



October 29, 2015

The Honorable Thomas Davis Rust  
Virginia House of Delegates  
House Transportation Committee  
730 Elden Street  
Herndon, VA 20170

The Honorable S. Chris Jones  
Virginia House of Delegates  
House Appropriations Committee  
P.O. Box 5059  
Suffolk, VA 23435-0059

The Honorable Walter Stosch  
Virginia Senate  
Senate Finance Committee  
4551 Cox Road, Suite 110  
Glen Allen, VA 23060-6740

The Honorable Charles J. Colgan  
Virginia Senate  
Senate Finance Committee  
10677 Aviation Lane  
Manassas, VA 20110-2701

The Honorable Stephen Newman  
Virginia Senate  
Senate Transportation Committee  
P.O. Box 480  
Forest, VA 24551

Ms. Jennifer Mitchell  
Director, Virginia DRPT  
600 East Main Street, Suite 2102  
Richmond, VA 23219

Dear Chairman Rust, Chairman Jones, Co-Chair Stosch, Co-Chair Colgan, Chairman Newman and Director Mitchell:

During the 2015 legislative session, the Virginia General Assembly passed an amendment to the 2014-2016 biennium budget (item 439 #1c) requiring the Washington Metropolitan Area Transit Authority (WMATA) Board of Directors to provide quarterly reports on the actions taken to address recommendations cited in the Federal Transit Administration's (FTA) Full Scope of Systems Review of WMATA dated June 10, 2014.

The quarterly reports are required to be submitted no more than 30 days after the close of each quarter of the fiscal year to the Director of the Virginia Department of Rail and Public Transportation and the Chairmen of the Virginia House and Senate Transportation Committees and the Virginia House Appropriations and Senate Finance Committees. Please find the enclosed report that represents WMATA's latest progress in addressing findings from the FTA Full Scope of Systems Review. This represents WMATA's second quarterly report; the first report was sent on July 16, 2015.

**Washington  
Metropolitan Area  
Transit Authority**

600 Fifth Street, NW  
Washington, DC 20001  
202/962-1234

By Metrorail:  
Judiciary Square—Red Line  
Gallery Place-Chinatown—  
Red, Green and  
Yellow Lines

By Metrobus:  
Routes D1, D3, D6, P6,  
70, 71, 80, X2

*A District of Columbia,  
Maryland and Virginia  
Transit Partnership*

Chairman Rust, Chairman Jones, Co-Chair Stosch, Co-Chair Colgan,  
Chairman Newman and Director Mitchell  
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As of June 30, 2015, WMATA has submitted documentation to the FTA for all 65 Corrective Action Plan items, reconciled all 35 open grants, and submitted all required grant budget revisions. On September 30, 2015, WMATA received the FTA's Financial Management Oversight Testing and Validation Plan which outlines and prioritizes the items and areas to be tested that are most critical to assuring FTA that WMATA has achieved the necessary systematic fixes to its financial controls. WMATA is actively working with FTA's Region III staff to provide testing and validation plan deliverables. FTA has stated that they will keep FMO recommendations open until it performs follow up reviews to close the items.

If you have any further questions, please contact Gregory Potts, Virginia Government Relations Officer, at 202-962-2756 or [gpotts@wmata.com](mailto:gpotts@wmata.com).

Sincerely,



Jack Requa  
Interim General Manager and  
Chief Executive Officer

Enclosure

**Washington Metropolitan Area Transit Authority**  
**Virginia General Assembly and Virginia Department of Rail and Public Transportation**  
**Financial Management Oversight Update**  
**October 2015**

The purpose of this report is to provide an update to the Virginia General Assembly and the Virginia Department of Rail and Public Transportation (DRPT) on the Washington Metropolitan Area Transit Authority's (WMATA) status as it relates to WMATA's Corrective Action Plans (CAPs) in response to the Federal Transit Administration's (FTA) Financial Management Oversight (FMO) Review Report.

### **FMO Background and History**

The FMO Review examined the effectiveness of WMATA's internal control over compliance with FTA financial management system requirements during the period from April 1, 2012 through March 31, 2013. The FMO Draft Report received on March 13, 2014 contained 45 recommendations addressing 9 findings and 5 Advisory Comments:

- **3 Material Weaknesses**
  - Budget Controls
  - Controls over Reporting of Federal Expenditures
  - Procurement Controls
- **6 Significant Deficiencies**
  - Audit Committee Oversight
  - Cash & Grant Management Controls
  - Controls over FTA Funded Assets
  - Access Controls over Financial Management System
  - Controls over Job Order Contracts
  - Improve Federal Financial Reporting Process & Procedures
- **5 Advisory Comments**
  - Improve Payroll and HR Documented Procedures
  - Organizational Structure
  - Entity-wide Risk Assessment
  - Risk Assessment of Financial Management System (FMS)
  - FMS Contingency Planning Controls

WMATA's Management Responses to the FMO Report were submitted to the FTA on April 10, 2014 and included 65 Corrective Action Plan (CAP) items to address the 45 recommendations. The Final FMO Report received on June 10, 2014 incorporated WMATA's Management Responses, including the timeline for document submission. All responses were deemed sufficient in addressing the FMO recommendations. However, the FTA has explicitly stated that FMO Recommendations will remain open until FTA performs follow-up reviews to formally close the items.

In late March 2014, primarily due to FMO results, FTA imposed Electronic Clearing House Operation (ECHO) restrictions, meaning that WMATA is no longer permitted to request reimbursement and draw down federal funds using the FTA's Transportation Electronic Award Management (TEAM) System. Instead, WMATA is required to manually submit reimbursement requests, along with relevant supporting documentation, for review and approval prior to reimbursement. In June 2015, in a joint effort to streamline the manual drawdown process, FTA approved a written certification and agreement that WMATA's Office of Internal Control and Compliance would complete a post

reimbursement verification/sample review of costs associated with WMATA's direct labor draw requests only.

### Current Status of FMO CAPs

As of June 30, 2015, WMATA has submitted on time documentation for **all 65** FMO CAP items. Exhibit 1 below reflects the number of FMO Report recommendations for each finding. It further reflects the number of FMO Corrective Action Plan submissions that have been deemed by FTA as having adequately fulfilled the related FMO recommendation.

FMO Findings that have been 100% fulfilled are highlighted in GREEN (Mat. Weak. II.2 and II.3, Sig. Defic. III.1, III.3 – III.6). For Budget Controls (Mat. Weak. II.1,) and Cash & Grants Management Controls (Sig. Defic. III.2), the outstanding items relate to WMATA's grant reconciliations (of grants open during the FMO Review period) and the immediate repayment of any overdrawn grants noted during the reconciliation process. FTA does not require grantee responses for Advisory Comments. Thus, while WMATA opted to formally respond and provide corrective action plans for all FMO Advisory Comments and related recommendations, FTA did not confirm Advisory Comment submissions.

Exhibit 1

FMO Finding	Description	FMO Report Recommend.	FTA Confirmed Submission ("Adequate")	Outstanding FTA Recommend.
Mat. Weak. II.1	Budget Controls	3	1	2
Mat. Weak. II.2	Federal Expend. Report. Controls	2	2	0
Mat. Weak. II.3	Procurement Controls	5	5	0
Sig. Defic. III.1	Audit Committee Oversight	2	2	0
Sig. Defic. III.2	Cash & Grants Mgmt Controls	4	3.5	0.5
Sig. Defic. III.3	FTA Funded Assets	8	8	0
Sig. Defic. III.4	Financial Mgmt System Access	6	6	0
Sig. Defic. III.5	Controls over JOC	4	4	0
Sig. Defic. III.6	Improve Federal Financial Report.	4	4	0
<b>Material Weaknesses/Significant Deficiencies</b>		<b>38</b>	<b>35.5</b>	<b>2.5</b>
AC IV.1 - IV.5	Advisory Comments	7	N/A	N/A
<b>All FMO Findings and Advisory Comments</b>		<b>45</b>	<b>35.5</b>	<b>2.5</b>

### FMO Follow-up Activity

On September 30, 2015, WMATA received the FTA's Financial Management Oversight Testing and Validation Plan which outlines and prioritizes the items and areas to be tested that are most critical to assuring FTA that WMATA has achieved the necessary systematic fixes to its financial controls.

The plan is structured into three groups of action items: First, requirements for removal of ECHO restriction for all grants awarded after July 1, 2015; second, additional requirements for ECHO

restriction removal for grants awarded prior to July 1, 2015; and third, additional items to address as part of the overall FMO Review closeout, but are not conditions of ECHO restriction. The overall purpose of the testing is to verify a high rate of compliance with each requirement.

Currently, WMATA is actively working with FTA's Region III staff and the Financial Management Oversight Contractor to provide the first Testing and Validation Plan deliverables that are due by October 30, 2015.

### **Ongoing Compliance and Monitoring**

WMATA's Office of Internal Control and Compliance (OICC) was established in January 2015 to conduct objective reviews to monitor WMATA's progress toward implementing all FMO CAPs, as well as adherence to financial management controls and related policies and procedures. OICC reports regularly to the Finance and Administration Committee of WMATA's Board of Directors regarding reviews completed and deficiencies noted along with management's correction actions. In addition, as necessary or appropriate, OICC may report deficiencies or instances of non-compliance identified to WMATA's General Counsel and/or WMATA's Inspector General.

FMO CAPs for the Budget Controls, Cash and Grant Management, Federal Financial Reporting, and Procurement & Job Order Contracts (JOC) areas were evaluated by the OICC through the control certification or self-assessment review method. This type of review allows management with financial management control responsibilities across WMATA to have an active role in the review process. The process is designed to allow accountability and an opportunity to proactively self-identify and report instances of control failure. Management can also proactively develop and implement corrective actions.

OICC is currently conducting targeted review procedures to gauge WMATA's readiness for the FTA follow-up reviews which began in late October 2015. OICC targeted reviews have been initiated within the areas of Asset Management, Procurement and Financial Management System Access.

### **Next Steps**

WMATA will continue to work with FTA's Region III staff to verify compliance with all requirements. WMATA's OICC will also continue reviews of FMO CAPs and ongoing compliance monitoring, as well as Direct Labor Draw Reviews. In addition, WMATA staff will continue to provide monthly reports to the WMATA Board of Directors Finance and Administration Committee on the FMO status. These monthly reports are posted on WMATA's external website for public review and presented to the Committee. Also, as required by the Virginia budget amendment to the 2014-2016 biennium budget (item 439 #1c), WMATA will continue to provide quarterly updates on the FMO to the Virginia General Assembly and DRPT. The next quarterly report will be provided no later than January 30, 2016.