



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, 2014

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, 2014

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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 Directors
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, 2014. 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, 2014.

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 2014-01 that we consider to be a significant deficiency.

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, 2014, and have issued our report thereon dated October 21, 2014, 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



Exhibit I

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

December 18, 2014

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Grant number	Federal catalog number	Program description	Cumulative to June 30, 2013	Expenditures, net of transfers July 1, 2013 – June 30, 2014	Cumulative to June 30, 2014
U.S. Department of Justice:					
Federal Equitable Sharing Program:					
MA-03-2500	16.XXX	Federal Equity Sharing Program	\$ 2,783,520	39,944	2,823,464
		Total U. S. Dept. of Justice	<u>2,783,520</u>	<u>39,944</u>	<u>2,823,464</u>
U.S. Department of Transportation:					
Federal Transit – Highway Planning and Construction:					
MA-70-0001	20.205	Winthrop Ferry Demo Proj.	426,740	—	426,740
		Total 20.205	<u>426,740</u>	<u>—</u>	<u>426,740</u>
Federal Transit – Capital Investment Grants Program:					
MA-03-0227	20.500	Blue Line Modernization	146,800,869	578,823	147,379,692
MA-03-0228	20.500	FY99 FTA Infrastructure Grant	177,072,486	626,717	177,699,203
MA-03-0254	20.500	Beverly/Salem Parking	2,821,374	(11,493)	2,809,881
MA-03-0281	20.500	Auburndale Access Improvements	102,394	43,116	145,510
MA-03-0292	20.500	Fitchburg CR Improvements	20,121,910	43,405,346	63,527,256
MA-04-0019	20.500	Hingham Intermodal & Harbor Park	3,395,308	430,182	3,825,490
MA-04-0025	20.500	Quincy High Speed Catamaran	84,977	19,936	104,913
MA-04-0026	20.500	Ferry System Improvements	1,085,826	266,498	1,352,324
MA-04-0036	20.500	Ferry Parking Expansion – Quincy	1,311,497	693,768	2,005,265
MA-04-0051	20.500	Commonwealth Ave. Green Line Station	567,713	21,548	589,261
MA-04-0052	20.500	Hingham Ferry Dock	138,857	291,678	430,535
MA-04-0053	20.500	Auburndale Station Design	44,105	17,028	61,133
MA-04-0054	20.500	Rockport Comm. Rail Station	5,714	449	6,163
MA-04-0056	20.500	Boston Bike Share Program	2,919,492	84,259	3,003,751
MA-04-0064	20.500	Auburndale Fiber Optic Cable Installation	—	68,497	68,497
MA-04-0067	20.500	Salem Intermodal Station Track Upgrades	274,451	406,723	681,174
MA-04-0068	20.500	Ferry System Repairs and Upgrades	113,962	419,740	533,702
MA-05-0102	20.500	Blue Line Modernization	69,854,947	4,312,537	74,167,484
MA-05-0103	20.500	FY07 Station Management Proj.	33,759,569	992,738	34,752,307
MA-05-0105	20.500	FY07 Comm. Rail Vehicle Service	51,531,015	15,638,511	67,169,526
MA-05-0106	20.500	FY07 Coach Reliability & Safety Prog.	42,834,856	214,944	43,049,800
MA-05-0109	20.500	Green Line #7 Car	20,194,495	6,596,348	26,790,843
MA-05-0111	20.500	Columbia Junction	38,116,433	18,769,358	56,885,791
MA-05-0115	20.500	FY 10 Red Line # 2 Car Overhaul	27,802,969	4,571,793	32,374,762
MA-05-0119	20.500	FY 10 Loco & Coach Procurement	32,902,895	18,338,262	51,241,157
MA-05-0120	20.500	Coach Reliability & Safety Prog.	1,275,044	48,973	1,324,017
MA-05-0121	20.500	MBTA Power Program	12,179,838	5,186,764	17,366,602
MA-05-0128	20.500	FY 2013 Infrastructure Impvs.	—	24,249,807	24,249,807
MA-05-0129	20.500	Positive Train Control Ph. 1	908,812	442,973	1,351,785
MA-55-0003	20.500	South Weymouth Access Impvs.	7,344,267	744,209	8,088,476
MA-55-0004	20.500	Assembly Square Project	—	3,579,012	3,579,012
MA-55-0005	20.500	Worcester-Boston Rail Corridor Improvement	505,753	1,701,195	2,206,948
MA-56-0001	20.500	CR Stations, Dudley Square (ARRA)	42,107,411	8,469,448	50,576,859
		Subtotal #20.500 Direct Program	<u>738,179,239</u>	<u>161,219,687</u>	<u>899,398,926</u>
Passed through the MassDOT:					
S13A12 (04-0079)					
	20.500	RTA Bus Design	94,013	123,007	217,020
Passed through the Rhode Island Department of Transportation:					
Federal Transit – Capital Investment Grants Program:					
RI-XX-XXXX (90R112)	20.500	Pawtucket Inspection Pit	—	431,066	431,066
		Subtotal #20.500 Pass-through	<u>94,013</u>	<u>554,073</u>	<u>648,086</u>
		Total #20.500	<u>738,273,252</u>	<u>161,773,760</u>	<u>900,047,012</u>
Federal Transit – Public Transportation Research:					
MA-26-0060	20.514	Transit Asset Management (TAM)	381,042	533,412	914,454
MA-26-0063	20.514	Fairmount/Indigo Line TSCP Program	—	49,918	49,918
		Total # 20.514	<u>381,042</u>	<u>533,412</u>	<u>914,454</u>
Passed through the MassDOT:					
MA-57-0023					
	20.521	Paratransit Taxi Subsidy	—	76,826	76,826
		Total # 20.521	<u>—</u>	<u>76,826</u>	<u>76,826</u>
Federal Transit – Capital Assistance for Reducing Energy Consumption/Greenhouse Emissions:					
MA-77-0002	20.523	Renewable Wind Energy – TIGGER (ARRA)	524,814	1,704,521	2,229,335
		Total # 20.523	<u>524,814</u>	<u>1,704,521</u>	<u>2,229,335</u>
Federal Transit – State of Good Repair Grants Program:					
MA-54-0001	20.525	Green Line No. 8 Car Enhancements	—	163,081	163,081
		Total # 20.525	<u>—</u>	<u>163,081</u>	<u>163,081</u>
Federal Transit Formula Grants Program:					
MA-90-0331	20.507	FY99 Sec 5307 Infrastructure	233,199,875	1,625,370	234,825,245
MA-90-0456	20.507	Public Address/Electronic Sign	5,015,169	357,358	5,372,527
MA-90-0497	20.507	Escalator/Elevator Improvements	32,196,569	21,912	32,218,481
MA-90-0513	20.507	310 ECD Bus Procurement	110,177,983	—	110,177,983
MA-90-0515	20.507	New Blue Line Cars	37,821,285	2,395,418	40,216,703
MA-90-0516	20.507	Public Address/Electronic Sign	23,065,918	167,885	23,233,803
MA-90-0519	20.507	Automated Fare Collection	24,252,829	215,506	24,468,335
MA-90-0521	20.507	FY 07 Station Security	9,670,988	329,012	10,000,000
MA-90-0552	20.507	Orange Line Upgrades	263,200	1,129,182	1,392,382
MA-90-0566	20.507	ECD/CNG Bus Rebuild	27,379,835	(24,173)	27,355,662
MA-90-0576	20.507	Orange Line Journal Bearing Replacement	1,983,186	181,319	2,164,505
MA-90-0577	20.507	175 Buses/Fairmount Line (GANS)	20,985,863	—	20,985,863
MA-90-0589	20.507	Everett Shop Equipment	1,307,144	497,166	1,804,310

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
(A Component Unit of the Massachusetts Department of Transportation)
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

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MA-90-0590	20.507	IT System/NR Vehicle GL PTC	\$ 10,378,809	1,394,845	11,773,654
MA-90-0591	20.507	FY 2010 Loco & Coach Procurement	53,335,784	39,029,245	92,365,029
MA-90-0600	20.507	MBTA Power Program	9,086,792	5,906,863	14,993,655
MA-90-0609	20.507	FY 2012 Bridge Program	—	24,408,884	24,408,884
MA-90-0617	20.507	Science Park Station Project	19,593,244	636,414	20,229,658
MA-90-0618	20.507	Haverhill Line Double Track	5,067	2,233,783	2,238,850
MA-90-0621	20.507	Red & Orange Line Vehicle Prev. Maint.	1,107,926	3,916,635	5,024,561
MA-90-0622	20.507	Orient Heights Station	3,317,723	13,786,512	17,104,235
MA-90-0631	20.507	Orient Heights Station	16,262,344	5,637,124	21,899,468
MA-90-0641	20.507	192 ECD Bus Midlife Overhaul	2,889,754	10,359,092	13,248,846
MA-90-0642	20.507	FY 13 Preventative Maintenance	—	15,000,000	15,000,000
MA-90-0644	20.507	FY 2013 Infr Improvements B	—	18,430,912	18,430,912
MA-90-0649	20.507	Government Center Reconstruction	—	6,536,106	6,536,106
MA-66-0013	20.507	13 Key Bus Routes Improvements (ARRA)	3,462,756	5,934,914	9,397,670
MA-66-0015	20.507	Wedgemere Access/Red Line Slab – (ARRA)	6,297,118	14,828	6,311,946
MA-95-0012	20.507	Assembly Square Project	4,626,871	3,031,328	7,658,199
MA-95-0014	20.507	Locomotive Procurement CMAQ Flex	21,359,037	32,133,018	53,492,055
MA-95-0022	20.507	Wachusett Extension Project	—	1,834,952	1,834,952
MA-96-0001	20.507	Back Bay Vent/RIDE Vans (ARRA)	22,283,800	3,386,704	25,670,504
MA-96-0014	20.507	Bus Fac/Fitchburg Dbl. Trk. (ARRA)	88,736,004	11,200,332	99,936,336
MA-96-0016	20.507	Oper Assist/Yard/Station Impvs.(ARRA)	49,804,027	4,688,985	54,493,012
		Total # 20.507	<u>839,866,900</u>	<u>216,397,431</u>	<u>1,056,264,331</u>
Federal Transit – Transportation Investment Generating Economic Recovery Program:					
MA-78-0001	20.932	Wonderland Plaza Tiger (ARRA)	17,933,690	2,066,310	20,000,000
MA-78-0002	20.932	Fitchburg Wachusett Ext. Tiger (ARRA)	10,665,332	9,833,881	20,499,213
		Subtotal #20.932	<u>28,599,022</u>	<u>11,900,191</u>	<u>40,499,213</u>
Federal Railroad Administration:					
Passed through the Comm. Of Massachusetts:					
S10004	20.932	New Bedford 3 Bridges – TIGER (ARRA)	19,790,567	601,682	20,392,249
		Total #20.932	<u>48,389,589</u>	<u>12,501,873</u>	<u>60,891,462</u>
S10007	20.319	Knowledge Corridor – HSIPR-(ARRA)	29,776,355	21,045,998	50,822,353
		Total #20.319	<u>29,776,355</u>	<u>21,045,998</u>	<u>50,822,353</u>
National Infrastructure Investments:					
MA-79-0001	20.933	ARRA TIGER Merrimack River Bridge	—	2,391,908	2,391,908
		Total # 20.933	<u>—</u>	<u>2,391,908</u>	<u>2,391,908</u>
FHWA – Section 130:					
S14001	20.205	Knowledge Corridor-Grade Crossings	—	2,058,390	2,058,390
		Total #20.205	<u>—</u>	<u>2,058,390</u>	<u>2,058,390</u>
		Total U. S. Dept. of Transportation	<u>1,657,638,692</u>	<u>418,647,200</u>	<u>2,076,285,892</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		1,398,921	—	1,398,921
Direct Award:					
DE-96123801 (90EPA4)	66.040		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:					
HSTS02-06-H-MLS110 (J10002)	97.072	TSA Natl. Explosives Canine Prog.	550,605	11,014	561,619
HSTS02-10-H-CAN632 (J11002)	97.072	TSA Natl. Explosives Canine Prog.	275,614	200,145	475,759
		Total #97.072	<u>826,219</u>	<u>211,159</u>	<u>1,037,378</u>
Passed through the Commonwealth of Massachusetts:					
J08001	97.075	FY 2008 Transit Security	28,897,283	(17,883)	28,879,400
Direct Award:					
2009RAT9K013	97.075	FY 2009 Transit Security (J09001)	14,271,566	13,095,882	27,367,448
2010RATOK045	97.075	FY 2010 Transit Security (J10001)	3,035,525	10,425,428	13,460,953
EMW2011RA00035	97.075	FY 2011 Transit Security (J11001)	1,704,305	3,450,179	5,154,484
EMW2012RAK00015	97.075	FY 2012 Transit Security (J12001)	3,739	811,316	815,055
		Total #97.075	<u>47,912,418</u>	<u>27,764,922</u>	<u>75,677,340</u>
		Total of U. S. Dept. of Homeland Security	<u>48,738,637</u>	<u>27,976,081</u>	<u>76,714,718</u>
		Grand total	<u>\$ 1,711,350,394</u>	<u>446,663,225</u>	<u>2,158,013,619</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, 2014

(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, 2014 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.

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, 2014

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 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 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.

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, 2014 the Authority provided approximately \$973,000 in federal awards to subrecipients of which approximately 85% was paid to the 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
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60 South Street
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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*

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), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2014.

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 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*.

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 21, 2014

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(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?	_____	yes	<u> x </u> no

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

- 1.) Functional management have a key role in ensuring that only authorized individuals have access to critical systems. An absence of periodic review of user access by business management increases the risk that unauthorized users may gain or retain access to an important application, and that authorized users may also retain processing privileges that do not support a prudent segregation of duties.
- 2.) Job changes often result in a change to computer application functional capability. Without appropriate management review, there is a risk that individuals who change roles may acquire additional functionality without losing the functionality already assigned potentially compromising the segregation of duties anti-fraud control.

While we did not note noncompliance with payroll federal regulations, we were unable to test the payroll approval application controls because the controls identified above were not adequate.

Cause:

Ineffective implementation of Information Technology (IT) controls as part of the overall General IT Control structure and need to improve the interaction and communication between the IT and Human Resource (HR) functions.

Effect:

Excessive access to application functions and capability with IT increases the risk that segregation of duties controls will be ineffective and that secure access to sensitive data and/or transactions will be compromised leading to increased opportunity for error. The lack of controls has the potential for a significant impact on the administration of Federal funds as payroll charges to individual programs and grants is critical to properly supporting allowable grant expenditures.

Although the lack of controls may impact the administration of federal programs, it is the IT and HR functions that need to remediate the control deficiency.

Questioned Costs:

None

Recommendation:

We recommend that:

- MBTA Human Resources (quarterly) use reports requested from Information Technology Department (ITD) to review user access and access rights on the PeopleSoft HCMS application.
- Following each review, MBTA Human Resources notify ITD to make any necessary changes to employee access or access rights.
- MBTA Human Resources ensure that job role changes that require a modification to an employee's HCMS (or other key financial applications) functional access be clearly notified to ITD for review.
- ITD review all job transfer requests to ensure that new functional access requirements are not aggregated with existing functional capability that could result in a compromise of segregation of duties controls.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Auditee Corrective Action Plan:

To address this control issue, the following actions will be initiated:

1. The Authority's Human Resources (HR) Department will request quarterly reports from the Informational Technology (IT) Department to review user access and access rights to the PeopleSoft HCMS system. Based on this review, HR will notify IT to make any changes to employee access or access rights. IT will update these access changes within one week of receipt.
2. HR and IT will review the process, identify gaps, and possibilities for process automations associated with the appropriate access rights available on the HCMS system. From this review, titles and protocols will be identified that will be the basis for a report that will be sent to IT when employees have a job role change that requires a modification to an employee's HCMS (or other key financial application) functional access. Both HR and IT staff will review this report to ensure that new functional access requirements are set up appropriately, old access requirements are removed, and that segregation of duties controls are not compromised.

Responsible Person:

HR – Paul Andruskiewicz, IT– Gowsalan Kanagalingam

Implementation Date:

March 2015