



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

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, 2012

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

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, 2012

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

Exhibit I

**Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program
and on Internal Control over Compliance in Accordance with OMB A-133
and on the Schedule of Expenditures of Federal Awards**

The Board of Directors
Massachusetts Bay Transportation Authority:

Compliance

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, 2012. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs (Exhibit IV). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-1.

Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 the Authority's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.



Exhibit I

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.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designated to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-1. A significant deficiency in internal control over compliance is a deficiency or 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.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on the response.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated October 4, 2012 which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements taken as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to October 4, 2012. The accompanying schedule of expenditures of federal awards (Exhibit II) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 expenditure of federal awards, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, others within the Authority, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 21, 2013
(except for the schedule of expenditures of federal awards, which is as of October 4, 2012)

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Exhibit II

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Grant number	Federal catalog number	Program description	Cumulative to June 30, 2011	Expenditures, net of transfers July 1, 2011 – June 30, 2012	Cumulative to June 30, 2012
U.S. Department of Justice:					
Federal Equitable Sharing Program:					
MA-03-2500	16.XXX	Federal Equity Sharing Program	\$ 2,639,966	53,863	2,693,829
		Total U.S. Department of Justice	2,639,966	53,863	2,693,829
U.S. Department of Transportation:					
Federal Transit – Highway Planning and Construction:					
MA-15-X008	20.205	Wonderland Intermodal Impvs.	—	2,200,000	2,200,000
MA-70-X001	20.205	Winthrop Ferry Demo Proj.	70,496	173,905	244,401
		Total #20.205	70,496	2,373,905	2,444,401
Federal Transit – Capital Investment Grants Program:					
MA-03-0223	20.500	North Shore Transportation Study	3,915,586	123,107	4,038,693
MA-03-0227	20.500	Blue Line Modernization	142,834,668	737,931	143,572,599
MA-03-0228	20.500	FY99 FTA Infrastructure Grant	175,843,465	992,279	176,835,744
MA-03-0238	20.500	Green Line Station Access	21,959,630	2,240,370	24,200,000
MA-03-0254	20.500	Beverly/Salem Parking	1,075,306	939,964	2,015,270
MA-03-0281	20.500	Auburndale Access Improvements	76,931	—	76,931
MA-03-0292	20.500	Fitchburg CR Improvements	—	11,972,326	11,972,326
MA-04-0019	20.500	Hingham Intermodal & Harbor Park	3,225,803	29,708	3,255,511
MA-04-0025	20.500	Quincy High Speed Catamaran	75,854	9,123	84,977
MA-04-0026	20.500	Ferry System Improvements	788,619	115,686	904,305
MA-04-0030	20.500	Rockport CR Station Improvements	263,668	—	263,668
MA-04-0032	20.500	Wonderland Station Area Improvements	1,099,797	542,768	1,642,565
MA-04-0036	20.500	Ferry Parking Expansion – Quincy	1,310,490	1,007	1,311,497
MA-04-0044	20.500	Melrose CR Station Improvements	612,620	73,380	686,000
MA-04-0048	20.500	Hingham Intermodal Center	—	—	—
MA-04-0049	20.500	Wonderland Intermodal Transit	—	3,159,444	3,159,444
MA-04-0051	20.500	Commonwealth Ave. Green Line Station	—	197,996	197,996
MA-04-0056	20.500	Boston Bike Share Program	—	1,814,443	1,814,443
MA-05-0102	20.500	Blue Line Modernization	66,269,648	2,440,959	68,710,607
MA-05-0103	20.500	FY07 Station Management Proj.	31,390,257	1,021,580	32,411,837
MA-05-0105	20.500	FY07 Comm. Rail Vehicle Service	44,819,560	51,123	44,870,683
MA-05-0106	20.500	FY07 Coach Reliability & Safety Prog.	39,397,856	3,219,455	42,617,311
MA-05-0107	20.500	FY07 Bridge & Tunnel Prog.	9,444,941	92,356	9,537,297
MA-05-0109	20.500	Green Line #7 Car	2,504,069	46,422	2,550,491
MA-05-0110	20.500	Lawrence Intermodal Station	4,545,280	—	4,545,280
MA-05-0111	20.500	Columbia Junction	4,962,420	1,075,460	6,037,880
MA-05-0112	20.500	Orange Line Upgrades – Cars	—	2,000,000	2,000,000
MA-05-0113	20.500	Red Line #2 Sel Sys O/H	7,116,208	883,789	7,999,997
MA-05-0114	20.500	Power Improvements	1,420,174	1,370,240	2,790,414
MA-05-0115	20.500	FY 10 Red Line # 2 Car Overhaul	17,767,090	5,233,342	23,000,432
MA-05-0119	20.500	FY10 Loco & Coach Procurement	2,859,984	9,137,390	11,997,374
MA-05-0120	20.500	Coach Reliability & Safety Prog.	—	1,367,198	1,367,198
MA-05-0121	20.500	MBTA Power Program	464,637	5,459,941	5,924,578
MA-05-0122	20.500	FY 2012 Bridge Program	—	—	—
MA-05-0124	20.500	Mansfield Station Impvs.	—	87,981	87,981
MA-05-0128	20.500	FY 2013 Infrastructure Impvs.	—	—	—
MA-05-0129	20.500	Positive Train Control Ph. 1	—	627,029	627,029
MA-55-0003	20.500	South Weymouth Access Impvs.	—	4,577,094	4,577,094
MA-55-0004	20.500	Assembly Square Project	—	—	—
MA-56-0001	20.500	CR Stations, Dudley Square (ARRA)	21,154,865	13,288,958	34,443,823
		Subtotal # 20.500	607,199,426	74,929,849	682,129,275
Passed through the Rhode Island Department of Transportation:					
Federal Transit – Capital Investment Grants Program:					
RI-56-0001 (90RI11)	20.500	Pawtucket Upgrades (ARRA)	—	11,844	11,844
		Subtotal # 20.500	—	11,844	11,844
		Total # 20.500	607,199,426	74,941,693	682,141,119
Federal Transit – Capital Assistance for Reducing Energy Consumption/Greenhouse Emissions:					
MA-77-0002	20.523	Renewable Wind Energy – TIGGER (ARRA)	—	492,922	492,922
		Total # 20.523	—	492,922	492,922
Federal Transit Metropolitan Planning Grants Program:					
Passed through the Metropolitan Area Planning Council:					
MA-80-2020	20.505	FY 10 Unified Planning Work Program	117,452	—	117,452
		Total # 20.505	117,452	—	117,452
Federal Transit Formula Grants Program:					
MA-90-0305	20.507	Green Line Station Access	115,801,321	1,590,924	117,392,245
MA-90-0330	20.507	FTA Section 5307 Enhancements	5,803,747	1,544,265	7,348,012
MA-90-0331	20.507	FY99 Sec 5307 Infrastructure	226,716,473	3,642,257	230,358,730
MA-90-0417	20.507	New Blue Line Cars	84,920,024	4,879,855	89,799,879
MA-90-0456	20.507	Public Address/Electronic Sign	4,462,490	—	4,462,490
MA-90-0497	20.507	Escalator/Elevator Improvements	23,077,897	8,087,475	31,165,372
MA-90-0513	20.507	310 ECD Bus Procurement	109,566,285	611,698	110,177,983
MA-90-0515	20.507	New Blue Line Cars	31,540,593	3,263,647	34,804,240
MA-90-0516	20.507	Public Address/Electronic Sign	19,260,346	2,595,044	21,855,390
MA-90-0517	20.507	Light Rail accessibility	8,114,324	1,544,176	9,658,500
MA-90-0518	20.507	Blue Line Signal Project	26,160,619	339,357	26,499,976
MA-90-0519	20.507	Automated Fare Collection	23,909,093	281,365	24,190,458
MA-90-0521	20.507	FY 07 Station Security	9,251,217	24,758	9,275,975
MA-90-0522	20.507	FY 07 Ashmont Station	38,862,660	1,715	38,864,375
MA-90-0524	20.507	STP Preventative Maintenance	808,565	—	808,565
MA-90-0526	20.507	Wellington Bus Maint. Facility	1,635,808	314,191	1,949,999

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Grant number	Federal catalog number	Program description	Cumulative to June 30, 2011	Expenditures, net of transfers July 1, 2011 – June 30, 2012	Cumulative to June 30, 2012
MA-90-0548	20.507	Park Street Stairs	\$ 2,889,111	90,439	2,979,550
MA-90-0549	20.507	Everett Maintenance Facility	6,541,940	(541,940)	6,000,000
MA-90-0550	20.507	Bicycle Enhancements	217,027	180,894	397,921
MA-90-0566	20.507	ECD/CNG Bus Rebuild	20,078,034	5,305,642	25,383,676
MA-90-0576	20.507	Orange Line Journal Bearing Replacement	335,647	802,038	1,137,685
MA-90-X577	20.507	175 Buses/Fairmount Line (GANS)	20,985,863	—	20,985,863
MA-90-0584	20.507	FY 10 Disaster Recovery/Increased Storage	1,577,597	(56,374)	1,521,223
MA-90-0589	20.507	Everett Shop Equipment	—	662,440	662,440
MA-90-0590	20.507	IT System/NR Vehicle GL PTC	3,768,683	2,723,448	6,492,131
MA-90-0591	20.507	FY 2010 Loco & Coach Procurement	—	—	—
MA-90-0599	20.507	FY 2011 Preventive Maintenance	12,500,000	2,500,000	15,000,000
MA-90-0600	20.507	MBTA Power Program	—	2,378,169	2,378,169
MA-90-0621	20.507	Red & Orange Line Vehicle Prev. Maint.	—	4,551	4,551
MA-90-0622	20.507	Orient Heights Station	—	—	—
MA-90-0626	20.507	FY 2012 Preventive Maintenance	—	5,000,000	5,000,000
MA-66-X013	20.507	13 Key Bus Routes Improvements (ARRA)	686,830	1,396,374	2,083,204
MA-66-X014	20.507	Wonderland Garage – (ARRA)	11,212,923	11,487,077	22,700,000
MA-66-X015	20.507	Wedgemere Access/Red Line Slab – (ARRA)	565,941	5,398,693	5,964,634
MA-95-0010	20.507	Bus Bike racks	—	260,095	260,095
MA-95-0012	20.507	Assembly Square Project	—	—	—
MA-96-0001	20.507	Back Bay Vent/RIDE Vans (ARRA)	15,094,101	4,051,589	19,145,690
MA-96-0014	20.507	Bus Fac/Fitchburg Dbl. Trk. (ARRA)	56,201,950	16,127,536	72,329,486
MA-96-0016	20.507	Oper Assist/Yard/Station Impvs. (ARRA)	32,777,240	10,132,896	42,910,136
		Total #20.507	915,324,349	96,624,294	1,011,948,643
Federal Transit – Transportation Investment					
Generating Economic Recovery Program:					
MA-78-0001	20.932	Wonderland Plaza TIGER (ARRA)	1,012,961	7,886,276	8,899,237
MA-78-0002	20.932	Fitchburg Wachusett Ext. TIGER (ARRA)	367,829	2,953,840	3,321,669
		Subtotal #20.932	1,380,790	10,840,116	12,220,906
Federal Railroad Administration:					
Passed through the Commonwealth of Massachusetts					
(Mass DOT):					
S10004	20.932	New Bedford 3 Bridges – TIGER (ARRA)	10,233,504	9,399,989	19,633,493
		Total #20.932	11,614,294	20,240,105	31,854,399
S10007	20.319	Knowledge Corridor – HSIPR-(ARRA)	602,915	4,932,632	5,535,547
		Total U.S. Department of Transportation	1,534,928,932	199,605,551	1,734,534,483
U.S. Environmental Protection Agency:					
Surveys, Studies, Investigations and Special Purpose					
Activities Relating to Clean Air Act:					
Passed through the Commonwealth of					
Massachusetts (MassDEP):					
2D-96101401 (90-EPA2) (ARRA)	66.040	Locomotive HEP Engine Repower Program	1,087,108	(790,624)	296,484
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	1,087,108	1,398,921	2,486,029
U.S. Department of Homeland Security:					
Urban Areas Security Initiatives:					
HSTS02-06-H-MLS110 (J10002)	97.072	TSA Natl. Explosives Canine Prog.	494,891	43,252	538,143
HSTS02-10-H-CAN632 (J11002)	97.072	TSA Natl. Explosives Canine Prog.	—	133,238	133,238
		Total #97.072	494,891	176,490	671,381
Passed through the Commonwealth of Massachusetts					
(Executive Office of Public Safety and Security):					
J07001	97.075	FY 2007 Transit Security	7,700,423	14,981,284	22,681,707
J08001	97.075	FY 2008 Transit Security	613,458	2,617,319	3,230,777
Direct award:					
2009RAT9K013	97.075	FY 2009 Transit Security (J09001)	1,903,850	6,149,107	8,052,957
2010RATOK045	97.075	FY 2010 Transit Security (J10001)	—	240,581	240,581
		Subtotal #97.075	10,217,731	23,988,291	34,206,022
Public Assistance Grants Program					
Passed through the Commonwealth of Massachusetts					
Massachusetts Emergency Management Agency					
	97.036	Rainstorm spring 2010	1,064,151	—	1,064,151
		Total # 97.075	10,217,731	23,988,291	34,206,022
		Total # 97.036	1,064,151	—	1,064,151
		Total of U.S. Department of Homeland Security	11,776,773	24,164,781	35,941,554
		Grand Total	\$ 1,550,432,779	225,223,116	1,775,655,895

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, 2012

(1) Entity

The Massachusetts Bay Transportation Authority (the Authority) is a component unit of 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, 2012 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 from the Federal Railroad Administration (FRA), for the High-Speed Rail Corridors and Intercity Passenger Rail Service (HSIPR) and the TIGER grant, which passed through the Commonwealth of Massachusetts Department of Transportation (MassDOT). Further, through the FTA, the Authority received capital assistance for reducing energy consumption/greenhouse emissions. These were funds for the installation of renewable wind energy generation turbines.

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, 2012

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 *Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users* (SAFETEA-LU).

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, 2012 the Authority provided approximately \$23 million in federal awards to subrecipients of which approximately 90% was paid to the City of Revere, Massachusetts and South Shore Tri Town Development Corporation.

The subrecipient payments are almost entirely in the Federal Transit – Capital Investment Grants Program, CFDA #20.205, 20.500, and 20.507 expenditures.



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

Exhibit III

**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Board of Directors
Massachusetts Bay Transportation Authority:

We have audited the financial statements of the Massachusetts Bay Transportation Authority (the Authority), a component unit of the Massachusetts Department of Transportation, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 4, 2012. We conducted our audit in accordance with 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.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.



Exhibit III

We noted certain matters that we reported to the Authority in a separate letter dated October 4, 2012.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 4, 2012

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

(1) **Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued:	Unqualified
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:	Unqualified
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

<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
Federal Transit – Capital Assistance for Reducing Energy Consumption/Greenhouse Emission (TIGGER)	20.523

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, 2012

(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 2012-1
Federal Program: CFDA #20.500 Federal Transit Capital Investment Grants
 CFDA #20.507 Federal Transit Formula Grants
Federal Agency: U.S. Department of Transportation
Grant Award and Year: MA 66-0014 (ARRA); MA 04-0032; MA 04-0049/2011; 2012
Finding: Subrecipient monitoring – insufficient award identification to subrecipients

Criteria:

The requirements for subrecipient monitoring are contained in 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)), OMB Circular A-133 (§__.225, §__.310(d)(5), ____.400(d)), A-102 Common Rule (§__.37 and §__.40(a)), and OMB Circular A-110 (2 CFR section 215.51(a)), program legislation, Section 1512(h) of ARRA, 2 CFR section 176.50(c), 2 CFR parts 25 and 170, and 48 CFR parts 4, 42, and 52 federal awarding agency regulations, and the terms and conditions of the award

Per the Office of Management and Budget Circular A-133 Compliance Supplement, a pass-through entity is responsible for:

- *Award Identification* – At the time of the subaward, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements. For ARRA subawards, identifying to the subrecipient the amount of ARRA funds provided by the subaward and advising the subrecipient of the requirement to identify ARRA funds in the Schedule of Expenditures of Federal Awards (SEFA) and the SF-SAC data collection form and to register in the Central Contractor Registration(CCR).

Condition:

For the Federal Transit Cluster, we reviewed four grant agreements, out of fifteen total, which pass through to subrecipients. For the agreements and addenda reviewed for one subrecipient, we noted the Massachusetts Bay Transportation Authority did not inform the subrecipient of the CFDA name, award name, award number and the requirement to identify ARRA funds in the Schedule of Expenditures of Federal Awards (SEFA) and the SF-SAC and of the requirement to register in the CCR.

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

Cause:

The Authority did not include all of the requirements in the subrecipient agreement because it was an administrative oversight.

Effect:

Subrecipients may not be aware that they are receiving federal dollars, nor be aware of the federal program for which they should comply, which may impede compliance with relevant requirements, including audits.

Questioned Costs:

None.

Recommendation:

Appropriately communicate to all subrecipients the CFDA name, award name, award number, the requirement to identify ARRA funds in the Schedule of Expenditures of Federal Awards (SEFA) and the SF-SAC and to register in the CCR.

Auditee Corrective Action Plan:

The Authority will prepare an addendum to the agreements with the subrecipient in question informing them of the CFDA name, award name, award number and the requirement to identify ARRA funds in the Schedule of Expenditures of Federal Awards (SEFA) and the SF-SAC form and of the requirement to register in the CCR. The Authority will also update the internal checklist of subrecipient monitoring responsibilities to include these requirements.

Responsible Person:

Victor Rivas
Deputy Director of Capital Budget

Implementation Date:

November 1, 2012