



July 28, 2017

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 ninth quarterly report (Q4, FY17).

**Washington
Metropolitan Area
Transit Authority**

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

www.wmata.com

*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

The FTA Testing and Validation Plan includes 20 action items grouped into three categories. As of June 30, 2017, the FTA has deemed 15 out of 20 action items closed. The five remaining items are at various stages of FTA review. WMATA met with FTA in May 2017 to discuss the five remaining action items and has since submitted documentation requested to close out all five of the remaining items.

The enclosure provides a detailed summary of the FTA Testing and Validation Plan status as of June 30, 2017.

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

Sincerely,

A handwritten signature in cursive script that reads "Paul J. Wiedefeld". The signature is written in black ink and is positioned above the printed name and title.

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 Q4, FY 2017 (April – June 2017)

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 Asset
 - 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 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 June 30, 2017

In continuation of FTA validation efforts which began back in October 2015, FTA completed the FMO Review Snapshot Test on December 9, 2016. The FMO Review Snapshot Test was designed to evaluate three of the 20 action items from the original Testing and Validation Plan issued on September 30, 2015. The Snapshot Test assessed financial control compliance with FTA requirements for activities funded by FTA between July 1, 2015 and March 31, 2016. The FMO Review Snapshot Test also included an in-depth review to assess performance of WMATA's Funds Management System, which was implemented on July 1, 2016 and serves as a significant improvement to WMATA's control environment.





Based upon the results of this review and other related control testing and validation efforts, FTA concluded that WMATA had implemented the necessary corrective actions and made sufficient progress in resolving all findings for the Category A action items on the original Testing and Validation Plan. On December 22, 2016, FTA lifted WMATA's ECHO restriction and reinstated WMATA's electronic funds drawdown privileges for all grants awarded after July 1, 2015.

Figure 1 provides a summary of the FTA Testing and Validation Plan status as of June 30, 2017. All action items were completed by the FTA defined due dates and FTA has deemed 15 closed, while the five remaining items are at various stages of FTA review. WMATA met with FTA in May 2017 to discuss the five remaining action items in Categories B and C and has since submitted documentation requested to close out all five of the remaining items.













Ongoing Compliance Monitoring

WMATA's Office of Management Audits, Risk and Compliance (MARC) continues to monitor WMATA's progress toward improved financial management controls, including those implemented in response to the FMO Report. Additionally, MARC is in the process of finalizing an FMO Follow-up Review conducted in Q4, FY17. This review was performed to evaluate WMATA's ongoing compliance with targeted FMO Corrective Action Plan commitments, with a specific focus on items not already covered by scheduled reviews.

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				

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.

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	 (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.	11/16/2015	12/16/2015	A	 (Closed)
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	 (Closed)
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	 (Closed)
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	 (Closed)
9	Ensure expenditures are charged to Federal grants in accordance with approved budgets.	11/30/2016	12/23/2016	A	 (Closed)
10	Ensure draw down of FTA funds is only made on the Federal share of expenditures incurred.	11/30/2016	12/23/2016	A	 (Closed)
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	 (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
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	● (In-Progress)
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	● (Closed)
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	● (In-Progress)
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	● (Closed)