



October 31, 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 2016-2018 biennium budget again includes this language.

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 enclosed WMATA's latest progress report in addressing findings from the FTA Full Scope of Systems Review. This report is WMATA's tenth quarterly report (Q1, FY18).

**Washington
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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The FTA Testing and Validation Plan includes 20 action items grouped into three categories. As of September 30, 2017, the FTA has deemed 15 items closed and five open. However, in a letter received from the FTA on October 6, 2017, the five remaining items were closed and the 2014 FMO Review was closed (see Attachment A). This is an important milestone in the continued improvement of WMATA's financial performance and management.

The enclosures provide a detailed summary of the FTA Testing and Validation Plan status as of September 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 black ink, reading "Paul J. Wiedefeld". The signature is fluid and cursive, with a long horizontal stroke at the end.

Paul J. Wiedefeld
General Manager and
Chief Executive Officer

Enclosures

Washington Metropolitan Area Transit Authority

Virginia General Assembly and Virginia Department of Rail and Public Transportation Financial Management Oversight Quarterly Updates Q1, FY 2018 (July – September 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 (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 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 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.

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.

Status as of September 30, 2017

Figure 1 provides a summary of the FTA Testing and Validation Plan status as of September 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. In an effort to continue work with FTA to close the five outstanding action items in Categories B and C, WMATA met with FTA in May 2017 to discuss the five remaining action items and subsequently submitted documentation requested to close out all five of the remaining items.

Subsequent Events – 2014 FMO Review Closed

On October 6, 2017, the FTA issued a letter to WMATA, *RE: Financial Management Oversight Review – Testing and Validation Plan Feedback*, which closed the five remaining FTA Testing and Validation Plan items. This letter further stated that, as a result of these findings being closed, and with WMATA's successful follow-up to findings identified in the Snapshot Test and Funds Management System test, the 2014 FMO Review is also closed. (See Attachment A)

Additionally, in a subsequent letter dated October 13, 2017, *RE: ECHO Reinstatement for All Grants Awarded Before July 1, 2015*, the FTA lifted WMATA's remaining ECHO restriction and reinstated WMATA's electronic funds drawdown privileges for all grants awarded before July 1, 2015. WMATA has seven open grants that were awarded before July 1, 2015.

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 initiated in Q4, FY17. This review was performed to evaluate WMATA's ongoing compliance with targeted FMO Corrective Action Plan commitments and the resulting control activities, 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)



U.S. Department
of Transportation
**Federal Transit
Administration**

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October 6, 2017

Mr. Paul Wiedefeld
General Manager/CEO
Washington Metropolitan Area Transit Authority
600 Fifth Street NW
Washington, DC 20001

RE: Financial Management Oversight Review – Testing and Validation Plan Feedback

Dear Mr. Wiedefeld:

In a letter dated September 30, 2015, the Federal Transit Administration (FTA) communicated its Testing and Validation Plan (the Plan) to verify that WMATA has implemented necessary corrective actions to address the material weaknesses and significant deficiencies identified in FTA's Financial Management Oversight (FMO) report, published in June of 2014. The Plan prioritized the action items most critical to assuring FTA of systematic fixes to WMATA's financial controls and provided WMATA a plan for being removed from ECHO restriction. The Plan reflected FTA discussions with WMATA regarding the action items, initial testing, and WMATA deliverable due dates.

As such, the Plan was organized into three (3) groups of action items:

- A. Requirements for removal of ECHO restriction for all grants awarded after July 1, 2015;
- B. Additional requirements for removal of ECHO restriction for grants awarded prior to July 1, 2015; and
- C. Additional items to address as part of FMO closeout - not conditions of ECHO restriction.

This letter provides FTA's feedback on the remaining action items that were not previously closed.

Action Items:

Ref No.	Action Item	Testing Plan
B3	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.	FTA to test supporting documentation during Snapshot Testing and FFR / Funds Management Testing.

Ref No.	Action Item	Testing Plan
C3	Improve controls over time reporting.	FTA to review updated policy.
C4	Ensure any WMATA OIG audit findings (internal/external) are addressed timely.	FTA to review and evaluate WMATA's submittal.
C5	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 <i>this finding*</i> are implemented.	FTA to test July 2015 to December 2015 disposition data and check biennial review.
C6	Repay the FTA for overdrawn amounts after completion of reconciliation.	FTA to process any overdrawn amounts.
C3	Improve controls over time reporting.	FTA to review updated policy.

Status and Remaining Action:

The current status of each action item is as follows:

1. Action Item B3 – WMATA's corrective action is adequate. Therefore, this action item is considered *closed*. See *Attachment 1*.
2. Action Item C3 – WMATA's corrective action is adequate. Therefore, this action item is considered *closed*. See *Attachment 2*.
3. Action Item C4 – WMATA's corrective action is adequate. Therefore, this action item is considered *closed*. See *Attachment 2*.
4. Action Item C5 – WMATA's corrective action is adequate. Therefore, this action item is considered *closed*. See *Attachment 3*.
5. Action Item C6 – WMATA's corrective action is adequate. Therefore, this action item is considered *closed*. See *Attachment 4*.

As a result of these findings being closed, and with WMATA's successful follow-up to findings identified in the Snapshot Test and Funds Management System test, the 2014 FMO Review is also closed. It should be noted that FTA will continue to monitor project management concerns through monthly and quarterly project oversight activities. Also, FTA will be reviewing the application and calculation of fringe benefit rates during its review of WMATA's most recent Cost Allocation Plan.

Mr. Wiedefeld
October 6, 2017
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If you have any questions, please contact Corey Walker in the Washington, DC Metropolitan Office at (202) 366-0826 or via email at corey.walker@dot.gov.

Sincerely,

A handwritten signature in blue ink that reads "Terry Garcia Crews". The signature is fluid and cursive, with the first name "Terry" and last name "Crews" being clearly legible.

Terry Garcia Crews
Regional Administrator

cc: Dennis Anosike, Chief Financial Officer, WMATA

ATTACHMENT 1 – Action Items B3

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.

WMATA's Deliverables:

WMATA provided a dataset for 28 of its 29 active grants as of September 30, 2015. These datasets only included information regarding the Federal share of expenditures and not the entire amount expended and reported in the FFRs for each grant. Therefore, at FTA's request, WMATA provided an Excel file titled *Total Expenditures Database* on April 6, 2016. This file included total expenditures by ALI for its 28 grants with activity as of September 30, 2015. Nothing was required to be provided for Grant DC-04-0008 since there was no reported expenditures or draw downs on that grant.

FTA's Testing Results:

On May 23, 2016, FTA commenced a "Snapshot" Review to assess if WMATA had internal controls in place over FTA funded activity during the period July 1, 2015 through March 31, 2016 (Snapshot Review Period). The full results of that review are detailed in a separate report; however, FTA tested the database in conjunction with the Snapshot testing of certain federally funded expenditures incurred during the period July 1, 2015 through March 31, 2016.

Therefore, WMATA has adequately addressed this action item.

ATTACHMENT 2 – Action Items C3 and C4

C3: Improve controls over time reporting.

C4: Ensure any WMATA OIG audit findings (internal/external) are addressed timely.

WMATA’s Deliverables:

FTA reviewed WMATA’s deliverables initially submitted on December 31, 2015 to address the original action items C3 and C4, and provided feedback to WMATA in a letter dated March 15, 2016. FTA’s March 15, 2016 letter identified 14 follow-up action items, which are described in the “FTA’s Testing Results” section below. WMATA provided updated responses in its submission dated April 29, 2016. FTA’s updated feedback on WMATA’s revised submission is also described in the “FTA’s Testing Results” section.

WMATA’s updated submission included the following information:

- Written response to FTA’s feedback letter dated March 15, 2016
- Attachment A – Timekeeping Policy (Final)

FTA’s Testing Results:

The 14 follow-up action items in FTA’s March 15, 2016 letter to WMATA are identified below, for which WMATA provided updated responses in its submission dated April 29, 2016. FTA’s updated feedback on WMATA’s revised submission is provided below. WMATA’s updated submissions addressed these action items.

1. FTA’s Feedback on WMATA’s Original Submission dated December 31, 2015:

Clarify the inconsistency between WMATA’s Timekeeping Policy and the information presented to Metro employees in the Lifecycle of Labor Costs Training regarding cost-center driven practices. WMATA should ensure that either the policy is updated accordingly to agree to the presentation or provide employees with the correct information.

FTA’s Feedback on WMATA’s Revised Submission dated April 29, 2016:

WMATA’s written response to FTA dated April 29, 2016 indicated that the information in the presentation is representative of its current practice. WMATA also noted that its Timekeeping Policy has been updated to reflect that cost center-driven timekeeping is a WMATA practice that is available for certain cost centers, only with the written approval of the Office of the Chief Financial Officer (OCFO). Section 5.02 of the Timekeeping Policy now states:

“In some instances with written approval from the Metro Chief Financial Officer, a cost center-driven approach may be used instead of job numbers. With a cost center-driven approach, employees do not use a job number; rather, they record their time to the cost center in which they work, and their time is moved to a capital project by a journal entry or other back-office adjustment. These employees typically report to the same location and perform the same work every

day. This is not applicable to all employees and should be considered as the exception.”

Therefore, WMATA has adequately addressed this follow-up action item.

2. FTA’s Feedback on WMATA’s Original Submission dated December 31, 2015:
Update WMATA’s Timekeeping Policy to include the detail on various methods of collecting employee labor that is presented in the Lifecycle of Labor Costs Training.

FTA’s Feedback on WMATA’s Revised Submission dated April 29, 2016:

WMATA’s written response to FTA dated April 29, 2016 indicated that its Timekeeping Policy has been updated to reflect details on the various methods of collecting employee labor hours as presented in the Lifecycle of Labor Costs Training.

Therefore, WMATA has adequately addressed this follow-up action item.

3. FTA’s Feedback on WMATA’s Original Submission dated December 31, 2015:
WMATA’s draft Timekeeping Policy submitted on December 31, 2015 associates Testing & Validation Plan action item C3 with FMO Finding #III.2 *Cash and Grant Management Controls*. WMATA should remove reference to the FMO from its Timekeeping Policy, since this action item for improving timekeeping controls was identified as a result of the Special Review that FTA completed subsequent to the FMO review, and is not associated with the FMO review.

FTA’s Feedback on WMATA’s Revised Submission dated April 29, 2016:

WMATA submitted an updated and final version of its Timekeeping Policy dated April 29, 2016. The final policy does not refer to the FMO; therefore, WMATA has adequately addressed this follow-up action item.

4. FTA’s Feedback on WMATA’s Original Submission dated December 31, 2015:
Submit the final version of the Timekeeping Policy.

FTA’s Feedback on WMATA’s Revised Submission dated April 29, 2016:

WMATA submitted the final version of its Timekeeping Policy, which was signed by the General Manager/Chief Executive Officer (GM/CEO) on April 29, 2016. Therefore, WMATA has adequately addressed this follow-up action item.

5. FTA’s Feedback on WMATA’s Original Submission dated December 31, 2015:
Confirm whether the statement at Section 4.04 “Employees are responsible for maintaining timekeeping records...” represents WMATA’s new practice from the effective date of the Timekeeping Policy.

FTA's Feedback on WMATA's Revised Submission dated April 29, 2016:

WMATA confirmed in its written response to FTA dated April 29, 2016 that the information in Section 4.04 of its Timekeeping Policy is representative of its current practice, as of the policy's effective date of April 29, 2016. Therefore, WMATA has adequately addressed this follow-up action item.

6. FTA's Feedback on WMATA's Original Submission dated December 31, 2015:

Confirm whether WMATA's new practice will require that employees code all activities to a job number from the effective date of the Timekeeping Policy.

FTA's Feedback on WMATA's Revised Submission dated April 29, 2016:

WMATA mentioned in its written response to FTA dated April 29, 2016 that its current practice, as of its Timekeeping Policy's effective date of April 29, 2016, is intended to require employees to code all activities associated with work on capital projects to a job number. However, as noted in the response to feedback item #1 above, WMATA also mentioned that cost center-driven timekeeping is a WMATA practice that may be used, but is only available with the written approval of the OCFO.

Therefore, WMATA has adequately addressed this follow-up action item.

7. FTA's Feedback on WMATA's Original Submission dated December 31, 2015:

Explain the relevance of Section 8.00 *Related Policies, Regulations & Resolutions* to the Timekeeping Policy, and identify the locations of the referenced policies and documents. In addition, WMATA should ensure that the Timekeeping Policy and all related policies and documents are kept up-to-date.

FTA's Feedback on WMATA's Revised Submission dated April 29, 2016:

WMATA's written response to FTA dated April 29, 2016 indicated that its Timekeeping Policy has been updated to specify the purpose of Section 8.00 and location of the additional policies and documents referenced. WMATA also noted that it is working to improve the overall process for reviewing and updating all policy/instruction documents. FTA noted that Timekeeping Policy now states that the related policies listed in Section 8.00 have a direct or indirect impact on the overall Timekeeping Policy, and indicates that they can be found on WMATA's Metroweb (intranet).

Therefore, WMATA has adequately addressed this follow-up action item.

8. FTA's Feedback on WMATA's Original Submission dated December 31, 2015:

Section 9.00 *List of Appendices, Attachments or Forms* of WMATA's draft Timekeeping Policy was blank. WMATA should complete the information that should appear in this section or remove that section from the policy.

FTA's Feedback on WMATA's Revised Submission dated April 29, 2016:

WMATA's written response to FTA dated April 29, 2016 indicated that Section 9.00 of its Timekeeping Policy has been updated to direct users to specific timekeeping forms

and systems, and to delegate authority to OCFO for maintaining these forms and systems. FTA noted that Section 9.00 of the Timekeeping Policy has been revised accordingly.

Therefore, WMATA has adequately addressed this follow-up action item.

9. FTA's Feedback on WMATA's Original Submission dated December 31, 2015:

WMATA submitted its Financial Management Process: Direct and Indirect Labor Expenses, a matrix of timekeeping and risk controls, on December 31, 2015. While conducting various testing procedures for the Special Review, the FTA identified instances where employee's time records were edited without the employee's knowledge. While reviewing WMATA's December 31, 2015 submission, FTA could not identify which control description in the matrix addressed the inherent risk that someone could change an employee's time record without due cause or the employee's consent. Therefore, WMATA should include this control description in the matrix.

FTA's Feedback on WMATA's Revised Submission dated April 29, 2016:

WMATA's written response to FTA dated April 29, 2016 indicated that its timekeeping and risk controls matrix includes several controls to identify the risk of an employee's time being changed without the employee's consent.

Therefore, WMATA has adequately addressed this follow-up action item.

10. FTA's Feedback on WMATA's Original Submission dated December 31, 2015:

WMATA's Financial Management Process included a control description indicating that all corrections to time records are made only with the approvals of the employee and supervisor. WMATA should identify the related departments and individuals responsible for authorizing and making such corrections.

FTA's Feedback on WMATA's Revised Submission dated April 29, 2016:

WMATA's written response to FTA dated April 29, 2016 indicated that employees are responsible for the initial time record, which is approved by the supervisor. Corrections to time are acknowledged/approved by the employee and supervisor prior to submission to WMATA's Office of Accounting, Payroll Division. FTA noted that this response is consistent with WMATA's updated Timekeeping Policy.

Therefore, WMATA has adequately addressed this follow-up action item.

11. FTA's Feedback on WMATA's Original Submission dated December 31, 2015:

Clarify what the information reported in the Status of OIG Audits and Reports represents.

FTA's Feedback on WMATA's Revised Submission dated April 29, 2016:

WMATA's written response to FTA dated April 29, 2016 indicated that the information reported in the Status of OIG Audits and Reports log is used by the GM/CEO to track and monitor the status of OIG reports and management's responses. The log includes the draft and final OIG report issuance dates, management's response date, corrective action plan

due date, and final close-out date. WMATA's response adequately addressed this follow-up action item.

12. FTA's Feedback on WMATA's Original Submission dated December 31, 2015:

WMATA submitted a Corrective Action Plan Closure or Extension Request form (the Form) on December 31, 2015. Although the purpose of the Form is briefly explained in the Audit Close-Out Policy Update Summary, the Form is not mentioned anywhere else in WMATA's submission. If use of the Form represents an important part of WMATA's internal controls process, then WMATA should include an explanation for the purpose of the Form and how it is used in WMATA's internal controls process in the Audit Close-Out Policy.

FTA's Feedback on WMATA's Revised Submission dated April 29, 2016:

WMATA's written response to FTA dated April 29, 2016 indicated that the Audit Close-Out Policy will be updated to include reference to the Corrective Action Plan Closure or Extension Request form. WMATA's response adequately addressed this follow-up action item.

13. FTA's Feedback on WMATA's Original Submission dated December 31, 2015:

WMATA submitted its Summary of Aggregated Deficiencies in Financial Management Operations and Processes, which is a tracking report maintained by the Office of Internal Control and Compliance (OICC), on December 31, 2015. This information included a summary of external and internal audit findings, WMATA's corrective action plan, and the status of each corrective action, among other things. In some cases, a status indicates "COMPLETED" or "Documentation reviewed and validated by OICC." However, it is not clear if the corrective action plan statuses have been reviewed and approved by the originator of the findings (i.e. the external auditor or OIG). WMATA should document the external and/or internal auditor's feedback on each corrective action item to ensure that each finding is properly addressed.

FTA's Feedback on WMATA's Revised Submission dated April 29, 2016:

WMATA acknowledged in its written response to FTA dated April 29, 2016 that the OICC tracking report should include the auditors' feedback on findings marked closed, and will include this information going forward. Therefore, WMATA has adequately addressed this follow-up action item.

14. FTA's Feedback on WMATA's Original Submission dated December 31, 2015:

WMATA submitted an OICC work file memo summarizing its review of WMATA's Audit Close-Out Policy on December 31, 2015. The review resulted in three (3) exceptions and two (2) recommendations. WMATA should ensure that all comments and recommendations from the OICC are properly addressed.

FTA's Feedback on WMATA's Revised Submission dated April 29, 2016:

WMATA's written response to FTA dated April 29, 2016 indicated that a formal response from WMATA's management was sent to OICC noting that OICC's comments and recommendations will be implemented by September 30, 2016.

WMATA's response adequately addressed this follow-up action item.

ATTACHMENT 3 – Action Item C5

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.

WMATA's Deliverables:

FTA reviewed WMATA's deliverables initially submitted on January 29, 2016 to address the original action item for C5, which included the following information:

- FY 2015 Biennial Physical Inventory *Status Report* – Provides an overview of WMATA's procedures while conducting the inventory, a summary of results, and next steps to be taken by WMATA
- FY 2015 *Biennial Physical Inventory* – Includes information for 6,179 assets with an acquisition cost of \$5,000 or more
- Listing of *Asset Disposals* for the period July 1, 2015 to December 31, 2015
- *Asset Management Manual* (dated January 2016)

Through the course of several meetings and email correspondences with WMATA, FTA communicated additional requests for information in order to gain comfort that WMATA had fully addressed this action item. The additional requests and follow-up action items are described in the "FTA's Testing Results" section below. WMATA provided updated responses accordingly, and FTA's updated feedback on WMATA's revised submissions is also described in the "FTA's Testing Results" section.

FTA's Testing Results:

Background

WMATA conducted a physical inventory count of its federally funded assets as of June 30, 2015, which comprised of Rolling Stock, Equipment, Furniture and Fixtures, and Information Technology (IT) items. The resulting *Biennial Physical Inventory* report is an Excel file that was exported from WMATA's PeopleSoft Asset Management Module (PSAM), the official system for recording capitalized assets. The file identified 6,179 federally funded assets with an acquisition cost of \$5,000 or greater as of June 30, 2015.

Of the assets listed in PeopleSoft, WMATA located 4,927 and matched them to the accounting records, and did not locate 1,252. Based on FTA's analysis of the *Biennial Physical Inventory*, 12 records from the group of items WMATA located had the same asset identification number (Asset ID). The Asset ID is a unique number assigned in PSAM to each asset. After FTA inquired about the 12 records, WMATA confirmed that the entries in the Excel file were duplicates. However, based on a system search WMATA conducted while investigating FTA's inquiry, the assets are only recorded once in PSAM. WMATA concluded that the duplicate entries appear on the *Biennial Physical Inventory* report most likely due to errors with the query used to generate the report.

The following table represents a summary of the inventory results.

	Number of Assets	Acquisition Cost (Cost)	Net Book Value (NBV)
Assets Located and Matched to PeopleSoft*	4,927	\$ 2,142,363,330	\$ 981,482,666
Assets not Located	1,252	\$ 38,851,859	\$ 11,158,339
Total Assets Recorded in PeopleSoft	6,179	\$ 2,181,215,189	\$ 992,641,005

*Includes 12 duplicate records with total Cost of \$213,336 and NBV of \$0.

For the 1,252 assets that were not located, WMATA plans on performing an analysis of the items not located and making a management decision on whether to write off the assets or continue to search for them. Once the analysis is complete, WMATA will then adjust PeopleSoft based on results of the final inventory and management recommendations. WMATA's estimated completion date for these activities was June 30, 2016.

FTA requested WMATA's listing of federally funded assets disposed during the period July 1, 2015 to December 31, 2015 for testing. The Asset Disposals listing that WMATA provided was an Excel file, which identified 121 assets with total cost of \$7,316,036. FTA could not determine the completeness and accuracy of the file provided. Based on FTA's analysis, *none* of the assets could be identified on the *Biennial Physical Inventory*. Since these assets were not disposed until *after* July 1, 2015, they should appear on the inventory listing as of June 30, 2015. After FTA inquired about this discrepancy, WMATA responded that a new fixed asset listing will be generated showing all federally funded assets with an acquisition cost of \$5,000 as of June 30, 2015.

FTA selected a sample of 25 items from Asset Disposals listing for inspection of records. Out of the sample, five (5) assets were disposed prior to notifying the FTA. Of those five assets, one (1) resulted in proceeds of \$5,100. WMATA subsequently notified FTA of these disposals and sent FTA the proceeds of \$5,100. Therefore, WMATA's response for these disposals is considered adequate and no further work is needed.

FTA's Feedback and Follow-up Action Items

1. FTA's Feedback on WMATA's Original Submission dated January 29, 2016:

WMATA should adjust the *Biennial Physical Inventory* report accordingly to remove the duplicate entries. WMATA should also investigate and explain why FTA-funded assets disposed after July 1, 2015 were not included on the inventory listing as of June 30, 2015, and adjust the *Biennial Physical Inventory* accordingly.

FTA's Feedback on WMATA's Revised Submission dated June 10, 2016:

According to WMATA, the initial the *Biennial Physical Inventory* was prepared as of the date of the actual count, which was after its fiscal year end (FYE) date of June 30, 2015. Thus, disposals made after FYE were erroneously excluded from the inventory list. FTA reviewed the updated *Biennial Physical Inventory* report, and verified that it did not contain any duplicate entries and that post-FYE disposals were included.

Therefore, WMATA has adequately addressed this follow-up action item.

2. FTA's Feedback on WMATA's Original Submission dated January 29, 2016:

WMATA should complete the analysis for assets that were not located during the physical inventory count, and adjust PeopleSoft Asset Management records as of June 30, 2015 accordingly, based on the results of WMATA's final inventory.

FTA's Feedback on WMATA's Revised Submission dated May 2, 2017:

WMATA notified FTA in a letter dated May 2, 2017 that an analysis was completed of the assets that could not be located during the physical inventory count, and the asset records were adjusted accordingly. Consequently, WMATA identified 47 FTA-fund assets with a NBV of \$339,407 that WMATA could not locate. The FTA's portion of this amount is \$208,154, which WMATA requested permission to apply to subsequent FTA grants. FTA approved the application of this remaining Federal interest to subsequent FTA eligible capital transit grants on June 6, 2017.

Therefore, WMATA has adequately addressed this follow-up action item.

3. FTA's Feedback on WMATA's Original Submission dated January 29, 2016:

WMATA should notify the FTA of any FTA-funded assets that are not located, written-off, or have not completed their useful lives. Calculate and remit to FTA the federal interest on these assets that have a net book value of at least \$5,000.

FTA's Feedback on WMATA's Revised Submission dated May 2, 2017:

WMATA notified FTA in a letter dated May 2, 2017 that an analysis was completed of the assets that could not be located during the physical inventory count, and the asset records were adjusted accordingly..

Therefore, WMATA has adequately addressed this follow-up action item.

ATTACHMENT 4 – Action Item C6

Repay the FTA for overdrawn amounts after completion of reconciliation.

WMATA's Deliverables:

WMATA sent a memo to FTA in May 2016, asserting that all FTA grants that were open during the FMO review period were reconciled and provided supporting documentation to FTA on June 30, 2015 as part of WMATA's Corrective Action Plan. Additional documentation was provided in September and November 2015 in response to FTA's follow-up requests. The reconciliation documented instances of over-payment and under-payment reimbursements in favor of WMATA.

FTA's Testing Results:

FTA has worked with WMATA on over and under-payments through the process of reconciliation, drawdown review, and grant closeout.

Therefore, WMATA has adequately addressed this action item.