



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

Independent Auditors' Reports as Required by Title 2 U.S. Code of
Federal Regulations Part 200, *Uniform Administrative Requirements, Cost
Principles, and Audit Requirements for Federal Awards*
(Uniform Guidance) and *Government Auditing Standards*
and Related Information

Year Ended June 30, 2021

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)
Year ended June 30, 2021

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KPMG LLP
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Exhibit I

Independent Auditors' 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

Fiscal and Management Control Board
Massachusetts Bay Transportation Authority:

Report on Compliance for Each Major Federal Program

We have audited the Massachusetts Bay Transportation Authority's (the Authority or MBTA), 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) *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, 2021. 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 federal statutes, regulations, and terms and conditions of its federal awards 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 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, 2021.

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 each major federal program to determine the



Exhibit I

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 a 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 Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended June 30, 2021 and have issued our report thereon dated January 26, 2022 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 the Uniform Guidance 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

Boston, Massachusetts
April 1, 2022

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

Federal agency/cluster or program/pass-through/grant number	CFDA number	Program description	Expenditures
U.S. Department of Justice:			
Equitable Sharing Program:			
MA-03-2500	16.922	Federal Equity Sharing Program	\$ 1,045
Total U.S. Dept. of Justice			<u>1,045</u>
U.S. Department of Transportation:			
Federal Transit Cluster:			
Federal Transit – Capital Investment Grants Program:			
MA-03-0292	20.500	Fitchburg CR Improvements	204,963
MA-03-0295	20.500	GLX-FTA/FFGA Funds	192,763,736
MA-04-0026	20.500	Ferry System Improvements	92,979
MA-04-0048	20.500	Hingham Intermodal Center	381,626
MA-04-0052	20.500	Hingham Ferry Dock	503,999
MA-04-0064	20.500	Auburndale Fiber Optic Cable Installation	1,296
MA-05-0103	20.500	FY07 Station Management Project	6,063
MA-05-0105	20.500	FY07 Comm. Rail Vehicle Service	725,840
MA-05-0109	20.500	Green Line #7 Car	1,565
MA-05-0120	20.500	Coach Reliability & Safety Prog.	1,290,990
MA-05-0121	20.500	MBTA Power Program	4,274,088
MA-05-0128	20.500	FY 2013 Infrastructure Improvements	1,680,171
MA-05-0129	20.500	Positive Train Control Ph. 1	5,129
MA-55-0005	20.500	Worcester-Boston Rail Corridor Improvement	<u>52,262</u>
Subtotal #20.500 Direct Program			<u>201,984,707</u>
Passed through the Rhode Island Department of Transportation:			
90 RI-12-X001 (90RI12)	20.500	Pawtucket Inspection Pit	<u>1,181,209</u>
Total # 20.500			<u>1,181,209</u>
State of Good Repair Grants Program:			
MA-54-0001	20.525	Green Line No. 8 Car Enhancements	1,829,564
MA-54-0002	20.525	FY 14 Bridge Program	14,705,105
MA-54-0003	20.525	FY 13 AFC IT Upgrades	527,715
MA-54-0005	20.525	MBTA Winter Resiliency Program	275,790
MA-54-0006	20.525	MBTA Bridge and Tunnel Program	7,916,569
MA-54-0010	20.525	2016 Kawasaki Coach Overhaul (32 Units)	7,728,911
MA-54-0012	20.525	Green Line No. 7 Selective System Overhaul	800,982
MA-54-0013	20.525	MBTA Floating Slabs	131,667
MA-54-0016	20.525	2017 Stations & Facilities	23,650,849
MA-54-0017	20.525	2017 Supplemental Bridge Program	3,267,814
MA-54-0021	20.525	MA-2018-029 5337 Funds	523,376
MA-54-0022	20.525	MA-2018-033 5337 Funds	12,310,359
MA-54-0023	20.525	MA-2019-008 5337 Funds	32,829,880
MA-54-0026	20.525	MA-2019-008 5337 Funds	<u>11,005,754</u>
Total # 20.525			<u>117,504,335</u>
Bus and Bus Facilities Formula Program:			
MA-34-0012	20.526	MBTA LoNo Project Supplementary	468,314
MA-34-0015	20.526	MBTA 2016 Bus Procurement	303,431
MA-34-0028	20.526	MA-2018-029 5339 Funds	1,034,164
MA-34-0031	20.526	MA-2019-008 5339 Funds	<u>24,058</u>
Total # 20.526			<u>1,829,967</u>
Federal Transit Formula Grants Program:			
MA-90-0079	20.507	2017 Stations & Facilities	2,088,955
MA-90-0083	20.507	MA 2018-029 5307 Funds	19,535,032
MA-90-0085	20.507	MA 2018-033 5307 Funds	14,412,524
MA-90-0087	20.507	MA-2019-008 5307 FUNDS	17,047,227
MA-90-0091	20.507	MA-2019-023 5307 FUNDS	12,895,884
MA-90-0093	20.507	MA-2020-006 5307 FUNDS	5,750,649
MA-90-0095	20.507	COVID-19 – MA-2020-009 5307-6 CARES	605,919,280
MA-90-0516	20.507	Public Address/Electronic Sign	38,492
MA-90-0590	20.507	IT System/NR Vehicle GL PTC	37,390
MA-90-0591	20.507	FY 2010 Loco & Coach Procurement	129,519
MA-90-0600	20.507	MBTA Power Program	<u>4,183,361</u>

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
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Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

Federal agency/cluster or program/pass-through/grant number	CFDA number	Program description	Expenditures
MA-90-0104	20.507	CRRSAA	\$ 236,367,165
MA-90-0577	20.507	175 Buses/Fairmount Line (GANS)	85,511
MA-90-0609	20.507	FY 2012 Bridge Program	4,105,043
MA-90-0621	20.507	Red & Orange Line Vehicle Prev. Maint.	239,847
MA-90-0631	20.507	Orient Heights Station	46,159
MA-90-0644	20.507	FY 2013 Infr Improvements B	1,640,998
MA-90-0649	20.507	Government Center Reconstruction	1,135
MA-90-0711	20.507	Red Line Signals Upgrade	972,258
MA-90-0712	20.507	FY 2015 Preventive Maintenance	2,687,236
MA-90-0713	20.507	FY 2015 Bridge Program	121,150
MA-90-0735	20.507	Green Line Signal Replacement	1,546,715
MA-90-0739	20.507	MBTA 2016 Bus Procurement	1,182,095
MA-90-0751	20.507	MBTA 2016 Bus Procurement (5307)	10,934,668
MA-90-0763	20.507	FY2017 Revenue Vehicle Program	4,010,755
MA-95-0003	20.507	GLX FTA/CMAQ Funds	27,144,571
MA-95-0005	20.507	MA 2018-029 Bus Earmark	486,745
MA-95-0014	20.507	Locomotive Procurement CMAQ Flex	573,761
MA-95-0022	20.507	Wachusett Extension Project	(1,543)
Total # 20.507			<u>974,182,582</u>
Total Federal Transit Cluster			<u>1,296,682,800</u>
Public Transportation Research:			
MA-26-0063	20.514	Fairmount/Indigo Line TSCP Program	161,084
MA-26-0064	20.514	MBTA LoNo Project	98,170
Total # 20.514			<u>259,254</u>
Public Transportation Emergency Relief Program:			
MA-44-3002	20.527	MBTA Resiliency Project	5,930,445
Total #20.527			<u>5,930,445</u>
High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants:			
Passed through the Commonwealth Of Massachusetts: S10007	20.319	Knowledge Corridor – HSIPR-(ARRA)	781,396
Passed through the NNEPRA: 90-FRA1	20.319	Downeaster MBTA Track Improvement Project	32,497
Total # 20.319			<u>813,893</u>
National Infrastructure Investments:			
MA-79-0002	20.933	Ruggles Station Improvements – TIGER	7,971,141
Total #20.933			<u>7,971,141</u>
Total U.S. Dept. of Transportation			<u>1,311,657,533</u>
U.S. Department of Homeland Security:			
Rail and Transit Security Grant Program:			
EMW2016RA00025	97.075	FY 2016 Transit Security (J16001)	(330,083)
EMW2017RA00020	97.075	FY 2017 Transit Security (J17001)	3,454,718
EMW2018RA00015	97.075	FY 2018 Transit Security (J18001)	765,046
EMW2019RA00044	97.075	FY 2019 Transit Security (J19001)	1,326,509
Total #97.075			<u>5,216,190</u>
Total of U.S. Dept. of Homeland Security			<u>5,216,190</u>
Grand total			<u>\$ 1,316,874,768</u>

See accompanying notes to 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, 2021

(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 expenditures.

(3) Approved Federal Grant Programs

The Authority's Federal Transit – Capital Investment Grants and Formula Grants Programs, Public Transportation Emergency Relief Program, Transportation Investment Generating Economic Recovery Program (TIGER), State of Good Repair Grants Program, Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs, and Public Transportation Research for the year ended June 30, 2021 consisted primarily of capital grants under contracts with the Federal Transit Administration (FTA). These grants provide for the acquisition of land, buses, equipment, the construction of service extensions, stations, and maintenance facilities, state of good repair activities, and Research, development, demonstration and deployment projects.

In 2015, a Full Funding Grant Agreement (FFGA), between the MBTA and the U.S. Department of Transportation Federal Transit Administration (FTA) was signed to establish the scope of federal participation in the Green Line Extension (GLX) project. Under the FFGA, federal dollars will fund approximately \$996 million of the newly revised budget of \$2.3 billion. The GLX project will extend the existing MBTA Green Line north of its current terminus at Lechmere Station to further service the communities of Somerville, Cambridge, and Medford and involves construction of six new Green Line stations along two branches (the Medford Branch and Union Square Branch) along with the relocation and reconstruction of Lechmere Station.

According to the terms of the FTA contracts, the Authority will be reimbursed from 75% to 100% of the allowable project costs as defined in the grant agreement. The terms of those federal grant contracts require 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).

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

The Coronavirus Aid, Relief, and Economic Security (“CARES”) Act, is a \$2.2 trillion economic stimulus bill passed by Congress and signed into law resulting in the CARES Act as a means to protect the American people from the public health and economic impacts of COVID-19. The CARES Act, through the Federal Transit Administration’s (“FTA”), provided \$25 billion grant to transit agencies to help to prevent, prepare for and respond to the COVID-19 pandemic. The CARES Act provided \$827.7 million to the MBTA to support the Authority’s revenue loss as well as all operating expenses generally eligible under the program that occurred from January 20, 2020 through June 30, 2021.

On December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (“CRRSAA”), established a second round of economic stimulus assistance in the amount of \$2.3 trillion. The CRRSAA is providing approximately \$291.3 million to the MBTA and is available to support the Authority’s revenue loss as well as all operating expenses generally eligible under the program. As of June 30, 2021, a total of \$236.4 million has been received by the MBTA for operating assistance that occurred from October 1, 2020 through June 30, 2021.

The Authority also received program funding from the U.S. Department of Homeland Security Office 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.

From time to time, the Authority also receives funding from other federal or pass through sources. Failure to comply with the terms and conditions of its various funding sources 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, 2021, the Authority did not provide federal awards to subrecipients.

(5) Indirect Costs

For the year ended June 30, 2021, the Authority did not elect to use the de minimis indirect cost rate.



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Exhibit III

**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***

Fiscal and Management Control Board
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 or MBTA), a component unit of the Massachusetts Department of Transportation, which comprise the statement of net position as of June 30, 2021, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 26, 2022.

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) as a basis for designing our 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 items 2021-001 and 2021-002 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*.



The Authority's Responses to the 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 the responses.

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

Boston, Massachusetts
January 26, 2022

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

Schedule of Findings and Questioned Costs

June 30, 2021

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weakness(es): **No**
 - Significant deficiency(ies): **Yes**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weakness(es): **No**
 - Significant deficiency(ies): **No**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**
- (g) Major programs:

<u>Federal program or cluster</u>	<u>CFDA number</u>
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants Program	20.500
Federal Transit – Formula Grants Program	20.507
State of Good Repair Grants Program	20.525
Bus and Bus Facilities Formula Program	20.526
National Infrastructure Investments	20.933

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,950,624**
- (i) Auditee qualified as a low-risk auditee: **Yes**

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

Schedule of Findings and Questioned Costs

June 30, 2021

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

Finding 2021-001 – Financial Reporting

The Authority experienced delays in closing its fiscal 2021 books and records and preparing its annual financial statements. One of the factors contributing to the delays is system(s) limitations, which require several manual spreadsheets to convert and/or expand general ledger accounts to support financial statement amounts and related footnote disclosures, in particular those related to capital assets. We also continue to note draft financial statements that are incomplete and inaccurate compounding the timeliness of the financial reporting process.

We reported a similar finding in previous audits.

Recommendation

We recommend that the Authority assess its financial reporting process and develop a detailed action plan, with measurable milestones, to ensure its financial statements are completed timely and accurately. The Authority should also allow sufficient time to evaluate and respond to new accounting pronouncements. For example, Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, which is effective for the Authority's fiscal 2022 financial statements, is expected to require significant time and effort to implement given the amount of leases at the Authority.

Views of Responsible Officials

In August 2020, the accounting team implemented a new preliminary flash report (month and YTD results) issued on business day five and final monthly close completed on business day 10. A business process was developed that a review and reconciliation for balance sheet accounts within forty five days subsequent to the close is completed with reconciling variances and necessary adjustments recorded. Each section of the financial statement will be assigned to an accountant for preparation and the controller will review and approve. The staff will continue to refine this process for financial statement reconciliations on a timely basis to be provided to the auditors during their final audit field work.

In fiscal year 2021, the Authority developed an automated trial balance and supporting financial statement package. This package includes a Statement of Net Assets, Statement of Revenue and Expenditures, as well as a cash flow model that utilizes a download of all cash transactions within the Accounts Payable module in conjunction with all cash activities within the Statement of Net Assets.

The Authority has targeted the issuance of its financial statements prior to the end of November. The impact of the pandemic, hiring of positions lost due to the pandemic, and transition to remote work model has hindered the Authority the past two years in meeting this target date. However, the Authority in total is committed to the backfilling of all positions Authority wide to return to the staffing levels to pre pandemic operations.

While COVID-19 pandemic continues to impact the normal operating closing procedures, management can confirm that there was no change in the efficacy and efficiency of the Authority's internal controls over financial reporting.

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

Schedule of Findings and Questioned Costs

June 30, 2021

Finding 2021-002 – Capital Assets

The Authority's net capital assets have increased by substantially in recent years including an additional \$1.5 billion during fiscal 2021. At June 30, 2021, the Authority's total capital assets, net totaled approximately \$13.4 billion. The Authority's accounting process to manage and report upon its capital asset activity (both internally and externally) needs improvement, particularly in the areas of automation and managing its construction-work-in-progress or CWIP activity.

For external financial reporting, the Authority compiles its capital asset activity primarily with excel spreadsheets rather than an automated process. For CWIP, the Authority needs to better integrate the capital planning process with the financial reporting process to ensure that individual CWIP projects are properly valued and timely transferred to completed projects with an appropriately assigned useful life.

We reported a similar finding in previous audits.

Recommendation

We recommend that the Authority assign a "working group" to assess the reporting of its capital assets and devote the necessary resources both in terms of technology improvements as well as personnel assigned to properly account for and report upon its largest financial statement asset.

Views of Responsible Officials

The Authority's Construction Work in Process (CWIP) activity from 2017 to 2021 detailed a significant increase in the completion of major construction projects and improvements in progress, from \$856M in FY17 to \$1.9B in FY21. The Authority completed a technical upgrade to the financial system which was the initial step to modernize and integrate financial systems in 2020. In 2021, the technical team began the planning process and initial proof of concept to integrate a project costing and customer contract modules to fully integrate capital accounting, reporting and planning into the financial system suite. This will result in enhanced and more efficient financial reporting. The request for proposals and bidding process began in the first two quarters of FY2022 with planned award and commencement of the project in second half of the fiscal year.

The working group will review written procedures and criteria for the transfer of CWIP to fixed assets. The working group and Information Technology also designed an interim Access Database solution that automates the manual worksheets to interface with the Capital Management System (CMS) to assist in the reporting of Construction Work in Process activity, related capitalization transfers and depreciation. A consolidated review of the CWIP process will be prepared on a quarterly basis by the Capital Oversight, Capital Delivery, and Capital Accounting teams (the working group). The analysis will be presented to the Chief Financial Officer quarterly.

(3) Findings and Questioned Costs Relating to Federal Awards Reference Number:

No findings.