

**The Metropolitan Transportation Authority**

**Report to Management**

**Year Ended December 31, 2018**

June 26, 2019

The Audit Committee  
Metropolitan Transportation Authority  
New York, New York

And

The Management of the Metropolitan Transportation Authority  
New York, New York

Dear Members of the Audit Committee and Management:

In connection with our audits of the consolidated financial statements of the Metropolitan Transportation Authority (the “Authority”) and of the financial statements of the First Mutual Transportation Assurance Company, Long Island Rail Road Company, Metro-North Commuter Railroad Company, MTA Bus Company, New York City Transit Authority, Staten Island Rapid Transit Operating Authority and the Triborough Bridge and Tunnel Authority (collectively the “MTA”) as of and for the year ended December 31, 2018 (on which we have issued our reports dated June 26, 2019 which contain explanatory paragraphs that the MTA requires significant subsidies from other governmental entities), performed in accordance with auditing standards generally accepted in the United States of America (generally accepted auditing standards), we considered the MTA’s internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MTA’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MTA’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audits, we have identified, and included in the attached Appendix A, deficiencies related to the MTA’s internal control over financial reporting and other matters as of December 31, 2018, that we wish to bring to your attention.

We also plan to issue our Uniform Guidance Reports in accordance with *Government Auditing Standards* and the U.S. Office of Management and Budget (“OMB”) audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“OMB Uniform Guidance”) and compliance with the types of compliance requirements described in the *Part 43 of the New York State Codification of Rules and Regulations* which will include (1) Independent Auditors’ Report (2) 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* (3) Independent Auditors’ Report on Compliance for Each Major Federal Program; and Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance, and (4) Independent Auditors’ Report on Compliance for Each Major State of New York Department of Transportation Assistance Program; and Report on Internal Controls over Compliance; and Report on Schedule of State of New York Department of Transportation Assistance expended Required by Part 43 of the New York State Codification of Rules and Regulations.

The definition of a deficiency is also set forth in the attached Appendix B

Although we have included management's written response to our comments in the attached Appendix A, such responses have not been subjected to the auditing procedures applied in our audits of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix C and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Audit Committee, Federal and State awarding agencies or pass-through entities, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

*Deloitte & Touche LLP*

**THE METROPOLITAN TRANSPORTATION AUTHORITY  
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**APPENDIX A**

**METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS**

**METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS  
CURRENT YEAR COMMENTS- DEFICIENCIES-2018**

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**DEFICIENCIES**

We identified, and included below, deficiencies involving the Metropolitan Transportation Authority-Headquarters' ("MTA HQ") internal control over financial reporting for the year ended December 31, 2018, that have not been previously communicated in writing or orally, by others within MTA HQ, or by us.

**1. Controls related to the Review of Classification of Debt, Security Deposits and Derivative Hedge Asset/Liability**

***Criteria:***

GASB Codification - Section 1800.113, *Current Liabilities*, states the following:

The term *current liabilities* is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. Other liabilities whose regular and ordinary liquidation is expected to occur within one year also are intended for inclusion, such as short-term debts arising from the acquisition of capital assets, serial maturities of long-term obligations, amounts required to be expended within one year under sinking fund provisions, and certain agency obligations arising from the collection or acceptance of cash or other assets for the account of third parties.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* establishes accounting and financial reporting requirements for derivative instruments entered by state and local governments. GASB Statement No. 53 deals with the recognition, measurement, and disclosure of information regarding derivative instruments, and addresses hedge accounting requirements. Hedging derivative instruments are supposed to significantly reduce financial risk by substantially offsetting the associated changes in cash flows or fair values of the underlying bond portfolio.

The MTAHQ holds SWAP instruments in its bond portfolio. In certain cases, SWAP instruments were attached to bonds, which subsequently were refunded or retired, at which point, the SWAP instrument was reattached to another outstanding bond issue. At the point of reattachment there is a value associated with the SWAP being reattached known as an "off market element" which needs to be amortized over the remaining life of the bonds. This off-market element is part of the overall FMV of the derivative instruments and must be broken out and reported separately. Depending on the FMV of the derivative instruments and the amortization of the off-market element, this value is reported as a derivative hedge asset or liability.

***Condition:***

Generally accepted accounting principles require the proper and consistent classification of liabilities between current and non-current. In accordance with GASB Section 1800.113, current portion of long-term debt should reflect all principal payments due within one year of December 31, 2018. Based on our testing procedures, the total balance of outstanding debt for three bond series was improperly classified as non-current debt, while there were principal payments due within one year of December 31, 2018 that should have been classified as current portion of long-term debt. MTAHQ holds security deposits for property they lease to third parties or tenants and have recognized all these deposits as non-current liability in the general ledger. However, based on our testing procedures we noted some leases are set to

**METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS  
CURRENT YEAR COMMENTS- DEFICIENCIES-2018**

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expire within one year of December 31, 2018. As such, some of the security deposits should have been classified as a current liability.

Management recorded the fair value of derivative instruments and the off-market element quarterly using the valuation report obtained by third-party specialists and the amortization schedules for each off-market element that were prepared at the date of novation. Based on our testing procedures, we noted the amortization schedules of the off-market elements were not properly reviewed to identify the error within the calculation of the amortized off-market element balance as of December 31, 2018.

***Cause:***

Management did not perform a thorough review of the debt classification schedule and of the expiration of leases at December 31, 2018 to ensure proper classification of debt and the security deposit liability between current and non-current. During the 2018 year-end review of the off-market elements, a detailed comparison to underlying source documents (i.e. off-market element amortization schedules) was not performed by the reviewer.

***Effect:***

“Current portion – long-term debt” was understated by \$23.8 million and “Noncurrent portion- long-term debt” was overstated by \$23.8 million as of December 31, 2018. “Other current liabilities” were understated by \$1 million and “Other non-current liabilities” were overstated by \$1 million as of December 31, 2018. Prior to the correction by management, “Derivative assets” was overstated by \$3.3 million and “Derivative liabilities” was understated by \$3.3 million.

***Recommendation:***

Management should enhance their review process of the debt classification schedule, of the leases terms and expirations schedule, and the off-market elements amortization schedules, whereby the schedules are prepared and separately reviewed to ensure that the classification of debt, security deposits and derivative hedge asset/liability are recorded properly in the financial statements. During the review of the debt classification schedule and the security deposit schedule, the reviewer should compare the balances reported as current and noncurrent to underlying supporting source documents. During the review of the off-market elements amortization schedules, the reviewer should compare the balances reported as derivative asset/liability to the underlying source documents.

***Financial Statement Impact:***

A re-classification adjustment of \$23.8 million from “Noncurrent portion -long-term debt” to “Current portion - long-term debt” and a correction of \$3.3 million from “Derivative assets” to “Derivative liabilities” was made by Management as of December 31, 2018. There was a misstatement to “Other current liabilities” and “Other non-current liabilities” of \$1 million related to security deposits as of December 31, 2018.

***Management Response (2018):***

MTAHQ agrees with the recommendation. We will enhance the review process between preparer and reviewer of the debt classification schedule, security deposits schedule and the derivative assets and derivative liabilities supporting schedules to ensure proper classification in the financial statements.



**METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS  
CURRENT YEAR COMMENTS- DEFICIENCIES -2018**

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**2. Controls related to the Review of Subway Action Plan**

***Criteria:***

In April 2018, the approved 2018-2019 New York State Budget committed both New York State (“NYS”) and New York City (“NYC”) to equally cover the costs of the 2017-2018 Subway Action Plan (“SAP”), which was launched at the direction of Governor Andrew Cuomo in July 2017 to take extraordinary measures to stabilize and improve the more than 100-year old New York City subway system. The SAP includes a comprehensive \$836 million investment to address system failures, breakdowns, delays and deteriorating customer service, and position the New York City subway system for future modernization. The SAP provided the MTA with additional operating and capital funding to cover the cost of the remaining SAP through the end of 2018. The MTA started receiving the SAP funding in April 2018 and received the full funding by the end of 2018.

***Condition:***

Generally accepted accounting principles require the proper and consistent classification of expenses with revenue in accordance with the matching principle. Funds in the SAP account were used exclusively for funding the operating and capital costs of the SAP (such plan developed by MTA New York City Transit and approved by the MTA Board). Based on our testing procedures, we identified that the non-operating SAP revenue was understated by \$60 million and unearned revenue was overstated by \$60 million as of December 31, 2018.

***Cause:***

Upon evaluation of the internal controls over the SAP, it was determined this misstatement was the result of a lack of timely information regarding the actual expenditures related to the operating and capital costs of the SAP which is used by the MTAHQ Accounting Department to record the related SAP revenue and unearned revenue as of December 31, 2018.

***Effect:***

“NYS/NYC SAP” non-operating revenue was understated by \$60 million and “Unearned revenue” was overstated by \$60 million as of December 31, 2018.

***Recommendation:***

It is recommended that MTAHQ Budget and MTA Treasury communicate timely and periodically on matters that involve both agencies such as SAP actual expenditures. Timely communication between these departments would contribute to accurate and complete accounting of the SAP expenditures and related revenue by the MTAHQ Accounting Department.

***Financial Statement Impact:***

Management recorded an adjustment to “NYS/NYC SAP” to increase the non-operating revenue by \$60 million and decrease “Unearned revenue” by \$60 million as of December 31, 2018.

***Management Response (2018):***

MTAHQ agrees with this recommendation. Going forward, MTAHQ Budget and MTA Treasury will include MTAHQ and Agency accounting departments in communications related to revenue and expenditures transactions.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY (“IT”) DEPARTMENT**

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT  
CURRENT YEAR COMMENTS- DEFICIENCIES- 2018**

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**DEFICIENCIES**

We identified, and included below, deficiencies involving the MTA Consolidated IT Department's internal control over financial reporting for the year ended December 31, 2018, that have not been previously communicated in writing or orally, by others within the MTA, or by us.

**1. ORT Application and Supporting SQL Database Password Parameters**

***Agency:***

Triborough Bridge and Tunnel Authority ("TBTA")

***Criteria:***

The identity of users should be authenticated to the systems software through passwords or other authentication mechanisms, in compliance with entity security policies. The use of passwords incorporates policies on periodic change, confidentiality, and password format (e.g., password length, alphanumeric content, expiration, account lockout).

***Condition:***

**ORT Application:** During our audit procedures, D&T noted that current password parameters for the ORT application were not in compliance with the security policy as the current parameters do not enforce complexity nor lockout parameters. Weak password parameters could potentially result in users gaining unauthorized access to the application.

**SQL Database:** D&T noted that 5 service accounts are configured with SQL authentication and do not inherit Windows password parameters. As such, the passwords for these accounts are not set in accordance with MTA security policies/industry best practices.

***Cause:***

D&T noted that the root cause was attributed to lack of management oversight.

***Effect:***

Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases the risk of unauthorized access to the ORT application and supporting SQL database which could potentially lead to inappropriate changes to the application or underlying data.

***Recommendation:***

We recommend that MTA IT coordinate with ORT vendor management to align the password parameters with TBTA security policies and industry best practices. Given that the vendor is responsible for the password parameters, D&T recommends that MTA IT consider implementing a multi-factor authentication (MFA) solution (i.e. Microsoft Azure Multi-Factor Authentication, RSA, Okta) as part of the TBTA environment as an additional control over security.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT  
CURRENT YEAR COMMENTS- DEFICIENCIES- 2018**

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***Financial Statement Impact:***

No Impact – risk associated with this deficiency mitigated by the following controls and factors:

1. As users are approved by management based on job responsibilities prior to implementation in production, D&T noted an effective provisioning control assists to reduce the risk of users having inappropriate access to the application.
2. As users are removed in a timely manner following termination/transfer from departments, D&T noted an effective deprovisioning control also assists to reduce the risk of users having inappropriate access to the application.

***Management Response (2018):***

Estimated completion date is the 3rd Quarter 2019.

Management concurs. The vendor has agreed to align passwords with MTA IT Security password policy with MTA password policy.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT  
CURRENT YEAR COMMENTS- DEFICIENCIES- 2018**

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**2. CAMS-FS Application Password Parameters**

***Agency:***

Long Island Rail Road (“LIRR”)

***Criteria:***

The identity of users should be authenticated to the systems software through passwords or other authentication mechanisms, in compliance with entity security policies. The use of passwords incorporates policies on periodic change, confidentiality, and password format (e.g., password length, alphanumeric content, expiration, account lockout).

***Condition:***

During our audit procedures, D&T noted that current password parameters for the LIRR AD domain (and thus the CAMS-FS application) were not in compliance with the security policy as the current parameters do not enforce complexity nor meet the minimum length and lockout threshold requirements. Weak password parameters could potentially result in users gaining unauthorized access the applications.

***Cause:***

D&T noted that the root cause was attributed to lack of management oversight.

***Effect:***

Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases the risk of unauthorized access to the CAMS-FS application which could potentially lead to inappropriate changes to the application or underlying data.

***Recommendation:***

We recommend that MTA IT align the password parameters for the CAMS-FS application with LIRR security policies and industry best practices.

***Financial Statement Impact:***

No Impact – risk associated with this deficiency mitigated by the following controls and factors:

1. As users are approved by management based on job responsibilities prior to implementation in production, D&T noted an effective provisioning control assists to reduce the risk of users having inappropriate access to the application.
2. As users are removed in a timely manner following termination/transfer from departments, D&T noted an effective deprovisioning control also assists to reduce the risk of users having inappropriate access to the application.

***Management Response (2018):***

Estimated completion date is the 3<sup>rd</sup> Quarter of 2019.

Management concurred. The Active Directory Project, already started in 2018, will update passwords to align with IT Security Policy.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT  
CURRENT YEAR COMMENTS- DEFICIENCIES- 2018**

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**3. AFC and MMS (TALON) Application and Supporting DB2 Database Password Parameters**

***Agency:***

New York City Transit Authority

***Criteria:***

The identity of users should be authenticated to the systems software through passwords or other authentication mechanisms, in compliance with entity security policies. The use of passwords incorporates policies on periodic change, confidentiality, and password format (e.g., password length, alphanumeric content, expiration, account lockout).

***Condition:***

Password settings configured for the AFC and MMS applications as well as the supporting DB2 database are not in line with the MTA Corporate Policy and/or industry standards on the network and on RACF. Weak password parameters could potentially result in users gaining unauthorized access the applications.

***Cause:***

D&T noted that the root cause was attributed to lack of management oversight.

***Effect:***

Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases the risk of unauthorized access to the mainframe applications and underlying DB2 databases which could potentially lead to inappropriate changes to the application or underlying data.

***Recommendation:***

We recommend that MTA IT align the password parameters for the mainframe applications and supporting DB2 databases with Transit Authority security policies and industry best practices.

***Financial Statement Impact:***

No Impact – risk associated with this deficiency mitigated by the following controls and factors:

1. As users are recertified by management, D&T noted an effective monitoring control assists to reduce the risk of users having inappropriate access to the application.
2. Access to implement changes (including interface and database changes) into the application production environment is appropriately restricted and segregated.

***Management Response (2018):***

Estimated completion date is the 4<sup>th</sup> Quarter of 2019.

Management concurred. MTA IT Security has been already working with the vendor on testing password settings and the effects on downstream applications. Management is also looking to create a separate directory group which will have the increased security requirements with the limited special character selection.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT  
PRIOR YEAR COMMENTS- DEFICIENCIES- 2015**

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**4. Impact Application Password Parameters**

***Agency:***

Metropolitan Transportation Authority- Headquarters

***Criteria:***

The identity of users should be authenticated to the systems software through passwords or other authentication mechanisms, in compliance with entity security policies. The use of passwords incorporates policies on periodic change, confidentiality, and password format (e.g., password length, alphanumeric content, expiration, account lockout).

***Condition:***

D&T noted that passwords to the Impact application are not in compliance with MTA security policies or industry best practices as the current password settings lack complexity, password age, password history, and lockout requirements.

***Cause:***

The security policies and guidelines were not appropriately implemented for the Impact application.

***Effect:***

Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases the risk of unauthorized access to the Impact application which could potentially lead to inappropriate changes to the application or underlying data.

***Recommendation:***

We recommend that MTA IT align the password parameters for the Impact application with MTAHQ security policies and industry best practices.

***Financial Statement Impact:***

No Impact – risk associated with this deficiency mitigated by the following controls and factors:

1. As users are approved by management based on job responsibilities prior to implementation in production, D&T noted an effective provisioning control assists to reduce the risk of users having inappropriate access to the application.
2. As users are removed in a timely manner following termination/transfer from departments, D&T noted an effective deprovisioning control also assists to reduce the risk of users having inappropriate access to the application.

***Status Update (2016):***

The identified observation still remains open.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT  
PRIOR YEAR COMMENTS- DEFICIENCIES- 2015**

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Impact application password parameters continue to not be in compliance with MTA security policies or industry best practices as the current password settings lack password age, password history, and lockout requirements.

We reiterate our prior recommendations.

***Status Update (2017):***

The identified observation still remains open. Impact application password parameters continue to not be in compliance with MTA security policies or industry best practices as the current password settings lack password age, password history, and lockout requirements. We reiterate our prior recommendations.

***Management Response (2017):***

Estimated Completion date is the 3<sup>rd</sup> Quarter of 2018.

IMPACT uses WebLogic server's LDAP (Lightweight Directory Access Protocol) for authentication, where these password parameters such as password history are not built-in features. IMPACT does not have the resources to create custom password features. MTA IT is currently in the process of switching IMPACT's authentication from WebLogic's LDAP to MTA's agency-wide ADLDS (Active Directory Lightweight Directory Services).

***Status Update (2018):***

The identified observation still remains open.

While IMPACT's authentication from WebLogic's LDAP switched to the MTA's agency-wide ADLDS during the year, D&T noted that the current password parameters for the domain (governing authentication) were not in compliance with the security policy as the current parameters do not enforce complexity nor meet the minimum length requirements.

We reiterate our prior recommendations.

***Management Response (2018):***

Estimated completion date is the 3<sup>rd</sup> Quarter of 2019.

Management concurred. The Impact applications was already moved to ADLDS (Active Directory) Lightweight Directory Services in the 4<sup>th</sup> Quarter of 2018. To be compliant, the Impact applications relies on the Active Directory project to update passwords to align with IT Security and best practices, which work is already in progress.



**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT  
PRIOR YEAR COMMENTS- DEFICIENCIES- 2015**

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**5. Change Management - Access to Production – CAMS-FS Application**

***Agency:***

Long Island Rail Road (“LIRR”)

***Criteria:***

Access to implement changes (including interface and database changes) into the application production environment should be appropriately restricted to the IT Security Administrator and the VP-IT Department and is segregated.

***Condition:***

D&T noted that there are improper segregation of duties between development and deployment for the CAMS-FS application as developers have the ability to develop and deploy changes. As such, it is possible for a developer to migrate their own change into the CAMS-FS production environment without appropriate change management testing and approvals. In response to this finding, MTA IT has implemented a two-tier production change process that consists of the programmer analysts submitting a ServiceNow Change Request to be implemented by the Maximo Administration personnel. In addition, an automated monitoring process for any changes to the Maximo enterprise archive (EAR) java file was implemented. This process notifies the application support manager and the quality assurance manager of any changes to date/time stamp of the production EAR file. However, D&T was unable to corroborate the design and implementation of these processes in the current year.

***Cause:***

MTA IT has not appropriately segregated logical access for developers; they are granted access to both development and production environments without sufficient monitoring controls.

***Effect:***

Given that logical access has not been appropriately segregated, there is a risk of unauthorized changes being implemented into the production environment that would circumvent the change management process.

***Recommendation:***

We recommend that MTA IT maintain sufficient appropriate documentation to evidence the design and implementation effectiveness of the monitoring procedures used to mitigate the risk arising from this segregation of duties deficiency.

***Financial Statement Impact:***

No Impact – risk associated with this deficiency mitigated by the following control:

1. As changes are required to be tested and approved prior to implementation in production as a part of the control, D&T noted that an effective control would mitigate the risk of inappropriate changes to the application or supporting database.

***Status Update (2016):***

The identified observation still remains open.

D&T noted that MTA IT has not appropriately segregated logical access for developers; they are granted access to both development and production environments without sufficient monitoring controls.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT  
PRIOR YEAR COMMENTS- DEFICIENCIES- 2015**

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We reiterate our prior recommendations as management should restrict programmer access to the production environment or implement additional monitoring controls that would address the risk arising from this segregation of duties deficiency.

***Status Update (2017):***

The identified observation remains open until D&T is able to test the design & implementation effectiveness of the monitoring controls created for this environment.

***Management Response (2017):***

Implemented in the 1<sup>st</sup> Quarter of 2018.

MTA IT implemented a two-tier production change process that consists of the programmer analysts submitting a ServiceNow Change Request to be implemented by the Maximo Administration personnel. In addition, an automated monitoring process for any changes to the Maximo enterprise archive (EAR) java file was implemented. This process notifies the application support manager and the quality assurance manager of any changes to date/time stamp of the production EAR file.

***Status Update (2018):***

The identified observation remains open until D&T is able to test the design & implementation effectiveness of the monitoring controls created for this environment.

***Management Response (2018):***

Estimated completion date is the 3<sup>rd</sup> Quarter of 2019.

Management concurred: Currently, all changes are being monitored, and any changes detected are sent to the MTA Information Technology Quality Assurance group for their review. Additionally, all changes are being entered into Service Now. Going forward, management will set up a monthly review with Information Technology Quality Assurance group to go over all changes that were detected through the monitoring process in place; and further, these reviews will be documented in Service Now.

**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**

**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY  
CURRENT YEAR COMMENTS- DEFICIENCIES-2018**

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**DEFICIENCIES**

We identified, and included below, deficiencies involving the First Mutual Transportation Assurance Company's ("FMTAC") internal control over financial reporting for the year ended December 31, 2018, that have not been previously communicated in writing or orally, by others within FMTAC, or by us.

**1. Controls related to the Journal Entry Review Process**

***Criteria:***

Internal controls should be designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with the applicable financial reporting framework.

***Condition:***

Certain controls surrounding the review and approval of journal entries need improvement and strengthening. Based on our testing and discussions with FMTAC management during the audit, we note that evidence of review of journal entries is not documented as part of the review of the financial statement package.

***Cause:***

Evidence of review of journal entries is not maintained.

***Effect:***

There is no financial statement effect. There is no formal evidence that FMTAC management is performing reviews of journal entries.

***Financial Statement Impact:***

There is no financial statement impact as this deficiency relates to a lack of evidence of a review process control performed by FMTAC management.

***Recommendation:***

It is suggested that to further strengthen controls, FMTAC management should formally document and maintain evidence of their review of all journal entries posted to the general ledger.

***Management Response (2017):***

FMTAC agrees with the recommendation. We will implement a process documenting the review of the financial statements on an overall basis.

***Status Update (2018):***

In 2018, we noted there was a process documenting the review of the financial statements on an overall basis. However, we did not note any documentation, specifying a review of journal entries has occurred. We believe that within the documentation of the review of the financial statements, it should also be explicitly stated that a review of journal entries has occurred.

***Management Response (2018):***

FMTAC agrees with the recommendation. We will implement a process for the review of financial statements that includes Journal Entry review for overall reasonableness.

**NEW YORK CITY TRANSIT AUTHORITY**

**NEW YORK CITY TRANSIT AUTHORITY  
CURRENT YEAR COMMENT-DEFICIENCIES - 2018**

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**DEFICIENCIES**

We identified, and included below, deficiencies involving the New York City Transit Authority (“NYCTA”) internal control over financial reporting for the year ended December 31, 2018, that have not been previously communicated in writing or orally, by others within the MTA, or by us.

**1. Capital Asset Disposals**

***Agency:***

New York City Transit Authority (NYCTA)

***Criteria:***

Generally accepted accounting principles require the disposition of assets be recorded in the proper accounting period.

***Conditions:***

The sale or disposal of subway cars were recorded in an incorrect accounting period. Subway cars that had been disposed of through the MTA Asset Recovery Group in prior years continued to be recorded as assets in the NYCTA general ledger.

***Cause:***

Upon evaluation of the internal controls over the disposal of assets, it was determined that NYCTA’s process over capital asset disposals is not designed or implemented effectively. Due to a breakdown in communication between the MTA Asset Recovery Group and NYCTA Accounting Department, subway disposals were not being adequately reviewed by management and recorded in the general ledger in a timely manner.

***Effect:***

The net book value associated with the subway cars that were disposed of in a prior year was \$125 million of total net assets at December 31, 2018 of \$43 billion.

***Recommendation:***

As an enhancement to the process over capital asset disposals, it is recommended that Accounting Department communicate regularly with the Asset Recovery Group to ensure all approved disposals are captured and recorded in the general ledger in the correct accounting period.

***Financial Statement Impact:***

Management made a correcting entry in 2018 to remove the disposed subway cars from the general ledger and recorded a loss on disposal of assets of \$125 million for the year ended December 31, 2018 related to prior years.

**NEW YORK CITY TRANSIT AUTHORITY  
CURRENT YEAR COMMENT-DEFICIENCIES - 2018**

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***Management Response (2018):***

Effective January 2017, the NYCTA Accounting Department established a procedure whereby the Asset Recovery Group notifies it of all material disposals of capital assets. A reconciliation of the subway car inventory performed in 2018 identified subway cars which had been disposed of between the years 2002 and 2014 and not recorded, prior to the implementation of this new procedure. The adjusting entry recorded in 2018 of \$125 million is to record the disposition of these subway cars. All subway cars disposed by NYCTA in 2017 and forward have been recorded by accounting on a timely basis. In 2018 management performed a review of the capital assets on the balance sheet and did not find any further disposals of assets which required an adjusting entry to be recorded.

**NEW YORK CITY TRANSIT AUTHORITY  
CURRENT YEAR COMMENT-DEFICIENCIES - 2018**

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**2. Pollution Remediation Accrual related to GASB Statement No. 49**

***Agency:***

New York City Transit Authority (NYCTA)

***Criteria:***

Pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Pollution remediation obligations occur when any of the following obligating events takes place: the Authority is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the Authority is named by a regulator as a responsible or potentially responsible party to participate in remediation; the Authority voluntarily commences or legally obligates itself to commence remediation efforts; or the Authority is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

***Condition:***

All environmental contracts were not being correctly captured and therefore not being properly expensed.

***Cause:***

All environmental contracts are added into the PSR system; in order to generate a list of the respective contracts, a manual process would have to be performed. Due to a change in the process, when a new contract was entered into the PSR System an additional identifier field was added indicating if it was an environmental contract. This would allow IT to filter by the respective indicator within the PSR system to generate the report instead of manually going through the contracts and identifying all related environmental agreements. However, the PSR report/query was not capturing this new identifier field and as such, any new environmental contracts that were being added were not being correctly identified.

***Effect:***

Due to additional identification of areas of exposure requiring corrective work requirements; NYCTA was not capturing a complete listing of all environmental contractions through the PSR System.

***Recommendation:***

It is recommended that NYCTA periodically review the list of environmental contracts to ensure accuracy and completeness.

***Financial Statement Impact:***

NYCTA recorded additional Pollution Remediation Expense for the year ended December 31, 2018; NYCTA recognized \$84.1 million and \$8.5 million respectively in 2018 and 2017.

***Management Response (2018):***

Management concurs. An exception report will be generated to capture any discrepancies between PSR system and the environmental report/query on a monthly basis. All discrepancies will be added to the environmental report/query to ensure a complete listing is provided to Accounting for recording in the general ledger.



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**3. Vacation and Sick Schedule**

***Agency:***

New York City Transit Authority (NYCTA)

***Criteria:***

GASB Codification Section C60- Compensated Absences states the following:

Vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if *both* of these conditions are met:

- a. The employees' rights to receive compensation are attributable to services already rendered.
- b. It is probable that the employer will compensate the employees for the benefits through paid time off *or* some other means, such as cash payments at termination or retirement.

An employer usually would accrue a liability for vacation leave and other compensated absences with similar characteristics that were earned but not used during the current or prior periods and for which employees can receive compensation in a future period. Benefits that have been earned but that are not yet available for use as paid time off or as some other form of compensation because employees have not met certain conditions (for example, a minimum service period for new employees) should be accrued to the extent it is probable that the employees will meet the conditions for compensation in the future. However, benefits that have been earned but that are expected to lapse and thus not result in compensation to employees should not be accrued as a liability.

***Condition:***

All holiday and overtime banks (“fields”) were not being correctly captured within the Sick and Vacation Report and therefore not being properly expensed and accrued for.

***Cause:***

The December 31, 2018, Kronos Vacation/Sick Report was not capturing all holiday and overtime banks (“fields”). In 2016 Holiday Bank was separated out from the preexisting bank of Frozen Vacation Liability; this was separated for tracking purposes. Holiday bank tracks employees’ hours who work on MTA companywide holidays. The second bank added in 2018 was a new bank called Overtime (“OT”) Premium; OT Premium tracks the additional amount given to employees for overtime hours. The Vacation/Sick Report that is run at December 31 was not updated to reflect the additional banks that were separated out and added; as such, the report was not capturing the complete liability amount. During 2018, this issue was noticed and was corrected. NYCTA Management, alongside with the IT Department, had to adjust the parameters of the report to include all holiday and overtime banks.

***Effect:***

Not all salary, sick, and vacation liabilities were recorded in the general ledger. Accrued balances were incorrectly calculated and recorded due to misapplication of the formula and/or data used.

***Recommendation:***

It is recommended that NYCTA update the IT Report and Parameters anytime any policy changes/union updates are enacted. Further, the Kronos Sick and Vacation Schedule should be reviewed by Timekeeping and Management annually.

***Financial Statement Impact:***

NYCTA recorded an adjustment for the year ended December 31, 2018 to increase Operating Expenses by \$15.2 million. The increase was captured in the following two financial statement lines: Salaries and Wages expense of \$14.1 million and Other Fringe Benefits expense of \$1.1 million. NYCTA's Salaries and Wages and Other Fringe Benefits expenses for the year 2018 totaled \$4.1 billion and \$489 million, respectively.

***Management Response (2018):***

Management concurs. NYCTA management will annually review the Kronos Sick and Vacation Schedule and ensure all updates are properly reflected.

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**4. Controls related to the Review of Subway Action Plan**

***Criteria:***

In April 2018, the approved 2018-2019 New York State Budget committed both New York State (“NYS”) and New York City (“NYC”) to equally cover the costs of the 2017-2018 Subway Action Plan (“SAP”), which was launched at the direction of Governor Andrew Cuomo in July 2017 to take extraordinary measures to stabilize and improve the more than 100-year old New York City subway system. The SAP includes a comprehensive \$836 million investment to address system failures, breakdowns, delays and deteriorating customer service, and position the New York City subway system for future modernization. The SAP provided the MTA with additional operating and capital funding to cover the cost of the remaining SAP through the end of 2018. The MTA started receiving the SAP funding in April 2018 and received the full funding by the end of 2018.

***Condition:***

Generally accepted accounting principles require the proper and consistent classification of expenses with revenue in accordance with the matching principle. Funds in the SAP account were used exclusively for funding the operating and capital costs of the SAP (such plan developed by MTA New York City Transit and approved by the MTA Board). Based on our testing procedures, we identified that the non-operating SAP revenue was understated by \$60 million and unearned revenue was overstated by \$60 million as of December 31, 2018.

***Cause:***

Upon evaluation of the internal controls over the SAP, it was determined this misstatement was the result of a lack of timely information regarding the actual expenditures related to the operating and capital costs of the SAP which is used by the NYCTA Accounting Department to record the related SAP revenue and unearned revenue as of December 31, 2018.

***Effect:***

“NYS/NYC SAP” non-operating revenue was understated by \$60 million and “Unearned revenue” was overstated by \$60 million as of December 31, 2018.

***Recommendation:***

It is recommended that MTAHQ Budget and MTA Treasury communicate timely and periodically on matters that involve both agencies such as SAP actual expenditures. Timely communication between these departments would contribute to accurate and complete accounting of the SAP expenditures and related revenue by the NYCTA Accounting Department.

***Financial Statement Impact:***

Management recorded an adjustment to “NYS/NYC SAP” to increase the non-operating revenue by \$60 million and decrease “Unearned revenue” by \$60 million as of December 31, 2018.

***Management Response (2018):***

Management concurs. Going forward, MTAHQ Budget and MTA Treasury will include HQ and agency accounting departments in communications related to expenditures and revenue transactions.

## **APPENDIX B**

### **DEFINITION**

The definition of a deficiency is as follows:

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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

## **APPENDIX C**

### **MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND INHERENT LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are included in generally accepted auditing standards.

#### **Management's Responsibility**

The Company's management is responsible for the overall accuracy of the financial statements and their conformity with accounting principles generally accepted in the United States of America. In this regard, the Company's management is also responsible for designing, implementing and maintaining effective internal control over financial reporting.

#### **Objectives of Internal Control over Financial Reporting**

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

#### **Inherent Limitations of Internal Control over Financial Reporting**

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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