



April 29, 2016

The Honorable Ronald A. Villanueva  
Virginia House of Delegates  
House Transportation Committee  
General Assembly Building  
P.O. Box 406  
Richmond, VA 23218

The Honorable S. Chris Jones  
Virginia House of Delegates  
House Appropriations Committee  
General Assembly Building  
P.O. Box 406  
Richmond, VA 23218

The Honorable Thomas K. Norment  
Virginia Senate  
Senate Finance Committee  
General Assembly Building  
P.O. Box 396  
Richmond, VA 23218

The Honorable Emmett W. Hanger, Jr.  
Virginia Senate  
Senate Finance Committee  
General Assembly Building  
P.O. Box 296  
Richmond, VA 23218

The Honorable Charles W. Carrico, Sr.  
Virginia Senate  
Senate Transportation Committee  
General Assembly Building  
P.O. Box 396  
Richmond, VA 23218

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

Dear Chairman Villanueva, Chairman Jones, Co-Chair Norment, Co-Chair Hanger, Chairman Carrico 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 fourth quarterly report (Q3, FY 16); the first three reports were sent on July 16, 2015 (Q4, FY 15), October 29, 2015 (Q1, FY 16), and January 27, 2016 (Q2, FY 16).

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Metropolitan Area  
Transit Authority**

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

Chairman Villanueva, Chairman Jones, Co-Chair Norment, Co-Chair Hanger,  
Chairman Carrico 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. However, the FTA has explicitly stated that Financial Management Oversight recommendations will remain open until FTA performs follow-up reviews to formally close the items.

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 to complete the Testing and Validation Plan deliverables. The Plan includes 20 action items grouped into three categories with deliverable due dates from October 2015 through December 2016 (two deliverables do not yet have due dates). Of the 20 items, WMATA has submitted materials for 16 and the remaining four are not yet due. Of the 16 items submitted, FTA has deemed five closed and is in the process of testing eleven.

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,

A handwritten signature in black ink, appearing to read "Paul Wiederfeld". The signature is fluid and cursive, with a large initial "P" and "W".

Paul Wiederfeld  
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 Quarterly Updates Q3, FY 2016 (January-March 2016)

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 WMATA's internal control effectiveness over compliance with FTA financial management systems from April 1, 2012 through March 31, 2013. In view of the FMO results, FTA restricted WMATA's access to Electronic Clearing House Operation (ECHO) reimbursement of capital costs in March 2014, requiring WMATA to manually submit reimbursement requests along with relevant supporting documentation for review and approval prior to reimbursement. The FMO Draft Report issued on March 13, 2014 contained 45 recommendations addressing nine findings and five Advisory Comments:

- **Three Material Weaknesses**
  - Budget Controls
  - Controls over Reporting of Federal Expenditures
  - Procurement Controls
- **Six Significant Deficiencies**
  - Audit Committee Oversight
  - Cash and 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
- **Five 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 CAP items to address the 45 recommendations. The Final FMO Report issued 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.

As of June 30, 2015, WMATA has submitted on time documentation for **all 65** FMO CAP items. However, the FTA has explicitly stated that FMO recommendations will remain open until FTA performs follow-up reviews to formally close the items.

### Status as of March 31, 2016

On September 30, 2015, FTA issued its FMO Testing and Validation Plan which outlined and prioritized specific items and areas to be tested. The overall purpose of the testing is to obtain a high rate of compliance with each requirement to assure FTA that WMATA has achieved the necessary systematic fixes to its financial management internal controls. The Testing and Validation Plan includes 20 action items grouped into three categories:
















- Category A includes ten action items required to remove ECHO restrictions for all grants awarded after July 1, 2015
- Category B includes three action items required to remove ECHO restrictions for all grants awarded prior to July 1, 2015
- Category C includes seven action items required for FMO closeout, but not conditional for the removal of ECHO restriction.

As of March 31, 2016, WMATA is actively working with FTA to complete the Testing and Validation Plan deliverables. Of the 20 items, WMATA has submitted materials for 16 and four items are not yet due. Of the 16 items submitted, FTA has deemed five closed and is in the process of testing 11.

Figure one below provides a summary of the FTA Testing and Validation Plan status as of March 31, 2016:

Figure 1

FTA Testing and Validation Plan Category Legend					
A	Required to remove ECHO restriction for grants awarded after July 1, 2015				
B	Required to remove ECHO restriction for grants awarded prior to July 1, 2015				
C	Additional items for FMO closeout				
		FTA Testing and Validation Plan Status			
		● Closed	● FTA Testing In-Progress	● Submitted	● Not Due
<b>Note:</b> FTA's Testing and Validation Plan includes 20 action items and related deliverables primarily aligned to the removal of Electronic Clearing House Operation (ECHO) restrictions.					
Action Item No.	Testing and Validation Action Item	WMATA Deliverable Due Date	Estimated FTA Validation Timeline	FTA Testing and Validation Plan Category	Testing and Validation Status
1	Document process for identifying and mapping labor costs and ensuring labor costs have not been previously drawn down.	10/30/2015	11/29/2015	A	● (Closed)
2	Develop policies and procedures for correct calculation and application of Fringe Benefit costs.	10/30/2015	11/29/2015	A	● (Closed)
3	Ensure only allowable costs are reported in the FFRs and train staff on reviewing invoices for allowable costs.	11/16/2015	12/16/2015	A	● (In-Progress)
4	Ensure the approval process for preparation of FFRs is documented, that FFRs are reviewed by someone other than the preparer, and indirect costs are properly reported on the FFRs for applicable grants.	11/16/2015	12/16/2015	A	● (In-Progress)
5	Ensure full and open competition practices are followed in procuring products and services. Ensure procedures for determining whether procurements will be funded using Federal or local sources are properly utilized. Ensure all components of procurement files are assembled timely and procurement file checklists are used.	11/30/2015	12/30/2015	A	● (In-Progress)

6	Ensure proper controls and access within the financial management system environment.	11/30/2015	12/30/2015	A	 (Closed)
7	Train staff to consistently implement labor and fringe benefit processes.	12/31/2015	1/30/2016	A	 (In-Progress)
8	Ensure that only procurements properly suited for the Job Order Contracts (JOC) contracting mechanism are competed within the pool of JOC contractors.	3/31/2016	4/30/2016	A	 (Submitted)
9	Ensure expenditures are charged to Federal grants in accordance with approved budgets.	TBD by FTA	TBD by FTA	A	 (Not Due)
10	Ensure draw down of FTA funds is only made on the Federal share of expenditures incurred.	TBD by FTA	TBD by FTA	A	 (Not Due)
11	Document process for identifying and mapping "pre- ECHO suspension" labor costs and ensuring those labor costs have not been previously drawn down.	10/31/2015	11/30/2015	B	 (Closed)
12	Provide a dataset with detailed information for each grant reconciled as of 9/30/2015.	11/16/2015	12/16/2015	B	 (In-Progress)
13	Complete the reconciliation of all costs charged to all active grants to the allowable budget categories, or Activity Line Items (ALIs), specified in the Federal awards.	12/31/2016	1/30/2017	B	 (Not Due)
14	Ensure Milestone Progress Reports (MPR) include all required elements upon submission to FTA.	10/30/2015	11/29/2015	C	 (Closed)
15	Obtain approval of Indirect Cost Proposal.	11/15/2015	12/15/2015	C	 (In-Progress)
16	Improve controls over time reporting.	12/31/2015	1/30/2016	C	 (In-Progress)
17	Ensure any WMATA OIG audit findings (internal/external) are addressed timely.	12/31/2015	1/30/2016	C	 (In-Progress)
18	Ensure that the FTA has been notified of all disposed federally funded assets, that the proceeds from disposals have been handled appropriately - including any property losses, and that all other recommendations from this finding are implemented.	1/31/2016	3/1/2016	C	 (Submitted)
19	Repay the FTA for overdrawn amounts after completion of reconciliation.	12/31/2016	1/30/2017	C	 (Not Due)
20	Ensure information used to report expenditures in the FFRs is consistent with the information used to report expenditures in other annual reports.	1/16/2016	2/15/2016	C	 (In-Progress)

## Next Steps

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 by departments across the organization.

In March 2016, WMATA's GM/CEO created a division entitled "Internal Assurance, Compliance and Performance," which includes the OICC, Office of Performance and Office of Quality and Internal Compliance. This division reports directly to the GM/CEO. Prior to this organizational change, OICC reported to the Chief Financial Officer.

Going forward, WMATA will continue to work with FTA to meet the deliverable expectations of FTA's Testing and Validation Plan. WMATA's OICC will also continue to monitor and report on FMO CAPs and ongoing compliance with quarterly reports to the Finance Committee of WMATA's Board of Directors. These quarterly reports are also posted on WMATA's external website for public review. As required by the Virginia budget amendment to the 2014-2016 biennium budget (item 439 #1c), WMATA will also continue to provide quarterly FMO updates to the Virginia General Assembly and DRPT. The next quarterly report will be provided no later than July 30, 2016.