The Metropolitan Transportation Authority

Report to Management

Year Ended December 31, 2023

Deloitte.

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July 29, 2024

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 financial statements of the Metropolitan Transportation Authority (inclusive of Metropolitan Transportation Authority's Headquarters), 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, 2023 (on which we have issued our reports dated June 18, 2024), performed in accordance with auditing standards generally accepted in the United States of America (generally accepted auditing standards), we considered internal control relevant to the MTA’s preparation of financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MTA’s internal control.

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 that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audits, we have identified, and included in the attached Appendix A, certain matters involving the MTA’s internal control over financial reporting that we consider to be a significant deficiency under generally accepted auditing standards.

We have also identified, and included in the attached Appendix A, other deficiencies involving the MTA’s internal control over financial reporting as of December 31, 2023 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 Auditor’s Report (2) Independent Auditor’s 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

Auditor's 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 Auditor's 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 definitions of a deficiency, a material weakness, and a significant deficiency are 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 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 designing, implementing, 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

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APPENDIX A

MTA CONSOLIDATED INFORMATION TECHNOLOGY (“IT”) DEPARTMENT

MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
PRIOR YEAR COMMENTS - DEFICIENCIES - 2022

We identified and previously communicated the following deficiencies in the MTA's Consolidated IT Department's internal control over financial reporting for the year ended December 31, 2023. As of the date of this report, we believe these deficiencies have not yet been remediated by the MTA.

1. ORT Batch Job Monitoring – DEFICIENCY (Carryforward from prior year)

Agency:
Triborough Bridge and Tunnel Authority ("TBTA")

Criteria:
Automated scheduling tools have been implemented for the completeness of the flow of processing and are monitored by the IT Department.

Condition:
During our audit procedures, Deloitte & Touche ("D&T") noted that management does not maintain documentation related to batch job monitoring. As such, we were unable to validate that management performs appropriate monitoring procedures around the completion of the relevant batch jobs and resolution of job errors.

Cause:
The root cause of this deficiency is that Management does not maintain documentation around the monitoring of batch jobs, specifically error resolution.

Effect:
There is a risk that production systems, programs, and/or jobs result in inaccurate, incomplete, or unauthorized processing of data.

Recommendation:
We recommend that TBTA management retain documentation related to monitoring of batch job status and the resolution of any noted errors.

Financial Statement Impact:
D&T noted no impact in 2023 – risk associated with this deficiency mitigated by other controls and factors.

Management Response (2022):
Management Concurs: a design & operation of control was put in place in 2023.

Status Update:
We identified and previously communicated the deficiency during our audit of the financial statements of the MTA for the year ended December 31, 2022. As of the date of this report, we believe this deficiency has not yet been remediated by the MTA.

Management Response (2023):
Management Concurs: a design & operation of control was put in place in 2024.

2. ORT Application – User Access Recertification – (Carryforward from prior year)

Agency:
Triborough Bridge and Tunnel Authority ("TBTA")

Criteria:
User account recertifications / entitlement reviews are performed by the IT Department and application owners.

Condition:
D&T noted that for the ORT application, there is no periodic user account recertification / entitlement review performed by the IT Department or ORT application owners.

Cause:
The root cause of this deficiency is that IT Management does not have a formal user access review process in place to recertify access for the users who have access to the relevant application.

Effect:
Given that logical access is not periodically reviewed, there is a risk that users have access privileges beyond those necessary to perform their assigned duties, which may create improper segregation of duties.

Recommendation:
We recommend that MTA IT design and implement a review control to periodically recertify the appropriateness of users with access to ORT and their related system privileges.

Financial Statement Impact:
D&T noted no impact in 2023 – risk associated with this deficiency mitigated by other controls and factors.

Management Response (2022):
Management Concurs: a design & operation of control was put in place in 2023.

Status Update:
We identified and previously communicated the deficiency during our audit of the financial statements of the MTA for the year ended December 31, 2023. As of the date of this report, we believe this deficiency has not yet been remediated by the MTA.

Management Response (2023):
Management Concurs: a design & operation of control was put in place in 2024.

METROPOLITAN TRANSPORTATION AUTHORITY – HEADQUARTERS

METROPOLITAN TRANSPORTATION AUTHORITY – HEADQUARTERS
CURRENT YEAR COMMENTS - DEFICIENCIES - 2023

We identified, and included below, deficiencies involving the MTA's internal control over financial reporting for the year ended December 31, 2023, that have not been previously communicated in writing or orally, by others within MTA, or by us that we wish to bring to your attention.

1. Review of Station Maintenance Revenue - DEFICIENCY

Agency:
Metropolitan Transportation Authority – (Headquarters, "MTAHQ")

Criteria:
MTAHQ performs annual billings of station maintenance revenue to New York City and its counties. As part of the MTAHQ's year-end close procedure, Management reviews the station maintenance balance to be accrued during the year based on the most recent bills as the basis before the actual billing in June of the succeeding year.

Condition:
During our audit procedures, D&T identified a deficiency in MTAHQ's review of non-operating revenue and corresponding receivables as the balances recognized for the station maintenance revenue and related receivables balances were not trued-up.

Cause:
D&T noted that there was an oversight by management on the review process which caused the station maintenance revenue and the related receivable balances to be understated.

Effect:
As a result, station maintenance revenue and corresponding receivables balances were understated in 2023 by $37M for the year ended and as of December 31, 2023, respectively.

Recommendation:
We recommend that MTAHQ management enhance its review and controls over station maintenance revenue and corresponding receivable account balances and update the account reconciliation timely.

Financial Statement Impact:
The net impact of these resulted in a known station maintenance revenue and related receivable balance understatement of $37M, which was corrected by management prior to the December 31, 2023 consolidated financial statement issuance.

Management Response:
Management will strengthen its review and controls over the station maintenance revenue and corresponding receivable account balances by ensuring that account analysis is updated timely.

2. Review of Accrual of Other Professional Services & Information Technology Expense - DEFICIENCY

Agency:
Metropolitan Transportation Authority – (Headquarters, "MTAHQ")

Criteria:
MTAHQ performs a review of the recording of other professional services and information technology expense and related accrual balances incurred as of year-end which has not been invoiced and/or paid.

Condition:
During our audit procedures, D&T identified a deficiency in MTAHQ's accrual review process for other professional services and information technology expense balance through our substantive testing as Management failed to accrue for invoices received in 2023 that pertain to 2022 expenses.

Cause:
MTAHQ failed to accrue certain invoices in 2022 as the MTA IT department did not receive the invoice information from the project manager for accrual of services already provided by the supplier in the prior period causing the 2022 portion of the supplier invoice not being accrued for in the proper accounting period.

Effect:
As a result, the 2022 portion of the supplier invoice was not accrued for in the proper accounting period (2022) and was only recorded in 2023 causing the operating expense to be overstated as December 31, 2023.

Recommendation:
We recommend that MTA IT management strengthen the accrual review process and improve communication protocols over operating expense that will need to be accrued for in the appropriate accounting period to be consistent with generally accepted accounting principles.

Financial Statement Impact:
The net impact of these resulted in a known overstatement of $632K and a projected misstatement of $58M projected overstatement for other professional services and information technology expenses as December 31, 2023. Management did not correct the error as it was deemed immaterial to the December 31, 2023 and December 31, 2022 MTA consolidated financial statements.

Management Response:
MTA IT will be communicating the accrual process and requirements with their project managers to ensure that all eligible items are accounted for and are submitted to MTA Accounting for year-end accrual.

3. Review of Balance Sheet Reconciliation of Subscription-based IT Arrangement ("SBITA")-related Accounts (GASB 96) – DEFICIENCY

Agency:
Metropolitan Transportation Authority – (Headquarters, "MTAHQ")

Criteria:
MTAHQ performs a review of the account reconciliation between the rollforward on Yardi Property Management Software and the PeopleSoft general ledger to verify the completeness and accuracy as well as the classification between current and non-current portion of SBITA liabilities.

Condition:
During our audit procedures, D&T identified a deficiency in MTAHQ's GASB 96 reconciliation through our substantive testing. D&T identified a difference between the current and non-current portion of SBITA liability per general ledger when compared to the rollforward schedule.

Cause
D&T notes that there was an oversight of management during the review for which they have misclassified the SBITA liability into current portion instead of non-current liability.

Effect:
As a result, MTAHQ misclassified the SBITA Liability amounting to $43M into current liability instead of non-current liability.

Recommendation:
We recommend that MTAHQ management enhance the reconciliation and review process over the SBITA-related accounts to ensure that the classification reflect correctly the period when the contractual obligation will be paid.

Financial Statement Impact:
The net impact resulted in a known classification misstatement between current and non-current portion of SBITA liability of $43M, which was corrected by management prior to the December 31, 2023 consolidated financial statement issuance.

Management Response:
Management implemented GASB Statement No. 96 SBITA in the 3rd Quarter of 2023. During this first year of implementation, management reviewed over 3,300 transactions. The accounting of SBITA has been transitioned to the new Lease Accounting group in 2024 for consistency in its review, controls and reconciliation.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

We identified, and included below, deficiencies involving the Triborough Bridge and Tunnel Authority's ("TBTA") internal control over financial reporting for the year ended December 31, 2023, that have not been previously communicated in writing or orally, by others within TBTA, or by us that we wish to bring to your attention.

1. Long-term Debt Account Reconciliation – SIGNIFICANT DEFICIENCY

Agency:
Triborough Bridge and Tunnel Authority ("TBTA")

Criteria:
TBTA performs a quarterly reconciliation between the debt register, which includes the repayment schedules, and general ledger to verify that all debt transactions including the maturity dates of outstanding bonds are accurately reflected in the TBTA's financial statements.

Condition:
During our audit procedures, D&T identified a deficiency in TBTA's long-term debt account reconciliation through our substantive testing. D&T identified a difference between the current and non-current portion of long-term debt per general ledger (GL) in comparison to the repayments schedule based on the maturity dates.

Cause
D&T noted that there was an oversight by management during the reconciliation process which led to the misclassification of PMT Bond Series 2022B BAN into non-current liability instead of current liability.

Effect:
As a result, TBTA misclassified the PMT Bond Series 2022B BAN amounting to $766M into non-current liability instead of current liability.

Recommendation:
We recommend that TBTA management enhance the reconciliation and review process over its long term-debt account to ensure that the classification of its long-term bonds reflect the maturity date based on the review of the debt register and official statements.

Financial Statement Impact:
The net impact of these resulted in a known classification misstatement between current and non-current portion of long-term debt of $766M, which was corrected by management prior to the December 31, 2023 MTA consolidated and TBTA financial statement issuance.

Management Response:
Management runs a debt maturity schedule from Peoplesoft DealMaker to review the payments made by Treasury as well as to ensure the appropriate classification in the financial statements. In 2023, the reports were run and reviewed in June and November. However, management noted that the PMT Bond Series 2022B BAN was classified as long-term in the November report and was not updated to short-term until December. Going forward, management will be running this report additionally in December for the updated classification and to ensure that any required journal reclassification adjustments are made for year-end.

2. Review of Property-in-Progress Account – DEFICIENCY

Agency:
Triborough Bridge and Tunnel Authority ("TBTA")

Criteria:
TBTA performs a quarterly review of the property-in progress (PIP) to ensure that substantially completed projects (90% or above) are transferred out of PIP to the appropriate Fixed Asset category in a timely manner.

Condition:
During our audit procedures, D&T identified a deficiency in TBTA's PIP review through our substantive testing. D&T determined that a PIP was not properly transferred to fixed assets upon 90% completion threshold (substantially completed) of the project.

Cause
D&T notes that there was an oversight by management during the review process which led to the classification misstatement for a project that was substantially complete (92%) and was not appropriately transferred to Fixed Asset as of December 31, 2023.

Effect:
As a result, there was a misstatement between PIP, capital asset category and depreciation expense for the year ended December 31, 2023 which amounted to as follows:

a. PIP was overstated by $22M
b. Fixed assets-Roadway was understated by $22M
c. Depreciation expense-Roadway was understated by $272K
d. Accumulated Depreciation-Roadway was understated by $272K

Recommendation:
We recommend that TBTA management strengthen the review process for its PIP account to ensure that the transfers from PIP to fixed assets are made in a timely manner.

Financial Statement Impact:
The net impact of these resulted in a known classification misstatement between PIP and fixed assets of $22M. Furthermore, there is a known depreciation expense and related accumulated depreciation of fixed assets understatement of $272K. These misstatements were corrected by management prior to the December 31, 2023 MTA consolidated and TBTA financial statement issuance.

Management Response:
Management was in the process of transitioning the fixed assets accounting process from the General & Technical Accounting group to the Fixed Assets group during the December year-end close. Due to miscommunication, the capitalization of one item was not completed. The Fixed Asset review and capitalization process has been fully transitioned in the second quarter of 2024 and the review process will be strengthened.

3. Review of Property-in-Progress Account – DEFICIENCY

Agency:
Triborough Bridge and Tunnel Authority ("TBTA")

Criteria:
TBTA performs a quarterly review of the fixed assets to verify that the fixed assets costs in the account are capitalized in accordance with generally accepted accounting principles.

Condition:
During our audit procedures, D&T identified a deficiency in TBTA's fixed assets review through our substantive testing. D&T noted that the TBTA improperly capitalized costs for a study performed on a project that will not be placed into service. Thus, the cost of such study should be expensed/written off from fixed assets.

Cause
D&T notes that there was an oversight by management during the review process which led to the misstatement in fixed assets for improperly capitalized costs related to a study performed for a replacement project on an existing fixed asset which was later determined to be not necessary.

Effect:
As a result, there was a misstatement in Capital Assets as of December 31, 2023 which amounted to as follows:

a. Fixed assets-Roadway was overstated by $6.79M
b. Losses on early retirement was understated by $6.47M
c. Depreciation expense-Roadway was overstated by $225K
d. Accumulated depreciation-Roadway was overstated by $545K

Recommendation:
We recommend that TBTA management strengthen the review process for its fixed asset account to ensure that the capitalized costs are in accordance with generally accepted accounting principles.

Financial Statement Impact:
The net impact of these resulted in a known misstatement of the following:

1. Capital asset overstatement of $6.79M
2. Losses on early retirement expense understatement of $6.47M
3. Depreciation expense overstatement of $225K
4. Accumulated depreciation overstatement of $545K

The above misstatements were corrected by management prior to the December 31, 2023 MTA consolidated and TBTA financial statement issuance.

Management Response:
Management concurs. The review of fixed assets and capitalization is being transitioned to the Fixed Assets group to standardize the review process.

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY
CURRENT YEAR COMMENTS - DEFICIENCIES - 2023

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, 2023, that have not been previously communicated in writing or orally, by others within FMTAC, or by us that we wish to bring to your attention.

1. Cash Account Reconciliation – DEFICIENCY

Agency:
First Mutual Transportation Assurance Company ("FMTAC")

Criteria:
FMTAC performs a monthly reconciliation of cash accounts in the general ledger to ensure that the cash balances agree with the bank statements and/or third-party statements.

Condition:
During our audit procedures, D&T identified a deficiency in FMTAC's cash account reconciliation through our substantive testing. D&T determined that management did not perform a detailed reconciliation of the cash escrow account.

Cause
D&T notes that there was an oversight of management on which they have not performed a detailed reconciliation of the cash escrow account balance carried over from prior years.

Effect:
As a result, there was an understatement in the reported escrow balance as of December 31, 2023 amounting to $13.34 Million.

Recommendation:
We recommend that FMTAC management perform regular detailed reconciliation of cash accounts to ensure that the balances recorded in the general ledger agree with the amount in the bank statements and/or third-party statements.

Financial Statement Impact:
The net impact of these resulted in a known cash escrow understatement of $13M, which was corrected by management prior to the December 31, 2023 MTA consolidated and FMTAC financial statement issuance.

Management Response:
To rectify this matter, at June 30th and December 31st, management will perform a reconciliation of the escrow balances recorded to the general ledger to the escrow balances as reflected in third party statements. Required adjustments to the general ledger will be evaluated and recorded, if deemed necessary, at that time.

2. Review of Premium Earned / Unearned Revenue Calculation – DEFICIENCY

Agency:
First Mutual Transportation Assurance Company ("FMTAC")

Criteria:
FMTAC performs a monthly review of the earned portion of premiums based on the FMTAC's revenue policy.

Condition:
During our audit procedures, D&T identified a deficiency in FMTAC's review control for premium revenues on its two MTA Owner Controlled Insurance Program ("OCIP") programs through our substantive procedures:

a. The earned portion for OCIP 2 Mini RFP – September 30, 2023 to September 30, 2029 program was calculated based on time passed in 2023 versus the percentage of completion of the project based on FMTAC's revenue policy.
b. The unearned premium for the Bridge Program and Penn Station Access Project were accounted as one and the earned premium was initially calculated based solely on the percent of completion of the Bridge Program which caused a misstatement of unearned revenue for each program.

Cause
D&T notes that the Management did not apply the agency's revenue policy during the calculation of earned/unearned revenue for the year.

Effect:
As a result, there was an overstatement of the earned portion of premium revenue during 2023 totaling $14M.

Recommendation:
We recommend that FMTAC management enhance review controls over the calculation of premiums earned to ensure that the calculation follows FMTAC's policy for timely and accurate recognition and measurement of earned/unearned premium revenue.

Financial Statement Impact:
The net impact of these resulted in a known premium revenue overstatement of $13M and known unearned premium understatement for the same amount, which was corrected by management prior to the December 31, 2023 MTA consolidated and FMTAC financial statement issuance.

Management Response:
Management will set controls over the calculation of premiums earned to ensure that the calculation follows FMTAC's policy for timely and accurate recognition and measurement of earned/unearned premium revenue. Each program's calculation of premiums earned will be reviewed on an individual basis to verify if the premium is to be earned over an effective policy period or by percentage completion of its related project.

3. Loss and Loss Adjustment Expense Review – DEFICIENCY

Agency:
First Mutual Transportation Assurance Company ("FMTAC")

Criteria:
FMTAC performs a monthly review of loss and loss adjustment expenses.

Condition:
During our audit procedures, D&T identified a deficiency in FMTAC's review control through our substantive procedures for loss expense and loss adjustment expense for the yearly activity based on the loss used by Oliver Wyman, FMTAC actuaries.

Cause
D&T notes that there was an oversight in the review of loss and loss adjustment expense which caused a difference between the recorded amount of loss expense per GL and the amount of movement from December 31, 2022 to December 31, 2023 Oliver Wyman loss run report.

Effect:
As a result, there was an overstatement of loss adjustment expense balance recognized during the year amounting to $5M.

Recommendation:
We recommend that FMTAC management enhance review controls over loss and loss adjustment expense to ensure accurate recognition and measurement of loss adjustment expense at year end.

Financial Statement Impact:
The net impact of these resulted in a known loss adjustment expense and related losses payable overstatement of $5M, which was corrected by management prior to the December 31, 2023 MTA consolidated and FMTAC financial statement issuance.

Management Response:
To rectify this matter, management will establish a control that confirms that loss and loss adjustment expense as recorded to the general ledger at December 31st agree to the ITD loss and loss adjustment expenses per the current year Oliver Wyman loss run report less the ITD loss and loss adjustment expenses per the prior year Oliver Wyman loss run report.

NEW YORK CITY TRANSIT AUTHORITY

DEFICIENCIES

We identified, and included below, deficiencies involving the New York City Transit Authority's ("NYCTA") internal control over financial reporting for the year ended December 31, 2023, that have not been previously communicated in writing or orally, by others within NYCTA, or by us that we wish to bring to your attention.

1. Recording of Capital assets when incurred vs when paid – SIGNIFICANT DEFICIENCY

Agency:
New York City Transit Authority – ("NYCTA")

Criteria:
NYCTA incurs certain capital project force account (labor) expenses and record them as unbilled receivable from the MTA Capital Program. The capital work performed was for the construction of NYCTA assets with its own operating funds. These unbilled receivables are billed to MTA when funding is available for that project. If no available funding, the transaction remains as unbilled. At the time of billing, the financial system generates the transaction to record the billings as construction work-in-progress with a corresponding recognition of capital contribution from MTA.

Condition:
During our audit procedures, Management evaluated the accounting treatment and concluded that NYCTA should record expenses as construction work-in-progress when incurred and not when billed to MTA. Management also evaluated and concluded that NYCTA should capitalize these projects when completed and not when billed to MTA. As a result, there was a misclassification between the Due from MTA and constituent Authorities receivable, construction work-in-progress and other capital assets net of accumulated depreciation for the expenses incurred for capital projects. The depreciation expense in Statement of Revenues, Expenses and Changes in Net Position was also not recorded for the capital projects completed.

Cause:
Lack of detailed review of these accounts and not adapting the control activity to changing or increasing capitalization activity.

Effect:
Management reversed the Due from MTA and Constituent Authorities Receivable of $664M as of December 31, 2023 and record the Capital Work-in-Progress of $574M, Other Capital Assets, Net of Accumulated Depreciation and Amortization of $89M in Statement of Net Position and recorded Depreciation expenses amounting to $8M in Statement of Revenues, Expenses and Changes in Net Position for the period ended on December 31, 2023.

Out of the total reversal, MTA and Constituent Authorities Receivable includes $522M, Construction Work-in-Progress includes $433M and Other Capital Assets, Net of Accumulated Depreciation and Amortization includes $83M for capital expenses incurred to a period prior to January 1, 2023 in the Statement of Net Position. Depreciation expenses include $6M accumulated expense incurred to a period prior to January 1, 2023 and recorded Statement of Revenues, Expenses and Changes in Net Position for the period ended on December 31, 2023.

Recommendation:
We recommend that NYCTA management to perform a detailed review of these accounts and record the capital work-in-progress when incurred and not when billed.

Financial Statement Impact:
As a result of correction NYCTA recorded construction work-in-progress of $433M and Other Capital Assets, Net of Accumulated Depreciation and Amortization of $83M for capital expenses incurred to a period prior to January 1, 2023 in Statement of Net Position. Depreciation expenses amounting to $6M that relates to a period prior to January 1, 2023 are recorded in Statement of Revenues, Expenses and Changes in Net Position for the period ended on December 31, 2023.

Management Response (2023):
Going forward, NYCTA management will perform a detailed review of capital work-in-progress and unbilled receivable account, record the capital assets and depreciate when appropriate.

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY

DEFICIENCIES

We identified, and included below, deficiencies involving the Staten Island Rapid Transit Operating Authority's ("SIRTOA") internal control over financial reporting for the year ended December 31, 2023, that have not been previously communicated in writing or orally, by others within SIRTOA, or by us that we wish to bring to your attention.

2. Recording of Capital assets when incurred vs when paid – SIGNIFICANT DEFICIENCY

Agency:
Staten Island Rapid Transit Operating Authority – ("SIRTOA")

Criteria:
SIRTOA incurs certain capital project force account (labor) expenses and record them as unbilled receivable from the MTA Capital Program. The capital work performed was for the construction of SIRTOA assets with its own operating funds. These unbilled receivables are billed to MTA when funding is available for that project. If no available funding, the transaction remains as unbilled. At the time of billing, the financial system generates the transaction to record the billings as construction work-in-progress with a corresponding recognition of capital contribution from MTA.

Condition:
During our audit procedures, Management evaluated the accounting treatment and concluded that SIRTOA should record expenses as construction work-in-progress when incurred and not when billed to MTA. As a result, there was a misclassification between the MTA capital program funds receivable and construction work-in-progress for the expenses incurred for capital projects.

Cause:
Lack of detailed review of these accounts and not adapting the control activity to changing or increasing capitalization activity.

Effect:
Management reversed MTA capital program funds receivable of $4M as at December 31, 2023 and record the capital work-in-progress. Out of total reversal, $2M relates to capital expenses incurred to a period prior to January 1, 2023.

Recommendation:
We recommend that SIRTOA management to perform a detailed review of these accounts and record the capital work-in-progress when incurred and not when billed.

Financial Statement Impact:
As a result of correction, SIRTOA recorded capital work-in-progress amounting to $2M by reversing the MTA capital program funds receivable that relates to period prior to January 1, 2023 in 2023 financial statements.

Management Response (2023):
Going forward, SIRTOA management will perform a detailed review of capital work-in-progress and unbilled receivable account, record the capital assets and depreciate when appropriate.

APPENDIX B

DEFINITION

The definitions of a deficiency, a significant deficiency, and a material weakness are 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.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or a 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.

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 MTA'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 MTA'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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