



Memorandum

U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Subject: INFORMATION: Quality Control Review of
Single Audit on the Metropolitan Transportation
Authority, New York
Report No. QC-2010-005

Date: October 26, 2009

Reply To JA-20

From: Earl C. Hedges
Program Director for Single Audit

Attn Of:

To: Regional Administrator, FTA, Region III

The U. S. Department of Transportation is the cognizant Federal single audit agency for the New York Metropolitan Transportation Authority (the Authority), a component unit of the State of New York. This report presents the results of our Quality Control Review of a single audit performed by Deloitte & Touche, LLP on the Authority for the fiscal year ending December 31, 2007. During this period of time, the Authority received about \$1.55 billion from three Federal Transit Administration (FTA) grant programs.

DOT Operating Administration	CFDA* #	Program Name	FY 2008 Expenditures	Major Program	Direct Award
Federal Transit Administration	20.500	Capital Investment Grants Program	\$653,260,738	Yes	Yes
Federal Transit Administration	20.507	Formula Grants Program	\$697,853,715	Yes	Yes
Federal Transit Administration	20.unknown	Lower Manhattan Recovery Office Grant	\$200,476,633	Yes	Yes

* Catalogue of Federal Domestic Assistance

The Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations;" requires the auditor to render an opinion on the entity's financial statements, identify inappropriate use of Federal funds, and report internal control and compliance deficiencies that affect Federal grant programs.

Deloitte & Touche rendered an unqualified (clean) opinion on the Authority's financial statements and did not question any costs concerning FTA grant programs. In addition, Deloitte & Touche did not identify any internal control or compliance deficiencies that directly affect FTA programs. In issuing its report on the New York Metropolitan Transportation Authority, Deloitte & Touche relied on the audit performed by PricewaterhouseCoopers on the Authority's subcomponent agencies--New York City Transit Authority, Staten Island Rapid Transit Operating Authority, and the Metropolitan Suburban Bus Authority. Together, these subcomponent agencies received about \$1.08 billion from FTA grant programs.

We performed quality control reviews on both firms' work¹ and found documentation deficiencies in PricewaterhouseCoopers' work. Both firms concurred with our recommendations to correct the deficiencies identified and to enhance workpaper review in next year's audit. PricewaterhouseCoopers also agreed to provide its fiscal year 2008 audit workpapers for our follow-up review.

The purpose of our review was to determine: (1) the adequacy of auditors' work; (2) whether the work complied with Generally Accepted Government Auditing Standards as prescribed by the Comptroller of the United States, the Single Audit Act of 1984, as amended (Act), and OMB Circular A-133; and (3) the extent to which we could rely on the auditors' work.

RESULTS

Based on our Quality Control Review of Deloitte & Touche's work, we determined the work met the requirements of Generally Accepted Government Auditing Standards, the Act, and OMB Circular A-133. We found nothing to indicate that Deloitte & Touche's opinion on the financial statements or reports on internal control and compliance were inappropriate or unreliable.

Our review of PricewaterhouseCoopers' testing of the compliance requirements found that the work generally met the requirements of Generally Accepted Government Auditing Standards, the Act, and OMB Circular A-133. We found nothing to indicate that PricewaterhouseCoopers' opinion on major program compliance was inappropriate or unreliable. However, we identified documentation deficiencies in both New York City Transit Authority and Metropolitan Suburban Bus Authority single audits.

PricewaterhouseCoopers provided explanations and additional documents in response to our concerns. Based on the information provided, we determined that

¹ We performed a limited review of PricewaterhouseCoopers' single audit work related to the New York City Transit Authority and Metropolitan Suburban Bus Authority. The review focused on PricewaterhouseCoopers' understanding, planning, and testing of internal controls on the applicable compliance requirements related to FTA Capital Improvement and Formula Grant Programs.

these documentation deficiencies did not affect PricewaterhouseCoopers' overall audit results. However, these deficiencies should be corrected in future audits to adequately support audit conclusions. The deficiencies are related to the following areas:

1. Understanding and Testing of Major Program Internal Controls.

PricewaterhouseCoopers' audit workpapers did not adequately document its understanding and testing of current internal controls related to FTA grant program compliance requirements. Specifically, PricewaterhouseCoopers carried forward its internal control memo from prior year workpapers without any updates to reflect the current environment. However, during our review, PricewaterhouseCoopers demonstrated that it did evaluate the subcomponent agencies' current internal control structure.

2. Compliance Review and Testing of Major Program.

PricewaterhouseCoopers did not adequately document the compliance testing work performed in two areas--Equipment & Real Property Management (Compliance Requirement F) and Procurement and Suspension and Debarment (Compliance Requirement I). Specifically, PricewaterhouseCoopers documentation showed it utilized audit procedures designed for financial statement testing to conduct its compliance review, which were too general to meet OMB Circular A-133 requirements. However, during our review, PricewaterhouseCoopers demonstrated that it did perform additional work to meet compliance requirement audit objectives.

During our exit conference, we recommended that PricewaterhouseCoopers correct these documentation issues in its single audits of the New York City Transit Authority and Metropolitan Suburban Bus Authority for the fiscal year ending December 31, 2008. In addition, we recommended Deloitte & Touche review PricewaterhouseCoopers' fiscal year 2008 work as due diligence, given its reliance on PricewaterhouseCoopers' work to issue the report on the Metropolitan Transportation Authority.² Both PricewaterhouseCoopers and Deloitte & Touche concurred with our recommendations. PricewaterhouseCoopers also agreed to provide its fiscal year 2008 audit workpapers for our follow-up review.

If you have any questions concerning this report, please call me at (410) 962-1729 or John R. Sysak, DOT National Single Audit Coordinator, at (410) 962-2630.

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cc: Audit Liaison, FTA, TBP-11
Audit Liaison, OST, M-1
Comptroller, Metropolitan Transportation Authority

² The single audit report issued by Deloitte & Touche is available upon request. Requests should be sent to singleauditrequest@oig.dot.gov.