



October 28, 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 sixth quarterly report (Q1, FY17); the first five reports were sent on July 16, 2015 (Q4, FY15), October 29, 2015 (Q1, FY16), January 27, 2016 (Q2, FY16), April 29, 2016 (Q3, FY16), and July 29, 2016 (Q4, FY16).

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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 FMO 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. Of the 20 items, WMATA has submitted materials for 18 and the remaining two are not yet due. Of the 18 items submitted, FTA has deemed five closed and is in the process of testing 13. The enclosure provides a detailed summary of the FTA Testing and Validation Plan status as of September 30, 2016.

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

Sincerely,



Paul J. Wiedefeld
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 Q1, FY 2017 (July – September 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 (CAP's) 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.

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.

Status as of September 30, 2016

FTA conducted the Snapshot Test in order to assess three of the 20 action items from the original Testing and Validation Plan issued on September 30, 2015. WMATA has submitted materials for 18 of the 20 required action items, and two items are not yet due. Of the 18 items submitted, FTA has deemed five closed and is in the process of testing 13. Of the 13 action items under FTA's review, three were considered as part of the Snapshot Test, including action items 9 and 10 in Category A and item 12 in Category B.

The Snapshot Test examined activities funded by FTA between July 1, 2015 and March 31, 2016 to assess financial control compliance with FTA requirements. On September 15, 2016, WMATA received feedback on the status of procedures completed to date by FTA, and FTA is currently in the process of finalizing a formal report. FTA is also scheduled to assess performance of WMATA's Funds Management System, which was implemented July 1, 2016 and serves as a significant improvement to WMATA's control environment. FTA will begin testing the Funds Management System as early as possible following completion of the first quarter's Federal Financial Reports (FFRs), which are due by October 30, 2016. The results of the Snapshot Test and other related assessments would allow FTA to make a fully informed decision on the removal of WMATA's current drawdown restrictions.

Figure 1 provides a summary of the FTA Testing and Validation Plan status as of September 30, 2016. There were no changes to the status from prior quarter.










Ongoing Compliance Monitoring

WMATA's Office of Internal Assurance and Compliance (IACO) continues to monitor WMATA's progress toward implementing all FMO CAPs, as well as adherence to financial management controls and related policies and procedures. IACO also continues to monitor and report on FMO CAPs and ongoing compliance with quarterly reports to WMATA's Board of Directors.

WMATA will continue to work with FTA to meet the deliverable expectations of FTA's Testing and Validation Plan, as well as continue to provide quarterly FMO updates to the Virginia General Assembly and DRPT. The next quarterly report will be provided no later than January 31, 2017.

Figure 1

FTA Testing and Validation Plan Category Legend		FTA Testing and Validation Plan Status			
A	Required to remove ECHO restriction for grants awarded after July 1, 2015	● Closed	● FTA Testing In-Progress	● Submitted	● Not Due
B	Required to remove ECHO restriction for grants awarded prior to July 1, 2015				
C	Additional items for FMO closeout				
<p>Note: 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.</p>					
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	1) Ensure only allowable costs are reported in the FFRs <i>Note: FTA plans to retest due to new Funds Management System to be implemented by WMATA July 1, 2016*.</i>	11/16/2015 10/30/2016*	12/16/2015 TBD*	A	● (In-Progress)
	2) Train staff on reviewing invoices for allowable costs.				● (Closed)
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. <i>Note: FTA plans to retest due to new Funds Management System to be implemented by WMATA July 1, 2016*.</i>	11/16/2015 10/30/2016*	12/16/2015 TBD*	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	● (In-Progress)
9	Ensure expenditures are charged to Federal grants in accordance with approved budgets.	5/23/2016*	6/30/2016*	A	● (In-Progress)
10	Ensure draw down of FTA funds is only made on the Federal share of expenditures incurred.	5/23/2016*	6/30/2016*	A	● (In-Progress)
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)

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
12	Provide a dataset with detailed information for each grant reconciled as of 9/30/2015. <i>Note: Action item will be validated as part of the test initiated on 5/23/2016*.</i>	11/16/2015 5/23/2016*	12/16/2015 6/30/2016*	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	 (In-Progress)
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)

*Information updated based on FTA's Testing and Validation Plan Update - May 23, 2016.