

Kansas City Area Transportation Authority

Compliance Report
December 31, 2012

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**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***

To the Board of Commissioners
Kansas City Area Transportation Authority
Kansas City, Missouri

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kansas City Area Transportation Authority (Authority), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 3, 2013. The financial statements of the pension trust fund were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the pension trust fund.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the 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.

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 *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

Kansas City, Missouri
April 3, 2013



**Independent Auditor's Report on Compliance for
Each Major Federal Program, on Internal Control
Over Compliance and on the Schedule of Expenditures
of Federal Awards Required by OMB Circular A-133**

To the Board of Commissioners
Kansas City Area Transportation Authority
Kansas City, Missouri

Report on Compliance for Each Major Federal Program

We have audited Kansas City Area Transportation Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2012. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 12-III-A. Our opinion on each major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Kansas City Area Transportation Authority as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Kansas City Area Transportation Authority's basic financial statements. We issued our report thereon dated April 3, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

McGladrey LLP

Kansas City, Missouri
April 3, 2013

Kansas City Area Transportation Authority

Schedule of Expenditures of Federal Awards Year Ended December 31, 2012

Program	Grant Number	CFDA Number	Federal Expenditures
U.S. Department of Transportation			
Direct Funding			
Federal Transit Formula Grants	MO-90-X199	20.507	\$ 15,443
Federal Transit Formula Grants	MO-90-X248	20.507	85,987
Federal Transit Formula Grants	MO-90-X251	20.507	30,076
Federal Transit Formula Grants	MO-90-X257	20.507	142,928
Federal Transit Formula Grants	MO-90-X264	20.507	409,684
Federal Transit Formula Grants	MO-90-X272	20.507	904,585
Federal Transit Formula Grants	MO-90-X280	20.507	4,360,269
Federal Transit Formula Grants	MO-90-X286	20.507	354,673
Federal Transit Formula Grants	MO-90-X288	20.507	4,983,345
Federal Transit Formula Grants	MO-95-X004	20.507	267,554
Federal Transit Formula Grants	MO-95-X011	20.507	137,165
Federal Transit Formula Grants	MO-95-X253	20.507	173,600
Federal Transit Formula Grants	MO-95-X254	20.507	868,059
ARRA - Federal Transit Formula Grant	MO-96-X006	20.507	3,032,044
ARRA - Federal Transit Formula Grant	MO-96-X008	20.507	264,564
Total Federal Transit Formula Grants			16,029,976
Federal Transit Capital Investment Grant	MO-03-0092	20.500	40,083
Federal Transit Capital Investment Grant	MO-03-0104	20.500	3,500
Federal Transit Capital Investment Grant	MO-03-0106	20.500	94,114
Federal Transit Capital Investment Grant	MO-03-0118	20.500	1,200,815
Federal Transit Capital Investment Grant	MO-04-0119	20.500	1,025,195
Federal Transit Capital Investment Grant	MO-04-0134	20.500	948
Federal Transit Capital Investment Grant	MO-04-0136	20.500	162,814
Federal Transit Capital Investment Grant	MO-04-0137	20.500	11,662
Federal Transit Capital Investment Grant	MO-05-0030	20.500	23,091
Total Federal Transit Capital Investment Grants			2,562,222
Job Access Transportation Services	MO-37-X036	20.516	13,175
Job Access Transportation Services	MO-37-X038	20.516	2,115
Job Access Transportation Services	MO-37-X045	20.516	719,267
Total Job Access Transportation Services			734,557
New Freedom Projects Grant	MO-57-X004	20.521	59,186
New Freedom Projects Grant	MO-57-X007	20.521	276,216
New Freedom Projects Grant	MO-57-X009	20.521	183,015
Total New Freedom Projects Grant			518,417
Section 330	MO-70-X001	20.205	20,750
ARRA - Transportation Investment Generating Economic Recovery	MO-78-0001	20.932	11,606,650
Total U.S. Department of Transportation			31,472,572

(Continued)

Kansas City Area Transportation Authority

Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

Program	Grant Number	CFDA Number	Federal Expenditures
U.S. Department of Health & Human Services			
<i>Passed through Missouri Department of Social Services</i>			
Title XIX Transportation Operating Assistance	1105-MO-5-ADM	93.778	<u>875,172</u>
<i>Passed through Mid-America Regional Council</i>			
Title III, Part B Special Programs for the Aging	2-14-21010	93.044	<u>24,731</u>
Total U.S. Department of Health & Human Services			<u>899,903</u>
Total Expenditures of Federal Awards			<u><u>\$ 32,372,475</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

Kansas City Area Transportation Authority

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Kansas City Area Transportation Authority (Authority) and is presented on the accrual basis of accounting. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other governmental agencies expended during the year, is included in the schedule. The information presented in this schedule is in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Because the schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.

Note 2. Significant Accounting Policies

Revenue from federal awards is recognized when the Authority has done everything necessary to establish its right to the revenue. Expenditures of federal awards are recognized in the accounting period when the liability is incurred and approved for reimbursement.

Note 3. Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the Authority provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Federal Transit Capital Investment Grant	20.500	\$ 15,162
Federal Transit Formula Grants	20.507	385,550
Job Access Transportation Services	20.516	246,860
New Freedom Projects Grant	20.521	351,258
ARRA - Transportation Investment Generating Economic Recovery	20.932	8,135,075

Kansas City Area Transportation Authority

Summary Schedule of Prior Audit Findings
Year Ended December 31, 2012

Number	Comment	Status	Explanation
None reported			

Kansas City Area Transportation Authority

Schedule of Findings and Questioned Costs Year Ended December 31, 2012

I. Summary of the Independent Auditor's Report

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified? ☐ Yes ☒ No
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified? ☐ Yes ☒ No

Type of auditor's report issued on compliance for major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
	Transit Services Programs Cluster:
20.516	Job Access Transportation Services
20.521	New Freedom Projects Grant
20.932	ARRA - Transportation Investment Generating Economic Recovery
93.778	Title XIX Transportation Operating Assistance

Dollar threshold used to distinguish between type A and type B programs: \$971,174

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

(Continued)

Kansas City Area Transportation Authority

Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

II. Findings Related to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

A. Internal Control

None reported

B. Compliance findings

None reported

III. Findings and Questioned Costs for Federal Awards

A. Internal Control

None reported

B. Instances of noncompliance

12-III-A

U.S. Department of Transportation

ARRA – Transportation Investment Generating Economic Recovery (CFDA 20.932)
Federal Award Year: 2012

Finding: The Authority did not meet the requirements of OMB Circular A-133 relating to the monitoring of subrecipients under the ARRA – Transportation Investment Generating Economic Recovery grant.

Criteria: As required by OMB Circular A-133, section .400(d), the Authority, a pass-through entity, is responsible for ensuring that subrecipients expending \$500,000 or more in federal awards during the current year met the requirements of OMB Circular A-133 and the required audits are completed within nine months of the end of the subrecipient's audit period. Pass through entities are also responsible for reviewing the subrecipient's audit report and issuing a management decision on any audit findings within six months after receipt of the subrecipient's audit report and ensuring that the subrecipient takes appropriate and timely corrective action. In addition, the Authority is responsible for communicating the CFDA title and number and the applicable compliance requirements to the subrecipient.

Condition: The Authority did not communicate the CFDA number to the subrecipient of this program and did not effectively review audit reports from the subrecipient of this program.

Questioned Costs: None

Context: The Authority passed through \$8,135,075 of ARRA – Transportation Investment Generating Economic Recovery funding to one subrecipient during 2012.

Effect: Noncompliance with federal grant compliance requirements and the potential for questioned costs.

(Continued)

Kansas City Area Transportation Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2012

Cause: The Authority did not perform a detailed review of grant documents provided to one subrecipient to verify all required information, including the CFDA number, was properly disclosed.

Recommendation: The Authority should develop a system for communicating the required items to its subrecipients, along with a system of obtaining the most current audit reports from all of their subrecipients that expended at least \$500,000 of federal grant awards. The Authority should review these reports to verify the grant identification information of the pass-through funds have been properly reported and identify if there are any audit findings associated with the receipt of these funds, and if so, ensure the subrecipient has taken the appropriate action to correct the findings.

Response and Corrective Action: The Authority communicated the required CFDA number via letter to the subrecipient and a system for reviewing subrecipient audit reports has been implemented.

Kansas City Area Transportation Authority

Corrective Action Plan Year Ended December 31, 2012

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
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Instances of Noncompliance in Administering Federal Awards

12-III-A	The Authority was not in compliance with the subrecipient monitoring requirements contained in OMB Circular A-133.	See corrective action plan at 12-III-A.	December 31, 2013	Michael Graham, Director of Finance
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