



January 27, 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 third quarterly report (Q2, FY16); the first two reports were sent on July 16, 2015 (Q4, FY15) and October 29, 2015 (Q1, FY16).

**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 Villanueva, Chairman Jones, Co-Chair Norment, Co-Chair Hanger,
Chairman Carrico and Director Mitchell
Page 2

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. The Plan includes 20 action items grouped into three categories with deliverables from October 2015 through December 2016. WMATA has met all deliverable deadlines and submitted all materials on time. WMATA continues to work with FTA and the Financial Management Oversight Contractor to timely meet all deliverable expectations. The next deadline is January 31, 2016 and WMATA expects to submit materials on time.

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

Sincerely,



Paul 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 Update
Q2, FY 2016 (October-December 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 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 December 31, 2015

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.

The following table includes the status of WMATA's deliverables as of December 31, 2015.

| WMATA Action Item Due | Action Item Category | Status |
|---|-----------------------------|----------------------------------|
| October 2015 Four (4) Items | A: 2 B: 1 C: 1 | Submitted on time |
| November 2015 Six (6) Items | A: 4 B: 1 C: 1 | Submitted on time |
| December 2015 Four (4) Items | A: 1 B: 0 C: 3 | Submitted on time |
| January – December 2016 One (1) Item – January One (1) Item – March Two (2) Items – December | A: 1 B: 1 C: 2 | Scheduled for on time submission |
| To be defined by FTA Two (2) Items | A: 2 | TBD |

On December 8, 2015, FTA formally responded to WMATA's October 31, 2015 deliverables. The response includes requests for minor adjustments to WMATA's submissions. FTA's evaluation of WMATA's November 2015 submissions started in December, including the evaluation of controls over procurement and financial management system access. WMATA is currently working on the next set of deliverables due to FTA by January 31, 2016.

As of December 31, 2015, WMATA continues to work with FTA and the Financial Management Oversight Contractor (FMOC) to timely meet all deliverable expectations of FTA's Testing and Validation Plan, and to provide the support and cooperation needed to accomplish onsite and offsite testing and validation objectives.

Ongoing Compliance Monitoring

WMATA's Office of Internal Control and Compliance (OICC) continues to monitor WMATA's progress toward implementing all FMO CAPs and to conduct objective reviews of WMATA's adherence to financial management controls and related policies and procedures.

The following includes the status of OICC reviews as of December 31, 2015:

| Reviews Initiated Q2 FY 2016 (October – December 2015) | | | | |
|---|-------------------|-------------|---------|--|
| Review Objective and Scope | Nature of Review | Status | Results | Review Comments, Notable Exceptions and Progress as of 12/31/2015 |
| <p>Direct Labor Draw Reviews Review Objective: The purpose of the review is to provide reasonable assurance that the direct labor cost associated with recent FTA labor draw requests is supportable by WMATA's records and that all costs have been charged to the same activity for which work was performed. The review also supports certification statements made by WMATA's Chief Executive Officer and Chief Financial Officer in connection with the draw request.</p> <p>Review Scope 1 - Direct labor draws from April 19, 2015 through May 23, 2015</p> <p>Review Scope 2 - Direct labor draws from November 30, 2014 through April 18, 2015 (2nd draw for period stated)</p> <p>Review Scope 3 - Direct labor draws from July 1, 2014 through November 29, 2014 (2nd draw for period stated)</p> | Cost Verification | In Progress | ▼ | <p>Review Scope 1</p> <p>Review is significantly completed and OICC is in the process of analyzing results and following up on preliminary findings.</p> <p>Expected completion – 2/ 24/2016</p> |
| | | In Progress | ▼ | <p>Review Scope 2</p> <p>Review is significantly completed and OICC is in the process of analyzing results and following up on preliminary findings.</p> <p>Expected completion – 2/ 12/2016</p> |
| | | In Progress | ▼ | <p>Review Scope 3</p> <p>Review initiated and in progress. Fieldwork is approximately 50% completed.</p> |
| <p>FMO Audit Readiness Review – Audit Closeout Policy Review Objective: Review to ensure compliance with WMATA's Audit closeout policy. Review considered the timeliness of WMATA's response to OIG findings.</p> | Policy Review | In Progress | ▼ | <p>Review is significantly completed and OICC's preliminary analysis noted opportunities for improvement and no major exceptions.</p> |

Ratings: Effective  Needs Improvement  Ineffective  In progress 

| Reviews Initiated Q2 FY 2016 (October – December 2015) Continued | | | | |
|--|--------------------|-------------|---------|--|
| Review Objective and Scope | Nature of Review | Status | Results | Review Comments, Notable Exceptions and Progress as of 12/31/2015 |
| <p>FMO CAP Follow-Up Review- FTA Funded Asset Management Review Objective: Determine compliance with WMATA's Asset Management Manual with a specific focus on corrective action plan items submitted to the FTA. 6 Corrective Action Plan Items</p> <p>Review Scope 1 – Asset Disposals (Audit Readiness Review) FTA funded assets disposed in compliance with relevant policies and procedure, and in compliance with FTA expectations. Review includes consideration of process flow through Supply Chain Enterprise Services (SCES).</p> <p>Review Scope 2 – Property Transactions (Audit Readiness Review) Procedures to ensure asset records are maintained consistent with the requirements in FTA Circular 5010.1D. This would include new assets and asset transfers. Procedures to be completed will also validate the implementation of all FTA recommendations.</p> <p>Review Scope 3 – Biennial Physical Inventory Procedures to ensure that an inventory is performed on a Biennial basis and the results are reconciled against asset records.</p> | Control Validation | Completed | ▲ | <p>Review Scope 1</p> <p>OICC noted 85% exception with the samples reviewed for the use of the Property Transaction Form (PTR) for asset disposals tested (20). Exceptions were also noted with the required FTA notification for the disposal of FTA funded assets. Review noted no exceptions with the recordation of sales proceeds, and the two (2) donated assets included in the sample reviewed were approved as required by policy.</p> <p>Efforts are underway to address identified issues. Office of Accounting (ACCT) has taken steps to identify and correct all missing FTA notifications. As of 11/16/2015, all missing FY2016 FTA notifications have been sent to FTA.</p> |
| | | In Progress | ▼ | <p>Review Scope 2</p> <p>Review initiated and in progress. Fieldwork is approximately 50% completed.</p> |
| | | In Progress | ▼ | <p>Review Scope 3</p> <p>Review initiated and in progress.</p> |

| Reviews Initiated Q2 FY 2016 (October – December 2015) Continued | | | | |
|--|--------------------|-------------|---------|---|
| Review Objective and Scope | Nature of Review | Status | Results | Review Comments, Notable Exceptions and Progress as of 12/31/2015 |
| <p>Unauthorized Commitments and Spending Authority Review Objective: Determine project management compliance with WMATA’s policies and procedures related to budgeting as an organizational control for planned capital expenditures. Determine compliance with WMATA’s spending authority limits for capital expenditures.</p> | Control Validation | In Progress | ▼ | OICC stated preliminary surveys and interviews. |
| <p>Issue Follow -Up Review - Financial Management Operations Review Objective: Determine completeness of Corrective Action Plans (CAPs) developed by WMATA, and confirm resolution of related issues and exceptions identified during the McGladrey A-133 audit of FY2014 completed in August 2015.</p> | Control Validation | In Progress | ▼ | OICC is in the process of monitoring and validating the completion of A-133 CAPs. 42 CAP items were created in response to the 26 findings noted in the Single Audit Reports for the fiscal year ended June 30, 2014. |
| Reviews Initiated in Prior Periods | | | | |
| Review Objective and Scope | Nature of Review | Status | Results | Review Comments, Notable Exceptions and Progress as of 11/16/2015 |
| <p>FMO CAP Follow-Up Review- Improve Documented Procedures for Payroll and Human Resources Review Objective: Determine compliance with WMATA’s Payroll and Human Resources policy and procedures with a specific focus on corrective action plan items submitted to the FTA. 4 Corrective Action Plan Items</p> | Control Validation | In Progress | ▼ | Review was initiated and a risk and control matrix was developed to facilitate the evaluation of resulting control activities from WMATA’s 4 corrective action plan items. |

Ratings: Effective  Needs Improvement  Ineffective  In progress 

Next Steps

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 and Administration 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 April 30, 2016.