M E M O R A N D U M

SUBJECT: Results of the Audit of WMATA's SmarTrip Regional Partner Comparative Billing Statements Fiscal Years Ended 2022 & 2021 (OIG 24-02)

DATE: October 26, 2023

FROM: OIG – Rene Febles [redacted]

TO: GMGR – Randy S. Clarke

The Operations Funding Agreement between the Participating Jurisdictions[1] requires an independent external auditor, as determined by the Inspector General, to annually audit WMATA's actual allocated operating expenses and amounts billed included in the SmarTrip Regional Partner Comparative Billing Statements. In compliance with this requirement, OIG retained RSM US, LLP (RSM) to conduct this annual audit.

Audit Results

- Unmodified opinion

RSM identified a significant deficiency in internal control during the audit. 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.

RSM recommended that WMATA evaluate the processes in place related to the review of the completeness and accuracy of the expenses being included in the report in accordance with the reporting framework. In addition, RSM recommended that WMATA increase the depth of resources capable of assisting with the preparation of this report.

Management agreed to apply improved practices around identifying invoices pulled through system queries that are outside the then-current year scope of expenses consistent with accrual accounting. The detailed management response is included in the attached internal control deficiency letter.

RSM issued their opinion on the results of the audit on October 4, 2023.

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[1] Participating Jurisdictions are: Alexandria Transit Company; Arlington County, Virginia; City of Fairfax, Virginia; District of Columbia, Fairfax County, Virginia; Loudoun County, Virginia; Montgomery County, Maryland; Prince George's County, Maryland; Maryland Transit Administration; and Potomac and Rappahannock Transportation Commission.

Objective of the SmarTrip Regional Partner Comparative Billing Statements Audit

The objective of a SmarTrip Regional Partner Comparative Billing Statements Audit is to determine whether the audited entity's billing statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the billing statements.

The audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the billing statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the billing statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, they expressed no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation.

OIG Oversight of RSM Performance

To fulfill our responsibilities under the contract for ensuring the quality of the audit work performed, we monitored RSM's audit of WMATA's FY 2022 and FY2021 billing statements by:

- Reviewing RSM's audit approach and planning
- Monitoring audit progress at key points
- Reviewing RSM's audit report to ensure compliance with Government Auditing Standards
- Coordinating the issuance of the audit report
- Performing other procedures deemed necessary

RSM is responsible for the attached auditors' report and the conclusions expressed therein. OIG is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our oversight, as differentiated from an audit in conformance with applicable standards, was not intended to enable us to express, and accordingly, we do not express an opinion on WMATA's billing statements.

Meeting with the Board Executive Committee

RSM discussed the results of the audit with the Board Executive Committee on October 26, 2023.

Attachments

- SmarTrip Regional Partner Comparative Billing Statements Audit Report
  For the Fiscal Years Ended June 30, 2022 and June 30, 2021
- Internal control deficiency letter

SmarTrip Regional Partner Comparative Billing Statements Audit Report

For the Fiscal Years Ended June 30, 2022 and June 30, 2021

Washington Metropolitan Area Transit Authority
Washington, DC

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RSM US LLP

Independent Auditor's Report

Board of Directors
Washington Metropolitan Area Transit Authority

Opinion

We have audited the SmarTrip Regional Partner Comparative Billing Statements of the Regional Customer Service Center (RCSC), the Regional Software Maintenance Service (RSMS), and the Compact Point of Sale Devices (CPOS) of Washington Metropolitan Area Transit Authority (the Authority) for the years ended June 30, 2022 and 2021, and the related notes (the statements).

In our opinion, the accompanying statements present fairly, in all material respects, the actual shared expenses of the RCSC, the RSMS, and the CPOS and the budgeted amounts billed for the years ended June 30, 2022 and 2021, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter—Basis of Accounting

We draw attention to Note 1 of the statements, which describes that the accompanying statements were prepared for the purpose of providing information on the allocation of the actual operating expenses incurred and amounts billed for the RCSC, the RSMS and the CPOS for the Alexandria Transit Company, Arlington County, Virginia; Fairfax Connector, Fairfax County, Virginia; City-University Energysaver Bus, City of Fairfax, Virginia; Driving Alexandria Safely Home, Alexandria Transit Company; DC Circulator, District of Columbia; Loudoun County Transit, Loudoun County, Virginia; Maryland Transit Administration; Montgomery County Transit, Montgomery County, Maryland; Prince George's County Transit, Prince George's County, Maryland; and Potomac and Rappahannock Transportation Commission (collectively, the participating jurisdictions) in accordance with the requirements of the Operating Funding Agreement and are not intended to be a complete presentation of the financial position and results of operations of the Authority. As a result, the statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Statements

Management is responsible for the preparation and fair presentation of the statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Statements

Our objectives are to obtain reasonable assurance about whether the statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other-Matter Paragraph—Restriction of Use

This report is intended solely for the information and use of Participating Jurisdictions and the Authority's management and is not intended to be and should not be used by anyone other than these specified parties.

RSM US LLP

Washington, D.C.
October 4, 2023

Washington Metropolitan Area Transit Authority
SmarTrip Regional Partner Comparative Billing Statements
For the Fiscal Years Ended June 30, 2022, and 2021

The following tables present budget to actual comparison of the Regional SmarTrip program's amounts billed, operating expenses and the related amounts due to or from each of the respective Participating Jurisdictions for fiscal years ended June 30, 2022 and 2021.

FISCAL YEAR 2022	Budgeted Amount Billed			Actual Shared Expenses				Variance
Participating Jurisdiction	Per Budget	Adjustments	Net Billed	RCSC [1]	RSMS	CPOS	TOTAL EXPENSES	Over/(Under) Payments
ART (Arlington Transit)	$ 47,531	$ -	$ 47,531	$ 28,523	$ 32,303	$ -	$ 60,826	$ (13,295)
CONN (Fairfax Connector)	130,400	-	130,400	70,294	96,911	-	167,205	(36,805)
CUE (Fairfax City)	26,407	-	26,407	3,595	32,303	-	35,898	(9,491)
DASH (Alexandria)	45,615	-	45,615	22,644	32,303	-	54,947	(9,332)
DCCR (Dc Circulator)	81,356	-	81,356	35,266	96,911	-	132,177	(50,821)
LOUD (Loudoun)	31,447	-	31,447	11,416	32,303	-	43,719	(12,272)
MTA	75,664	-	75,664	33,382	16,172	-	49,554	26,110
MCRO (Mont Cty Ride-on)	172,924	-	172,924	149,892	96,911	-	246,803	(73,879)
PG County (The Bus)	29,319	-	29,319	16,541	32,303	-	48,844	(19,525)
PRTC	68,996	-	68,996	21,229	64,606	5,594	91,429	(22,433)
Total	$ 709,659	$ -	$ 709,659	$ 392,782	$ 533,026	$ 5,594	$ 931,402	$ (221,743)

FISCAL YEAR 2021	Amount Billed			Actual Shared Expenses				Variance
Participating Jurisdiction	Per Budget	Adjustments	Net Billed	RCSC [1]	RSMS	CPOS	TOTAL EXPENSES	Over/(Under) Payments
ART (Arlington Transit)	$ 60,616	$ -	$ 60,616	$ 251	$ 35,991	$ -	$ 36,242	$ 24,374
CONN (Fairfax Connector)	157,452	-	157,452	3,962	107,972	-	111,934	45,518
CUE (Fairfax City)	26,660	-	26,660	26,996	35,991	-	62,987	(36,327)
DASH (Alexandria)	50,880	-	50,880	219,318	35,991	-	255,309	(204,429)
DCCR (Dc Circulator)	61,887	-	61,887	4,452	71,981	-	76,433	(14,546)
LOUD (Loudoun)	40,847	-	40,847	53,643	35,991	-	89,634	(48,787)
MTA	105,540	-	105,540	4	17,276	-	17,280	88,260
MCRO (Mont Cty Ride-on)	258,647	-	258,647	13,250	107,972	-	121,222	137,425
PG County (The Bus)	38,854	-	38,854	69	35,991	-	36,060	2,794
PRTC	83,442	-	83,442	23,082	71,981	6,128	101,191	(17,749)
Total	$ 884,825	$ -	$ 884,825	$ 345,027	$ 557,137	$ 6,128	$ 908,292	$ (23,467)

1. During fiscal year 2022, the allocation among the regional partners of RCSC shared expenses is calculated using fiscal year 2019 ridership data so that SmarTrip expenses are equitably allocated and not affected by the non-collection of fares by some jurisdictions. Ridership data from fiscal year 2021 was used to allocated costs for fiscal year 2021.

2. The Regional shared actual SmarTrip expenses for fiscal years 2022 and 2021 were $931,402 and $908,292, respectively. Total shared budgeted SmarTrip expenses billed for fiscal years 2022 and 2021 were $709,659 and $884,825, respectively. Total overall actual SmarTrip expenses for fiscal years 2022 and 2021 were $4,406,283 and $4,834,932, respectively. Budgeted SmarTrip expenses for fiscal years 2022 and 2021 were $4,158,613 and $5,084,063, respectively. WMATA's share of actual SmarTrip program expenses for fiscal years 2022 and 2021 was $3,474,881 and $3,926,640, respectively.

Nature of Activity

On December 11, 2018, the Washington Metropolitan Area Transit Authority ("Authority") renewed an Operations Funding Agreement (OFA) for a five-year term with the following participating regional transit agencies (collectively referred to as "Participating Jurisdictions"):

- Arlington Transit (ART), Arlington County, VA
- Fairfax Connector (CONN), Fairfax County, VA
- City-University Energysaver (CUE) Bus, City of Fairfax, VA
- Driving Alexandria Safely Home (DASH), Alexandria Transit Company
- DC Circulator, District of Columbia
- Loudoun County Transit, Loudoun County, VA
- Maryland Transit Administration (MTA)
- Montgomery County Transit (Ride On), Montgomery County, MD
- Prince George's County Transit (TheBus), Prince George's County, MD
- Potomac and Rappahannock Transportation Commission (PRTC)

The purpose of the OFA is to provide a seamless regional system for transit fare collections for both the service areas of the Authority and the MTA using smart card technology. The Authority and the Participating Jurisdictions have agreed to fund their share of the operating expenses of the SmarTrip system. The agreement defines the regionally shared operating expenses, allocation methods, and funding requirements.

Each year, the Authority is required to prepare SmarTrip Regional Partner Comparative Billing Statements to provide an allocation of the actual operating expenses incurred for the Regional SmarTrip Program by each of the Participating Jurisdictions for the current and prior fiscal years ended June 30.

Annual Budget Development

Each year, the Authority estimates expenses of operating the Regional SmarTrip Program and prepares an annual budget, which is reviewed and approved by the Participating Jurisdictions. The annual budget covers the following Regional SmarTrip Program service areas:

- Regional Customer Service Center (RCSC): Estimated expenses related to providing regional SmarTrip customer service and support. Activities include handling customer inquiries; processing smartcard replacements, refund requests, and account registrations; and fulfilling smartcard orders. Customer requests are received by phone, email and mail.

- Regional Software Maintenance Service (RSMS): Estimated expenses related to the operation, enhancement, and maintenance of the fare collection software and computer networks of the SmarTrip system.

- Compact Point of Sale Devices (CPOS): Estimated expenses related to the operation of the SmarTrip retail point of sale network. This network consists of third-party retail merchants, such as CVS and Giant, and regional commuter stores that sell smartcards, add stored value, and pass products to existing smartcards.

Regional Expense Allocation

The Authority bills each Participating Jurisdiction in advance of each quarter based on their share of the annual regional SmarTrip approved budget. As expenses related to the regional operation of the SmarTrip Program are incurred, the Authority tracks and reconciles these expenses to the approved budget. Actual operating expenses incurred by the Authority are allocated to the Participating Jurisdictions for each expense category based on the following methods:

- In October 2020, a new RCSC contract was awarded to a new vendor (Group-O). This resulted in a change in the billing structure; the new structure is by volume of calls instead of calling tiers. The new contract has reduced the total paid each month since volume is low during the pandemic. This is a program cost savings passed on to the Jurisdictional Partners.

- RCSC expenses are allocated to the Participating Jurisdictions based on the total amount of SmarTrip usage in each quarter. Specifically, this percentage is calculated by dividing an agency's quarterly usage by the total regional usage. The RCSC expenses are then multiplied by this percentage to determine the Participating Jurisdiction's share of the quarterly expenses. Because ridership data was not collected by some regional bus services in fiscal year 2022 ridership data from fiscal year 2019 was used to allocate costs. Ridership data from fiscal year 2021 was used to allocated costs for fiscal year 2021.

- RSMS expenses are allocated to the Participating Jurisdictions based on the number of garages each agency operates. An agency's number of garages is divided by the total number of regional garages to calculate the allocation percentage. The quarterly RSMS expenses are then multiplied by this percentage to determine the Participating Jurisdiction's share of the quarterly expenses.

- CPOS expenses are allocated based on the number of devices operated by each Participating Jurisdiction. An agency's total number of devices is divided by the total number of regional devices to calculate the allocation percentage; the quarterly CPOS expenses are then multiplied by this percentage to determine the Participating Jurisdiction's share of the quarterly expenses.

Actual operating expenses are tracked monthly and a year-end true up is performed to identify variances between the amounts collected from the Participating Jurisdictions and actual operating expenses incurred. After the annual reconciliation is completed, overpayments or underpayments between the amounts billed and actual operating expenses are required to be remitted to or collected from the Participating Jurisdictions. The Authority adjusts for overpayments and underpayments from each Participating Jurisdiction as part of a quarterly billing in the subsequent fiscal year. The Authority has evaluated subsequent events through October 4, 2023, the date on which the SmarTrip Regional Partner Comparative Billing Statements were available to be issued.

Basis of Accounting

The Authority prepared the SmarTrip Regional Partner Comparative Billing Statements for the fiscal years ended June 30, 2022 and 2021 using the accrual basis of accounting as established by the Governmental Accounting Standards Board, as appropriate for business-type activities. The Authority recognizes revenues when earned and expenses when incurred.

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October 4, 2023

Management and the Board of Directors
Washington Metropolitan Area Transit Authority
Washington, D.C.

In planning and performing our audit of the SmarTrip Regional Partner Comparative Billing Statements of the Regional Customer Services Center, the Regional Software Maintenance Service, and the Compact Point of Sale Devices (the Statements) of the Washington Metropolitan Area Transit Authority (the Authority) for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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 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.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Authority's internal control to be a significant deficiency:

Internal Controls Over Financial Reporting

Internal control policies and procedures in place should provide reasonable assurance that accounting transactions have been properly recognized and reported in accordance with the applicable financial reporting framework.

During our audit, we identified expenses incurred in prior years being recognized during the year ended June 30, 2022. The total expenses were $319,684 of which $89,120 should have been allocated to the jurisdictions in prior years instead of during 2022. Additionally, we identified expenses incurred during the year ended June 30, 2022 that were erroneously excluded from the preliminary numbers provided for audit. The total expenses were $296,673 of which $78,817 is to be allocated to the jurisdictions.

Additionally, the methodology utilized in the allocation of the shared expenses was changed during FY 2022. Because ridership data was not collected by some regional bus services in FY 2022, ridership data from FY 2019 was used to allocate costs. Ridership data from FY 2021 was used to allocated costs for FY 2021. While management ultimately identified support for this change in allocation, including approval from some of the participating jurisdictions, they initially were unable to provide supporting documentation to justify the change.

As a result of the cutoff errors identified, since the agreement itself did not specify, management evaluated several financial reporting presentation options such as reporting on a cash basis vs. full accrual basis of accounting, which further delayed the audit process.

Recommendation

We recommend management review and consider the purpose and content of this report. We recommend evaluating the processes in place related to the review of the completeness and accuracy of the expenses being included in the report in accordance with the reporting framework. We also recommend increasing the depth of resources capable of assisting with the preparation of this report.

Management's response

Staff will apply improved practices around identifying invoices pulled through system queries that are outside the then-current year scope of expenses consistent with accrual accounting.

The methodology used in the allocation of a portion of the shared expenses in FY2022 was consistent with the OFA agreement, which is bus rider counts. However, the OFA agreement does not anticipate allocating costs where ridership counts do not exist. It was reasonable to use FY2019 ridership counts as the allocating factor given that multiple regional partners did not charge fares in FY2022 and SmarTrip data did not exist. Staff informed the regional partners of the use of the FY2019 ridership counts during a meeting of the regional partners in May 2023. While staff informed, but did not seek technical concurrence of the regional partners, none of the regional partners objected to the use of FY2019 as an allocating factor. Staff subsequently, during the audit process, received written concurrence from eight of the ten regional partners for the applicability and reasonableness in the use of FY2019 ridership counts for the allocation of a portion of the FY2022 expenses. In future years staff will provide more substantive documentation to evidence communication with the regional partners regarding expense allocation methodology when contractual allocation data is nonexistent.

None of the identified significant deficiencies are considered to be material weaknesses.

Management's response to the internal control deficiency identified in our audit was not subjected to the auditing procedures applied in the audit of the Statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

RSM US LLP