 25, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 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 financial statements or to the 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 financial statements as a whole.

KPMG LLP

January 23, 2014

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

Grant number	Federal catalog number	Program description	Cumulative to June 30, 2012	Expenditures, net of transfers July 1, 2012 – June 30, 2013	Cumulative to June 30, 2013
U.S. Department of Justice:					
Federal Equitable Sharing Program:					
MA-03-2500	16.XXX	Federal Equity Sharing Program	\$ 2,693,829	89,691	2,783,520
		Total U.S. Dept. of Justice	2,693,829	89,691	2,783,520
U.S. Department of Transportation:					
Federal Transit – Capital Investment Grants Program:					
MA-70-0001	20.205	Winthrop Ferry Demo Project	244,401	182,339	426,740
		Total #20.205	244,401	182,339	426,740
MA-03-0227	20.500	Blue Line Modernization	143,572,599	3,228,270	146,800,869
MA-03-0228	20.500	FY99 FTA Infrastructure Grant	176,835,744	236,742	177,072,486
MA-03-0254	20.500	Beverly/Salem Parking	2,015,270	806,104	2,821,374
MA-03-0281	20.500	Auburndale Access Improvements	76,931	25,463	102,394
MA-03-0292	20.500	Fitchburg CR Improvements	11,972,326	8,149,584	20,121,910
MA-03-0293	20.500	Assembly Square Project	—	1,250,000	1,250,000
MA-04-0019	20.500	Hingham Intermodal & Harbor Park	3,255,510	139,798	3,395,308
MA-04-0025	20.500	Quincy High Speed Catamaran	84,977	—	84,977
MA-04-0026	20.500	Ferry System Improvements	904,305	181,521	1,085,826
MA-04-0030	20.500	Rockport CR Station Improvements	263,668	391,073	654,741
MA-04-0036	20.500	Ferry Parking Expansion – Quincy	1,311,497	—	1,311,497
MA-04-0046	20.500	Salem Intermodal Station Design	—	695,635	695,635
MA-04-0051	20.500	Commonwealth Ave. Green Line Station	197,996	369,717	567,713
MA-04-0052	20.500	Hingham Ferry Dock	—	138,857	138,857
MA-04-0053	20.500	Auburndale Station Design	—	44,105	44,105
MA-04-0054	20.500	Rockport Comm. Rail Station	—	5,714	5,714
MA-04-0056	20.500	Boston Bike Share Program	1,814,443	1,105,049	2,919,492
MA-04-0067	20.500	Salem Intermodal Station Track Upgrades	—	274,451	274,451
MA-04-0068	20.500	Ferry System Repairs and Upgrades	—	113,962	113,962
MA-05-0102	20.500	Blue Line Modernization	68,710,607	1,144,340	69,854,947
MA-05-0103	20.500	FY07 Station Management Proj.	32,411,837	1,347,732	33,759,569
MA-05-0105	20.500	FY07 Comm. Rail Vehicle Service	44,870,683	6,660,332	51,531,015
MA-05-0106	20.500	FY07 Coach Reliability & Safety Prog.	42,617,311	217,545	42,834,856
MA-05-0107	20.500	FY07 Bridge & Tunnel Prog.	9,537,297	362,702	9,899,999
MA-05-0109	20.500	Green Line #7 Car	2,550,491	17,644,004	20,194,495
MA-05-0110	20.500	Lawrence Intermodal Station	4,545,280	454,720	5,000,000
MA-05-0111	20.500	Columbia Junction	6,037,880	32,078,553	38,116,433
MA-05-0115	20.500	FY 10 Red Line # 2 Car Overhaul	23,000,432	4,802,537	27,802,969
MA-05-0119	20.500	FY10 Loco & Coach Procurement	11,997,374	20,905,521	32,902,895
MA-05-0120	20.500	Coach Reliability & Safety Prog.	1,367,198	(92,154)	1,275,044
MA-05-0121	20.500	MBTA Power Program	5,924,578	6,255,260	12,179,838
MA-05-0124	20.500	Mansfield Station Impvns.	87,981	(87,981)	—
MA-05-0129	20.500	Positive Train Control Ph. 1	627,029	281,783	908,812
MA-55-0003	20.500	South Weymouth Access Impvns.	4,577,094	2,767,173	7,344,267
MA-55-0005	20.500	Worcester-Boston Rail Corridor Improvement	—	505,753	505,753
MA-56-0001	20.500	CR Stations, Dudley Square (ARRA)	34,443,823	7,663,588	42,107,411
		Subtotal #20.500 Direct Program	635,612,161	120,067,453	755,679,614
Passed through the MassDOT:					
S13A12 (04-0079)	20.500	RTA Bus Design	—	94,013	94,013
Passed through the Rhode Island Department of Transportation:					
Federal Transit – Capital Investment Grants Program:					
RI-56-0001 (90R111)	20.500	Pawtucket Upgrades (ARRA)	11,844	448,286	460,130
		Subtotal # 20.500 Pass-through	11,844	542,299	554,143
		Total #20.500	635,624,005	120,609,752	756,233,757
Federal Transit – Public Transportation Research:					
MA-26-0060	20.514	Transit Asset Management (TAM)	—	381,042	381,042
		Total # 20.514	—	381,042	381,042
Federal Transit – Capital Assistance for Reducing Energy Consumption/Greenhouse Emissions:					
MA-77-0002	20.523	Renewable Wind Energy – TIGGER (ARRA)	492,922	31,892	524,814
		Total # 20.523	492,922	31,892	524,814
Federal Transit – Public Transportation Emergency Relief Funds Section 5324:					
MA-44-0001	20.527	Hurricane Sandy Relief	—	382,569	382,569
		Total # 20.527	—	382,569	382,569
Federal Transit Formula Grants Program:					
MA-90-0305	20.507	Green Line Station Access	117,392,245	1,803,889	119,196,134
MA-90-0330	20.507	FTA Section 5307 Enhancements	7,348,012	6,966	7,354,978
MA-90-0331	20.507	FY99 Sec 5307 Infrastructure	230,358,730	2,841,145	233,199,875
MA-90-0456	20.507	Public Address/Electronic Sign	4,462,490	552,679	5,015,169
MA-90-0497	20.507	Escalator/Elevator Improvements	31,165,372	1,031,197	32,196,569
MA-90-0513	20.507	310 ECD Bus Procurement	110,177,983	—	110,177,983
MA-90-0515	20.507	New Blue Line Cars	34,804,240	3,017,045	37,821,285
MA-90-0516	20.507	Public Address/Electronic Sign	21,855,390	1,210,528	23,065,918
MA-90-0518	20.507	Blue Line Signal Project	26,499,976	2,076	26,502,052

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

Grant number	Federal catalog number	Program description	Cumulative to June 30, 2012	Expenditures, net of transfers July 1, 2012 – June 30, 2013	Cumulative to June 30, 2013
MA-90-0519	20.507	Automated Fare Collection	\$ 24,190,458	62,371	24,252,829
MA-90-0521	20.507	FY 07 Station Security	9,275,975	395,013	9,670,988
MA-90-0548	20.507	Park Street Stairs	2,979,550	—	2,979,550
MA-90-0550	20.507	Bicycle Enhancements	397,921	50,569	448,490
MA-90-0552	20.507	Orange Line Upgrades	—	263,200	263,200
MA-90-0566	20.507	ECD/CNG Bus Rebuild	25,383,676	1,996,159	27,379,835
MA-90-0576	20.507	Orange Line Journal Bearing Replacement	1,137,685	845,501	1,983,186
MA-90-0577	20.507	175 Buses/Fairmount Line (GANS)	20,985,863	—	20,985,863
MA-90-0589	20.507	Everett Shop Equipment	662,440	644,704	1,307,144
MA-90-0590	20.507	IT System/NR Vehicle GL PTC	6,492,131	3,886,678	10,378,809
MA-90-0591	20.507	FY 2010 Loco & Coach Procurement	—	53,335,784	53,335,784
MA-90-0600	20.507	MBTA Power Program	2,378,169	6,708,623	9,086,792
MA-90-0617	20.507	Science Park Station Project	—	19,593,244	19,593,244
MA-90-0618	20.507	Haverhill Line Double Track	—	5,067	5,067
MA-90-0621	20.507	Red & Orange Line Vehicle Prev. Maint.	4,551	1,103,375	1,107,926
MA-90-0622	20.507	Orient Heights Station	—	3,317,723	3,317,723
MA-90-0626	20.507	FY 12 Preventative Maintenance	5,000,000	10,000,000	15,000,000
MA-90-0631	20.507	Orient Heights Station	—	16,262,344	16,262,344
MA-90-0641	20.507	192 ECD Bus Midlife Overhaul	—	2,889,754	2,889,754
MA-66-0013	20.507	13 Key Bus Routes Improvements (ARRA)	2,083,204	1,379,552	3,462,756
MA-66-0015	20.507	Wedgemere Access/Red Line Slab – (ARRA)	5,964,634	332,484	6,297,118
MA-95-0010	20.507	Bus Bike racks	260,095	—	260,095
MA-95-0012	20.507	Assembly Square Project	—	4,626,871	4,626,871
MA-95-0014	20.507	Locomotive Procurement CMAQ Flex	—	21,359,037	21,359,037
MA-96-0001	20.507	Back Bay Vent/RIDE Vans (ARRA)	19,145,690	3,138,110	22,283,800
MA-96-0014	20.507	Bus Fac/Fitchburg Dbl. Trk. (ARRA)	72,329,486	16,406,518	88,736,004
MA-96-0016	20.507	Oper Assist/Yard/Station Impvs.(ARRA)	42,910,136	6,893,891	49,804,027
		Total # 20.507	<u>825,646,102</u>	<u>185,962,097</u>	<u>1,011,608,199</u>
Federal Transit – Transportation Investment Generating Economic Recovery Program:					
MA-78-0001	20.932	Wonderland Plaza TIGER (ARRA)	8,899,237	9,034,453	17,933,690
MA-78-0002	20.932	Fitchburg Wachusett Ext. TIGER (ARRA)	3,321,669	7,343,663	10,665,332
		Subtotal # 20.932	<u>12,220,906</u>	<u>16,378,116</u>	<u>28,599,022</u>
Federal Railroad Administration:					
Passed through the Comm. Of Massachusetts:					
S10004	20.932	New Bedford 3 Bridges – TIGER (ARRA)	19,633,493	157,074	19,790,567
		Total # 20.932	<u>31,854,399</u>	<u>16,535,190</u>	<u>48,389,589</u>
S10007	20.319	Knowledge Corridor – HSIPR-(ARRA)	5,535,547	24,240,808	29,776,355
		Total U.S. Dept. of Transportation	<u>1,499,397,376</u>	<u>348,325,689</u>	<u>1,847,723,065</u>
U.S. Environmental Protection Agency:					
Surveys, Studies, Investigations and Special Purpose Activities Relating to Clean Air Act:					
Passed through the Commonwealth of Massachusetts (MassDEP):					
DEP/DERA CTEQE301011 (90-EPA3)	66.040	Locomotive HEP Engine Repower Program	1,398,921	—	1,398,921
Direct Award:					
DE-96123801 (90EPA4)	66.040	Locomotive HEP Engine Repower Program	790,624	—	790,624
		Total # 66.040	<u>2,189,545</u>	<u>—</u>	<u>2,189,545</u>
U.S. Department of Homeland Security:					
Urban Areas Security Initiatives:					
National Explosives Detection Canine Team Program:					
HSTS02-06-H-MLS110 (J10002)	97.072	TSA Natl. Explosives Canine Prog.	538,143	12,462	550,605
HSTS02-10-H-CAN632 (J11002)	97.072	TSA Natl. Explosives Canine Prog.	133,238	142,376	275,614
		Total #97.072	<u>671,381</u>	<u>154,838</u>	<u>826,219</u>
Rail and Transit Security Grant Program:					
Passed through the Commonwealth of Massachusetts:					
(Executive Office of Public Safety and Security)					
J07001	97.075	FY 2007 Transit Security	22,681,707	1,689,884	24,371,591
J08001	97.075	FY 2008 Transit Security	3,230,777	25,666,506	28,897,283
Direct Award:					
2009RAT9K013	97.075	FY 2009 Transit Security (J09001)	8,052,957	6,218,609	14,271,566
2010RATOK045	97.075	FY 2010 Transit Security (J10001)	240,581	2,794,944	3,035,525
EMW2011RA00035	97.075	FY 2011 Transit Security (J11001)	—	1,704,305	1,704,305
EMW2012RAK00015	97.075	FY 2012 Transit Security (J12001)	—	3,739	3,739
		Total #97.075	<u>34,206,022</u>	<u>38,077,987</u>	<u>72,284,009</u>
Public Assistance Grants Program:					
Passed through the Commonwealth of Massachusetts					
Massachusetts Emergency Management Agency					
	97.036	Snowstorm October 2011	—	132,925	132,925
	97.036	Hurricane Irene	—	318,619	318,619
		Total #97.036	<u>—</u>	<u>451,544</u>	<u>451,544</u>
		Total of U.S. Dept. of Homeland Security	<u>34,877,403</u>	<u>38,684,369</u>	<u>73,561,772</u>
		Grand Total	<u>\$ 1,539,158,153</u>	<u>387,099,749</u>	<u>1,926,257,902</u>

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(1) Definition of the Reporting Entity

The Massachusetts Bay Transportation Authority (the Authority) is a component unit of the Massachusetts Department of Transportation and political subdivision of the Commonwealth of Massachusetts (the Commonwealth) formed pursuant to Commonwealth law to, among other things, hold and manage mass transportation facilities and equipment, and to enter into agreements for its operation, construction and use.

The U.S. Department of Transportation (DOT) has been designated as the Authority's cognizant Federal agency for the Single Audit.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying schedule of expenditures of federal awards has been prepared on the cash basis of accounting and includes federal, state, and local expenditures.

(b) Expenditures in Excess of Federal Participation

Expenditures under the Federal Transit Cluster are stated at their total cost regardless of their source of funding. Under its grant contracts with the federal government, the Authority is reimbursed for a fixed percentage of eligible project costs. The Authority funds the expenditures in excess of the federal share in various ways, including through the issuance of long-term debt and funds received from the Commonwealth and local sources.

(3) Approved Federal Grant Programs

The Authority's Federal Transit – Capital Investment Grants and Formula Grants Programs and the Transportation Investment Generating Economic Recovery Program (TIGER) for the year ended June 30, 2013 consisted primarily of capital grants under contracts with the Federal Transit Administration (FTA). These grants provide for the acquisition of land and equipment, the construction of service extensions, stations, and maintenance facilities, and the improvement of facilities and equipment.

The Authority also received major program funding passed through the Commonwealth of Massachusetts from the Federal Railroad Administration (FRA), for the High-Speed Rail Corridors and Intercity passenger Rail Service (HSIPR). This program will provide approximately \$72.8 million in federal funding for the reconstruction of the historic "Knowledge Corridor" rail line between Springfield, MA and East Brookfield, MA. This project will allow restoration of Amtrak's "Vermont" intercity passenger rail service to a former, more direct route, and improve access to densely populated areas along the Connecticut River. Recognizing that the Knowledge Corridor project is outside of the MBTA service area, a memorandum of agreement was executed with MassDOT, to provide for the Authority's Design and Construction Department's oversight of this reconstruction effort.

According to the terms of the FTA contracts, the Authority will be reimbursed from 80% to 100% of the allowable project costs as defined in the grant agreement. The terms of those federal grant contracts require

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

the Authority to, in part, utilize the equipment and facilities for the purpose specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and comply with the Equal Opportunity and Affirmative Action programs as required by the *Moving Ahead for Progress in the 21st Century Act* (MAP-21).

The Authority also received program funding from the Department of Homeland Security Office passed through the Commonwealth of Massachusetts Executive Office of Public Safety for the Department of Homeland Security's Rail and Transit Security Grant Program.

According to the terms of the Rail and Transit Security grants, the Authority will be reimbursed for 100% of the allowable project costs as defined in the grant agreements. These grants provide for the acquisition of equipment and other enhancements to the transit system's security.

Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to their funding agencies. In management's opinion, no events have occurred which would result in the termination of these grants or which would require the refund of a significant amount of funds received under these grants.

(4) Subrecipients

For the year ended June 30, 2013 the Authority provided approximately \$3.5 million in federal awards to subrecipients of which approximately 93% was paid to the Metropolitan Area Planning Council and South Shore Tri Town Development Corporation.

The subrecipient payments are almost entirely in the Federal Transit – Capital Investment Grants Program, CFDA #20.500 and 20.507 expenditures.



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

**Independent Auditors' 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***

The Board of Directors
Massachusetts Bay Transportation 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 Massachusetts Bay Transportation Authority (the Authority), as of and for the year ended June 30, 2013, 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 25, 2013.

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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 grants 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*.



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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

October 25, 2013

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
 (A Component Unit of the Massachusetts Department of Transportation)

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified		
Internal control over financial reporting:			
• Material weakness(es) identified?	_____	yes	<u> x </u> no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____	yes	<u> x </u> none reported
Noncompliance material to the financial statements noted?	_____	yes	<u> x </u> no

Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	_____	yes	<u> x </u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> x </u>	yes	_____ none reported
Type of auditors' report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	<u> x </u>	yes	_____ no

Identification of Major Programs

Federal Transit Cluster:	
Federal Transit – Capital Investment Grants Program	20.500
Federal Transit – Formula Grants Program	20.507
Federal Transit and Federal Railroad Administration – Transportation Investment Generating Economic Recovery (TIGER)	20.932
Federal Railroad Administration – High – Speed Rail Corridors and Intercity Passenger Rail Service (HSIPR)	20.319
Department of Homeland Security – Rail and Transit Security Grant Program	97.075

Dollar threshold used to distinguish between type A and type B programs:	\$3,000,000		
Auditee qualified as low-risk auditee?	<u> x </u>	yes	_____ no

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

(2) **Findings Related to the Financial Statements Reported in Accordance with *Government Auditing Standards***

None

(3) **Findings and Questioned Costs Relating to Federal Awards**

Finding Number: Finding 2013-01

Federal Program: Federal Transit Cluster:

CFDA # 20.500 Federal Transit Capital Investment Grants (ARRA)

CFDA # 20.507 Federal Transit Formula Grants (ARRA)

CFDA # 20.932 Federal Transit and Federal Railroad Administration –
Transportation Investment Generating Economic Recovery (ARRA)

CFDA # 20.319 Federal Railroad Administration – High Speed Rail
Corridors and Intercity Passenger Rail Service (ARRA)

CFDA # 97.075 Department of Homeland Security – Rail and Transit
Security Grant Program

Federal Agency: U.S. Department of Transportation/U.S. Department of Homeland Security

Grant Award and Year: Various

Finding: Controls over the Disadvantaged Business Enterprise (DBE) report submittal need to be strengthened. Noncompliance with the Federal DBE reporting requirements was noted.

Criteria:

A DBE report is required to be filed with the Federal Transit Administration on a semi-annual basis covering its federally funded activities based on a recordkeeping system (49 CFR section 26.11 and Appendix B to part 21).

Condition:

For the DBE report filed for the period ending March 31, 2013, we could not trace all of the amounts on the final submission to supporting documentation. The columns that did not have traceable amounts were column E, Total to DBEs/Race Conscious dollars; F, Total to DBEs/Race Conscious number; G, Total to DBEs Race Neutral dollars; and H, Total to DBEs Race Neutral numbers for the ‘Subcontracts Awarded/Committed This Period’ line item. We then could not validate the amounts used on the final DBE submission made to the FTA for the period of 10/1/12 to 3/31/13.

Additionally, there is not a review of the data and submittal performed by someone other than the preparer.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Effect:

Compliance with Federal reporting regulations cannot be validated, and compliance with Authority controls cannot be validated.

Questioned Costs:

None

Recommendation:

We recommend that the DBE report be reviewed by management prior to the submittal to ensure that it is complete and accurate and agrees with supporting data.

Auditee Corrective Action Plan:

The Authority's Office of Diversity and Civil Rights (ODCR) is responsible for the preparation and submission of this report and is aware of the deficiencies in the supporting documentation. To address this problem, ODCR is implementing a new software program (Prism Compliance Management Solution) to increase the accuracy of the DBE reporting. The Authority's IT Department will provide programming support for the required interfaces to the PRISM system from the appropriate financial system sources (FMIS/CMS) that will need to be accessed to retrieve the required data.

ODCR will also insure that future reports are reviewed and approved by senior management prior to submission, as recommended by the auditors.

Responsible Person:

Wanda Hubbard, Assistant Director of Government Compliance

Implementation Date:

May 1, 2014