

# FINANCIAL MANAGEMENT OVERSIGHT REVIEW

Full Scope Systems Review

of the

Washington Metropolitan Area Transit Authority

---

PERFORMED FOR



U.S. DEPARTMENT OF TRANSPORTATION

FEDERAL TRANSIT ADMINISTRATION

Prepared by

Milligan & Company, LLC

for

Samlin Milligan JV

Report Date: January 24, 2014

Draft Report Submission Date: March 13, 2014

Final Report Submission Date: June 10, 2014

CONTRACT NUMBER: DTFT-60-10-D-00007

TASK ORDER NUMBER: I

## Table of Contents

	Page
<b>Report of Independent Accountants</b>	<b>1</b>
<b>Section I – Brief Description of WMATA (As prepared by Grantee)</b>	<b>3</b>
<b>Section II – Material Weaknesses</b>	<b>5</b>
II.1 – Budget Controls	5
II.2 – Controls Over Reporting of Federal Expenditures	8
II.3 – Controls Over Procurement	11
<b>Section III – Significant Deficiencies</b>	<b>17</b>
III.1 – Audit Committee Oversight of Compliance and Internal Controls	17
III.2 – Cash and Grant Management Controls	20
III.3 – Controls Over FTA Funded Assets	24
III.4 – Access Controls Over the Financial Management System	30
III.5 – Controls Over Job Order Contracts	34
III.6 – Improve Federal Financial Reporting Process and Procedures	38
<b>Section IV – Advisory Comments</b>	<b>41</b>
IV.1 – Improve Documented Procedures for Payroll and Human Resources	41
IV.2 – Organizational Structure	43
IV.3 – Entity-wide Risk Assessment	45
IV.4 – Risk Assessment of Financial Management System	47
IV.5 – Contingency Planning Controls Over the Financial Management System	49
<b>Section V – Summary of Findings</b>	<b>50</b>
<b>Section VI – Criteria Established by the FTA for Grantee’s Financial Management Systems</b>	<b>59</b>
<b>Section VII – Grantee’s Response to Findings and Advisory Comments (Full Text)</b>	<b>61</b>

## Report of Independent Accountants

To the Regional Administrator of  
Federal Transit Administration Region III:

We understand that the Federal Transit Administration (FTA) has awarded the Washington Metropolitan Area Transit Authority (WMATA or Grantee) the grants listed in Section I of this report. We have examined the effectiveness of WMATA's internal control over compliance with FTA financial management system requirements, as set forth in Section VI of this report, based on [49 CFR part 18](#) "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule), [Section 18.20](#), "Standards for Financial Management Systems" during the period April 1, 2012 through March 31, 2013 (Review Period). Management is responsible for maintaining effective internal control over WMATA's compliance with FTA financial management system requirements. Our responsibility is to express an opinion on the effectiveness of management's internal control over compliance with FTA financial management system requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the financial management system, testing, and evaluating the design and operating effectiveness of the financial management system, and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on WMATA's compliance with FTA financial management system requirements.

Because of inherent limitations in any internal control structure or financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As discussed in Section II of this report, our examination identified material weaknesses in WMATA's internal controls over compliance with FTA financial management system requirements. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements (*that is, the Federal Financial Reports*) will not be prevented or detected and corrected on a timely basis.

In our opinion, because of the effect of the material weaknesses described in the preceding paragraph on the achievement of the objectives of the control criteria, WMATA did not maintain effective internal control over its compliance with FTA financial management system requirements during the Review Period, based on the criteria established by the FTA as set forth in Section VI of the report.

Our examination also identified significant deficiencies in WMATA's internal controls over compliance with FTA financial management system requirements. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Significant deficiencies are discussed in Section III of this report. Certain advisory comments regarding procedures that do not affect our opinion or impact the criteria cited above in the first paragraph are described in Section IV of this report.

Milligan & Company, LLC

January 24, 2014

## SECTION I

### Brief Description of Washington Metropolitan Area Transit Authority (As prepared by Grantee)

The Washington Metropolitan Area Transit Authority (WMATA) was created in 1967 as an Interstate Compact Agency and an instrumentality of the District of Columbia, the State of Maryland, and the Commonwealth of Virginia to plan, develop, build, finance and operate a balanced regional transportation system for the national capital area. The Authority began building the rail system in 1969. It acquired the four area bus systems and began operating bus service in 1973. The Authority began operating rail service in 1976.

WMATA provides Metrorail (rapid rail), Metrobus and MetroAccess to a service area of 3.5 million people. MetroAccess is a complementary paratransit service operated in accordance with the Americans with Disabilities Act (ADA). The service area is approximately 1,500 square miles and is called the Washington Metropolitan Area Transit Zone. The transit zone includes Washington, DC; Montgomery and Prince George's Counties in the State of Maryland; and Arlington and Fairfax Counties, and the Cities of Alexandria, Fairfax, and Falls Church in the Commonwealth of Virginia. WMATA operates Metrorail and Metrobus service in-house. Its ADA complementary paratransit service is provided through a contractor, which utilizes subcontractors that operate the service using vans and sedans, supplemented with taxi service.

The Metrorail system provides service for over 106 miles of track to 86 stations. There are five lines: red, green, yellow, blue and orange. The Metrobus system operates approximately 340 routes throughout the metropolitan Washington, DC area.

Metrorail operates weekdays from 5:00 a.m. to midnight, except on Fridays when service is extended to 3:00 a.m.; Saturdays from 7:00 a.m. to 3:00 a.m.; and Sundays from 7:00 a.m. to midnight. Metrobus service operates 24 hours a day, seven days a week. A reduced level of service is operated during early morning hours in WMATA's owl service. Paratransit service is operated during all hours of Metrobus service.

WMATA operates over 1,100 rail cars. The Metrobus fleet consists of 1,487 active buses. WMATA has eight service and inspection rail yards and nine operating bus garages located throughout its service area. Its headquarters is located at the Jackson Graham Building in Washington, DC. WMATA also maintains staff at the Carmen Turner Facility in Landover, MD.

The following information represents a list of WMATA's open FTA grants effective during the Financial Management Oversight (FMO) review period April 1, 2012 through March 31, 2013:

<u>Grant No.</u>	<u>Amount</u>	<u>Year</u>	<u>Description</u>
DC-03-0039-12	\$ 364,300,000	2010	Largo Extension FFGA <sup>(1)</sup> - FY 2010 Appropriation
DC-04-0004-0	671,000	2011	FY 2008/FY 2009 WMATA Bus Safety Initiative
DC-04-0005-0	1,117,200	2011	FY 2008 WMATA Bus and Bus Facilities Earmark
DC-04-0007-0	2,400,000	2010	FY 2010 SGR <sup>(2)</sup> Asset Management
DC-05-0009-0	81,760,796	2007	FY 2007 Section 5309 Fixed Guideway

DC-05-0010-0	91,143,962	2008	FY 2008 Section 5309 Fixed Guideway
DC-05-0011-0	100,463,328	2009	FY 2009 Section 5309 Fixed Guideway
DC-05-0012-0	101,265,866	2010	FY 2010 Section 5309 Fixed Guideway Modernization
DC-05-0013-0	93,200,915	2011	FY 2011 Section 5309 Fixed Guideway Modernization
DC-05-0014-0	97,305,877	2012	FY 2012 Section 5309 Fixed Guideway Modernization
DC-26-7107-0	1,250,000	2001	WMATA Regional ITS <sup>(3)</sup> Projects
DC-26-7209-0	300,000	2013	Energy Storage Demonstration for Rail
DC-37-X004-4	8,922,190	2009	Job Access and Reverse Commute (JARC)
DC-37-X022-0	691,300	2010	JARC - Travel Training
DC-56-0001-0	17,749,826	2011	ARRA <sup>(4)</sup> Capital Projects and Preventive Maintenance
DC-57-X004-0	296,271	2010	New Freedom - Travel Training
DC-57-X007-0	996,200	2012	New Freedom - Bus Stop Improvements
DC-75-0001-0	150,000,000	2010	FY 2010 PRIIA <sup>(5)</sup> Appropriation
DC-75-0002-0	149,700,000	2011	FY 2011 PRIIA Appropriation
DC-75-0003-0	150,000,000	2012	FY 2012 PRIIA Appropriation
DC-90-X076-1	110,986,102	2005	FY 2005 Section 5307 Formula Grant
DC-90-X079-0	113,491,222	2006	FY 2006 Section 5307 Formula Grant
DC-90-X081-0	120,557,263	2007	FY 2007 Section 5307/5340 Formula Funds
DC-90-X082-0	129,175,193	2008	FY 2008 Section 5307/5340 Formula Funds
DC-90-X083-0	138,557,980	2009	FY 2009 Section 5307/5340 Formula Funds
DC-90-X085-0	139,364,985	2010	FY 2010 Section 5307/5340 Formula Funds
DC-90-X086-0	128,590,055	2011	FY 2011 Section 5307/5340 Formula Funds
DC-90-X087-0	140,740,229	2012	FY 2012 Section 5307/5340 Formula Funds
DC-95-X004-1	4,146,000	2009	Virginia (VA) CMAQ <sup>(6)</sup> Bus Purchase/VA Projects
DC-95-X007-0	4,302,176	2011	FY 2007 VA CMAQ Bus Purchase
DC-95-X008-0	1,772,659	2012	FY 2008 VA CMAQ Bus Purchase
DC-95-X009-0	32,800,000	2010	Maryland FY 2009 & FY 2010 CMAQ Bus Purchase
DC-95-X012-0	3,902,400	2013	VA FFY 2009 CMAQ Bus Purchase
DC-95-X013-0	400,000	2013	VA FFY 2009 CMAQ Bus Engineering
DC-96-X001-1	184,083,396	2009	ARRA Capital Projects and Preventive Maintenance

(1) Full Funding Grant Agreement

(2) State of Good Repair

(3) Intelligent Transportation Systems Integration Program

(4) American Recovery and Reinvestment Act of 2009

(5) Passenger Rail Investment and Improvement Act of 2008

(6) Congestion Mitigation and Air Quality Improvement Program

## SECTION II

### Material Weaknesses

For purposes of this review, a material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements (*that is, the Federal Financial Reports*) will not be prevented or detected and corrected on a timely basis.

The findings and recommendations are provided below, with notation of the standard impacted, discussion of the significance of the condition, a summary of the Grantee's proposed corrective actions and evaluation thereof.

#### II.1 – Budget Controls

##### Condition

The Grantee did not have adequate controls in place to ensure that Federal expenditures were incurred and charged to grants in accordance with approved budgets.

##### Standard(s) Impacted

*49 CFR 18.20(b)(4) Budget Control.* "Actual expenditures or outlays must be compared with budgeted amount for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement."

*49 CFR 18.30 Project Change Accounting.* The Grantee's project financial accounting system must be able to document and track project changes that result in the need for additional funds, a revision in the scope or objectives of the project, or a need to extend the period of availability of funds or any other changes or budgetary transfers which would require the prior written approval of the awarding agency.

*FTA Circular 5010.1D – Chapter III, Section 4a(3)(a), Budget Revisions that Require Prior Approval.* "Prior FTA approval must be obtained if the proposed budget revision meets...the following criteria: The Federal share of the grant exceeds \$100,000 and the change in the cumulative amount of funds allocated to each scope from the originally approved scope exceeds 20 percent."

##### Recommendation(s)

We recommend the Grantee:

- Complete the reconciliation of all costs charged to all active grants to the allowable budget categories, or Activity Line Items (ALI), specified in the Federal awards.
- Submit to FTA any requests for budget revisions or amendments for grants necessary as result of the reconciliation.

## SECTION II

### Material Weaknesses (cont'd)

#### II.1 – Budget Controls (cont'd)

##### Recommendation(s) (cont'd)

- Develop and submit to FTA policies and procedures to ensure expenditures incurred are charged to Federal grants in accordance with approved budgets.

The recommendations for completing the reconciliation and submitting requests for budget revisions should be implemented within 90 days, and the recommendation for developing and submitting policies and procedures should be implemented within 30 days of receipt of this final report.

##### Discussion

During our review, we were informed that the Grantee had upgraded its accounting system effective July 1, 2011. Due to a lack of controls over the system conversion, data for expenditures by budget line item under active grants did not translate correctly into the new accounting system. Consequently, the Grantee could not easily determine whether costs charged to certain grants were assigned to the proper ALI specified in the Federal award. This problem has had a significant impact on other areas of the Grantee's financial management systems, such as financial reporting (see Finding II.2) and cash and grant management (see Finding III.2).

In cases where the Grantee anticipates cumulative costs charged to various ALIs to exceed the original total Federal award amount by 20 percent, the Grantee must obtain approval from FTA for a budget revision or amendment prior to the excess expenditures being charged to the grant. Per our comparison of expenditures incurred under the 35 grants active during the review to the approved ALIs, we discovered the following:

- a. Two (2) of the grants were not setup in the customer contract module of the accounting system (DC-26-7209 and DC-57-X007). Thus, the Grantee was not tracking the expenditures compared to budget for these grants.
- b. The total budget in the system for ARRA grant DC-96-X001 exceeded the grant limit by \$4,223. Since the budget limits were incorrectly setup, there is the potential for the Grantee to request reimbursement over the total grant budget.
- c. Expenditures for 20 of the grants were reported in excess of the budget limits for various ALIs by amounts ranging from less than one (1) percent to 59 percent of the total Federal award. These represent amounts incurred under the grants, but not drawn down for reimbursement from the FTA. However, having excess expenditures already incurred prior to requesting a budget revision or amendment is indicative of poor budget management. Consequently, there is a potential risk that the Grantee may not be able to capture reimbursement for the Federal share of these costs.

## SECTION II

### Material Weaknesses (cont'd)

#### II.1 – Budget Controls (cont'd)

##### Discussion (cont'd)

- d. Expenditures for 8 of the grants were reported in excess of budget limits within the total for various ALIs. These represent amounts incurred and drawn down. For the three grants identified below, in order to retain eligibility for federal funds the Grantee must receive FTA approval of a budget revision or amendment since the cumulative expenditures within the ALIs exceeded 20 percent of the total Federal award.

Grant No.	Federal Award	20 Percent of Award	Cumulative Excess Expenditures	Percentage Over Budget
DC-90-X076	\$110,986,102	\$22,197,220	\$31,510,155	28%
DC-90-X079	113,491,222	22,698,244	24,420,720	22%
DC-90-X081	120,557,263	24,111,453	26,281,068	22%

##### Grantee's Response

WMATA concurs with the above referenced finding. Over the past 18 months, WMATA has been working to improve the grant budget controls process, and has accomplished implementing several improvements to-date. In addition, WMATA will implement the following corrective action plan to address the noted findings and related recommendations:

- WMATA is in the process of thoroughly reviewing its 18 remaining open grants, analyzing Federal expenditures by ALI and Scope, and submitting grant revisions and amendments as needed.
- Within 90 days of receipt of the final report, WMATA will complete the reconciliation of the grants that were open during the FMO review period and submit any necessary grant revisions and amendments to the FTA for approval.
- Within 30 days of receipt of the final report, WMATA will develop and submit to the FTA policies and procedures to ensure expenditures incurred are charged to Federal grants in accordance with approved budgets for active and future grants.
- Within 90 days of receipt of the final report, WMATA management will report to the Board of Directors in publicly-available monthly financial reports on the status of all open and pending FTA grants.

##### Evaluation of Grantee's Response

The corrective action plan as shown in the Grantee's Response above addresses the recommendations in this report and incorporates the timeline for submittal of the required information. FTA will review the submittals to ensure that the information provided adequately addresses the recommendations and to identify any necessary follow up actions.

## SECTION II

### Material Weaknesses (cont'd)

#### II.2 – Controls Over Reporting of Federal Expenditures

##### Condition

The Grantee did not have adequate controls in place to ensure that Federal expenditures were accurately reported, as evidenced by the following weaknesses:

1. Current and cumulative expenditures reported in the Federal Financial Reports (FFRs) for certain grants included potentially unallowable costs.
2. Expenditures reported in the Grantee's annual Single Audit report for fiscal year ended June 30, 2012 differed by material amounts from expenditures reported in the FFRs and National Transit Database (NTD) report for the same period.

##### Standard(s) Impacted

*49 CFR 18.20(b)(1) Financial Reporting.* Grantees must have procedures to provide reasonable assurance that "accurate, current, and complete disclosure of the financial results of financially assisted activities [are] made in accordance with the financial reporting requirements of the grant or subgrant."

*49 CFR 18.20(b)(2) Accounting Records.* "Grantees and sub Grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.

*49 CFR 18.20(b)(4) Budget Control.* "Actual expenditures or outlays must be compared with budgeted amount for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement."

*FTA Circular 5010.1D – Chapter III, Section 3b, Reporting Requirements.* "This report [FFR] is submitted electronically in TEAM and must be prepared on the accrual basis of accounting; that is, income is recorded when earned instead of when received, and expenses are recorded when incurred instead of when paid."

##### Recommendation(s)

We recommend the Grantee develop and submit to FTA:

- A process to ensure only allowable costs are reported in the FFRs.
- A process to ensure information used to report expenditures in the FFRs is consistent with the information used to report expenditures in other annual reports.

These recommendations should be implemented within 30 days of receipt of this final report to ensure proper completion of the FFR that is due for the quarter ending June 30, 2014.

## SECTION II

### Material Weaknesses (cont'd)

#### II.2 – Controls Over Reporting of Federal Expenditures (cont'd)

##### Discussion

As discussed in the previous comment *Finding II.1*, the Grantee could not easily determine whether costs charged to certain grants were assigned to the proper budget category, or Activity Line Item (ALI), specified in the Federal award. In cases where the Grantee did not obtain prior written approval from FTA for a budget revision or amendment, then the excess expenditures may be unallowable. Based on our analysis, FFRs submitted for the following grants may have contained unallowable expenditures: DC-90-X076, DC-90-X079 and DC-90-X081.

Additionally, during our review we compared Federal expenditures reported in the Grantee's annual Single Audit report for the fiscal year ended June 30, 2012 to Federal expenditures reported in quarterly FFRs and to the annual NTD report for the same period. The Single Audit report for FY 2012 included total Federal expenditures of \$270,414,164 in the Schedule of Expenditures of Federal Awards (SEFA); however we found the following discrepancies:

- Federal expenditures reported by WMATA in the quarterly FFRs for the same reporting period totaled \$312,570,551, which is \$42,156,387 more than the amount shown in the SEFA.
- The NTD report for FY 2012 shows total Funds Earned from FTA of \$301,895,259, which is \$31,481,095 more than the amount shown the SEFA.

The SEFA, FFRs and NTD reports should be prepared using the same data and methodology (that is, accrual basis of accounting), thus, little to no difference in expenditures for the same reporting period is expected when they are compared. The differences in expenditures reported in these three documents evidences that at least two of them are inaccurate by material amounts.

In addition, as noted in our previous comment *Finding II.1*, the Grantee's financial system is not adequate to ensure that grant expenditures are recorded and reported in the appropriate ALI. Thus, the Grantee may not have prepared timely and accurate budget-versus-actual grant expenditure reports.

##### Grantee's Response

WMATA concurs with the above referenced findings. Over the past 2 years, WMATA has been working to improve processes and related control procedures within this area. In addition to several measures taken to-date, WMATA will implement the following corrective action plan to address the noted findings and related recommendations:

- The Office of Accounting (ACCT) and Office of Management and Budget Services (OMBS) are currently reviewing and refining the process controls for both recommendations. A final collaborative written policy will be issued 30 days subsequent to the final issuance of the FMO report.

## **SECTION II**

### **Material Weaknesses (cont'd)**

#### **II.2 – Controls Over Reporting of Federal Expenditures (cont'd)**

##### Evaluation of Grantee's Response

The corrective action plan as shown in the Grantee's Response above addresses the recommendations in this report and incorporates the timeline for submittal of the required information. FTA will review the submittals to ensure that the information provided adequately addresses the recommendations and to identify any necessary follow up actions.

## SECTION II

### Material Weaknesses (cont'd)

#### II.3 – Controls Over Procurement

##### Condition

The Grantee did not have adequate controls in place to ensure that goods and services were procured in accordance with Federal regulations, as evidenced by the following weaknesses:

1. A major procurement was executed without an adequate competitive process.
2. Options were exercised in connection with a contract after it was found not to meet FTA procurement standards.
3. Procedures for determining whether procurements will be funded with Federal or local sources are not adequately documented.
4. Procurements made using the simplified acquisition process appeared to be improperly split to avoid formal competitive procurement procedures.
5. Independent cost estimates (ICE) were either not prepared or not done timely.
6. A procurement file was not prepared timely.

##### Standard(s) Impacted

*49 CFR 18.20(b)(5) Allowable Costs.* Grantees must have procedures to provide reasonable assurance that "OMB cost principles [2 CFR Part 225](#) (incorporated within [49 CFR 18.22](#)), agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs."

*FTA Circular 5010.1D – Chapter IV, Section 3d, Acquisition.* "Grantees must follow procurement procedures set forth in the current version of Circular 4220.1..."

*FTA Circular 4220.1F – Chapter VI, Section 1. COMPETITION REQUIRED.* Except as permitted by Federal law or regulations, the Common Grant Rules require a recipient of Federal assistance to use third party procurement procedures that provide full and open competition.

*FTA Circular 4220.1F – Chapter VI, Section 3. METHODS OF PROCUREMENT.* The recipient should use competitive procedure(s) appropriate for the acquisition undertaken. *Small Purchases, Section 3b(1)* – Small purchase procedures may be used to acquire services, supplies, or other property valued at more than the micro-purchase threshold but less than the Federal simplified acquisition threshold at 41 U.S.C. Section 403(11) (currently \$100,000). *Section 3b(2) Prohibited Divisions.* The recipient may not divide or reduce the size of its procurement to avoid the additional procurement requirements applicable to larger acquisitions.

*FTA Circular 4220.1F – Chapter VI, Section 6. COST AND PRICE ANALYSIS.* The Common Grant Rules require the recipient to perform a cost or price analysis in connection with every procurement action, including contract modifications. The method and degree of analysis depends on the facts and circumstances surrounding each procurement, but as a starting point, the recipient must make independent estimates before receiving bids or proposals.

## SECTION II

### Material Weaknesses (cont'd)

#### II.3 – Controls Over Procurement (cont'd)

##### Recommendation(s)

We recommend the Grantee develop and submit to FTA:

- Documentation that WMATA Procurement staff has received training on federally funded procurement requirements.
- A process to ensure full and open competition practices are followed in procuring products and services.
- Procedures for determining whether procurements will be funded using Federal or local sources.
- An updated procurement file checklist to include a requirement for an ICE.
- Procedures to ensure all components of procurement files are assembled timely.

These recommendations should be implemented within 60 days of receipt of this final report.

##### Discussion

As documented in a report submitted by WMATA's Internal Office of Inspector General (OIG) dated September 12, 2012, the Grantee awarded a contract approximating \$14 million (funded using \$9 million of Federal sources) to a vendor for information technology (IT) financial system implementation services. WMATA's OIG found this procurement, Contract ES-10158, to be non-compliant with Federal regulations. Specifically, the contract was executed under a sole source award without adequate justification, instead of being competitively bid. We reviewed the report and noted the following WMATA OIG findings:

- WMATA's Office of Procurement and Materials (PRMT) did not properly solicit offers from at least three (3) sources on the U.S. General Services Administration (GSA) Schedule during the selection and award process for the implementation services under Contract ES-10158.
- WMATA's Office of General Counsel (COUN) approved Contract ES-10158 without knowing there was a federal regulation requiring at least three competitive bid solicitations. The COUN admitted to the OIG that it was not familiar with all the requirements of FTA Circular 4220.1F.
- WMATA created the appearance of an organizational conflict of interest when it awarded Contract ES-10158. This contract was awarded to the same vendor that had previously been awarded contract ES-9204 in August 2009 to assist WMATA in evaluating its financial systems and to recommend best practices for improving the systems and deliver an implementation roadmap. The vendor used this implementation roadmap it developed under contract ES-9204 to service Contract ES-10158. Therefore, the vendor had access to nonpublic information that put other potential bidders at a disadvantage.

## SECTION II Material Weaknesses (cont'd)

### II.3 – Controls Over Procurement (cont'd)

#### Discussion (cont'd)

In May 2011, a Procurement Systems Review (PSR) conducted by the FTA found that the Grantee awarded a (Dell) computer equipment contract to a vendor through sole source means without adequate justification. In the final PSR report dated August 2011, WMATA provided a corrective action that stated that it would re-solicit the contract to allow for open competition of this commodity. However, during the current FMO review, we found that in July 2012 WMATA exercised a \$1,750,000 contract option under the base award that FTA had deemed non-compliant during the 2011 PSR. We were not provided any documentation that a re-solicitation had been done. Based on the previous citation, WMATA should have submitted proper notification and adequate justification to the FTA prior to exercising a purchase option for this computer equipment.

Prior to our site visit for the FMO review, we requested the Grantee's listing of federally funded procurements so that we could select a sample for testing. According to WMATA, a procurement contract numbered with an "FQ" prefix indicates that federal funds were used for the contract, while a "CQ" prefix indicates all local funds were used. Several CQ contracts appeared on the document provided by the Grantee in response to our request for a listing of federally funded procurements. Included in our selected sample of FQ contracts were three procurements identified as FQ 13042-1, FQ 13042-2 and FQ 13042-3. When WMATA provided the supporting files, however, we discovered that the contracts were numbered the same but had the "CQ" prefix, rather than FQ. Although the Grantee explained that the contracts were not federally funded, the purchase orders for the procurements included the FQ rather than the CQ contract designation. These inconsistencies reflect an environment that does not easily allow for the accumulation of a universe of federal funded procurements.

Our testing was partly compromised because we could not verify the completeness and accuracy of the Grantee's list of federal procurements. It is apparent that there is inconsistent documentation within the procurement department regarding which purchases are federally versus locally funded.

Also during our review, we examined the files for a sample of small purchase procurements (that is, under \$100,000). Out of 18 files tested, the following appeared to be inappropriately split into multiple smaller procurements.

- Two separate purchase orders (PO), 63950 and 63965, were issued on the same day to the same vendor for the exact same equipment (bus stop flag heads). Each separate PO was below \$100,000, but exceeded the large purchase threshold when combined.
- Two different model forklifts were purchased on the same day from the same vendor (POs 66833 and 66970).
- Two engine coolant fan kits each costing \$86,100 were purchased five days apart (POs 70964 and 71054).

## SECTION II

### Material Weaknesses (cont'd)

#### II.3 – Controls Over Procurement (cont'd)

##### Discussion (cont'd)

- PO 71088 for four engine overhaul kits was issued, but five kits costing \$20,714 each were actually purchased. The cost of these units qualifies as a large purchase when combined. Another purchase of identical kits was made one month later (PO 71887).

The characteristics of these procurements give the appearance that they were divided to avoid the additional requirements applicable to larger procurements. Splitting them is a violation of the Prohibited Divisions standard of FTA Circular 4220.1F. In addition, the proper procurement of these items under one contract would have met the threshold for requiring compliance with federal Buy America requirements.

Furthermore, from the sample of 18 small purchases tested, 13 files did not contain an independent cost estimate (ICE), and four (4) files contained untimely estimates. Two large procurements (over \$100,000) were found deficient in connection with the requirement for an ICE: one file did not contain an ICE, while the other file included an ICE that was dated after receipt of proposals. As stipulated by FTA Circular 4220.1F, such cost analyses should be performed prior to execution of the procurement. Preparation of an ICE is essential to properly completing a cost or price analysis in order to determine that the proposed contract price is fair and reasonable.

Finally, for added comfort during our testing, we selected a few more files while on site for review. All of the files previously selected prior to our site visit were available and ready upon our arrival. However, WMATA could not immediately retrieve some of these additional files. Further, one of the new files selected included a cover checklist that was signed and dated by a procurement representative the very same day that we requested it (July 30, 2013). If the file was properly prepared, the date would have corresponded to when the procurement was initiated.

##### Grantee's Response

WMATA concurs with the above referenced findings. WMATA has made significant progress over the past 3 years in improving processes and related control procedures within this area. In addition to several measures taken to-date, WMATA will implement the following corrective action plan to address the noted findings and related recommendations:

- WMATA will revise its Procurement Procedure Manual (PPM) within 60 days of receipt of this final report to:
  - create additional roles and responsibility of General Counsel in the procurement process;
  - explicitly commit to full and open competition;
  - prohibit organizational and personal conflicts of interest;
  - prohibit unduly restrictive competition;

## SECTION II

### Material Weaknesses (cont'd)

#### II.3 – Controls Over Procurement (cont'd)

##### Grantee's Response (cont'd)

- ensure appropriate legal review and counsel at appropriate steps of a procurement;
  - explicitly require Independent Cost Estimates (ICEs) and Cost/Price Analyses;
  - require use of procurement checklists, and
  - require an annual procurement training plan
- WMATA will execute the following training strategies when designated in each area:
  - WMATA will require all procurement staff to attend (or re-attend) the 4 Course Procurement Series provided by the National Transit Institute (NTI) on a recurring basis every three (3) years. Scheduling of the first course, "Orientation to Transit Procurement," is currently commencing with the NTI and is anticipated by June 30, 2014, contingent on NTI availability.
  - The Executive Leadership Team (ELT) will attend a procurement training session titled "Overview of Transit Procurement for Senior Leadership" presented by the Director of NTI and USDOT FTA's Director, Office of Acquisition Management. This will be conducted at WMATA's headquarters on April 22, 2014.
  - Procurement counsel will be trained on the requirements of FTA procurements. It is anticipated that this training will include, but not be limited to, NTI training. This future performance action will be developed internally and implemented within 60 days of receipt of this final report.
  - WMATA will re-train all staff persons that have procurement function related duties on all FTA procurement requirements including the policies and procedures established on full and open competition, development of ICEs and use of the ICE template. This new training will be developed internally and implemented within 60 days of receipt of this final report.
- WMATA will review, determine and develop performance evaluation criteria for all staff that possess relevant duties in the procurement function in order to garner accountability for the integrity of the procurement process throughout the WMATA organization. These new criteria will be presented to the General Manager and ELT within 60 days of receipt of this final report.
- WMATA will continue the contract compliance reviews with the Internal Control Officer on a quarterly basis and subsequent results will be reported to the Chief Procurement Officer for personnel management.
- WMATA will review the MEAD system (its electronic workflow for internal procurement action approvals) for its sufficiency in addressing situations where procurement use or anticipated use of both Federal and local sources of funding is identified and will report those results, and any proposed procedural changes, within 60 days of receipt of this final report.

## SECTION II

### Material Weaknesses (cont'd)

#### II.3 – Controls Over Procurement (cont'd)

##### Grantee's Response (cont'd)

- WMATA will review and adjust the MEAD system to require Counsel's approval at appropriate steps in the procurement process, within 60 days of receipt of this final report.
- WMATA will review and revise the July 2013 PPM procedures to include affirmative references to the use of the established compliance checklists for all procurement actions, including Simplified Acquisitions, Contracts and Modification/Task Orders. This action will be completed within 60 days of receipt of this final report.
- WMATA will establish a mandatory Procurement Planning forum utilizing the annual WMATA Plan of Contracts and subsequent additions to the Plan of Contracts, to internally discuss and plan pending procurement actions with the relevant staff of the respective Program office, and departments of Procurement, OMBS, Risk and Counsel prior to solicitations being advertised. This action is currently being developed and implemented within 60 days of receipt of this final report.
- The Board of Directors and the General Manager/Chief Executive Officer will establish a plan to monitor compliance with procurement policies by June 30, 2014.

##### Evaluation of Grantee's Response

The corrective action plan as shown in the Grantee's Response above addresses the recommendations in this report and incorporates the timeline for submittal of the required information. FTA will review the submittals to ensure that the information provided adequately addresses the recommendations and to identify any necessary follow up actions.

## SECTION III

### Significant Deficiencies

For purposes of this review, a significant deficiency is a deficiency, or combination of deficiencies, in internal control over a grantee's financial management system that is *less* severe than a material weakness, as defined in Section II, yet important enough to merit attention by those charged with governance.

The findings and recommendations are provided below, with notation of the standard impacted, discussion of the significance of the condition, a summary of the Grantee's proposed corrective actions and evaluations thereof.

#### III.1 – Audit Committee Oversight of Compliance and Internal Controls

##### Condition

Monitoring of deficiencies should be improved by the Audit Committee of the Grantee's Board of Directors (Audit Committee). Further, the Audit Committee does not identify a "financial expert" who can be relied upon to review all audit findings and monitor their closeout.

##### Standard(s) Impacted

*49 CFR 18.20(b)(3) Internal Control.* "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets."

*49 CFR 18.40(a) Monitoring by grantees.* Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

*FTA Circular 5010.1D Chapter II Section 3a – Grantee's Role.* "A grantee must monitor grant supported activities to ensure compliance with applicable Federal requirements. This includes the administration and management of the grant in compliance with the Federal regulations, Grant Agreement, and applicable FTA circulars."

##### Recommendation(s)

The Grantee should establish and submit to FTA a policy that ensures any audit findings cited by its Internal Office of Inspector General (OIG) and/or external auditors are addressed timely. Findings should not be closed out until they have been fully addressed. If management does not agree with the findings or recommendations, the Audit Committee should be informed and determine appropriate resolution.

In addition, the Board of Directors should evaluate the expertise of its Audit Committee's members to assess if they have adequate knowledge or expertise to fully understand the nature of audit findings and assess if corrective actions are adequate.

These recommendations should be implemented within 90 days of the final report.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.1 – Audit Committee Oversight of Compliance and Internal Controls (cont'd)

##### Discussion

The Grantee's OIG reports directly to its Audit Committee. The OIG has broad oversight responsibilities, including performing internal control and compliance audits. WMATA's management has represented that they are committed to address all OIG audit report findings seriously and attempt to resolve and close out all findings timely.

We reviewed some of the OIG reports published on WMATA's public website, and noted that management responded to some findings in a way that does not appear to directly address the reports' findings or recommendations. As noted in our previous comment *Finding II.3, Controls Over Procurement*, in an OIG report dated September 12, 2012 the OIG identified an unauthorized \$14 million procurement of which \$9 million was paid with FTA funds. The OIG recommended in its report that WMATA management contact the FTA, inform the FTA of the procurement, and reach agreement with the FTA on corrective actions. This audit finding was closed out despite the fact that the Grantee never fully complied with the report's recommendation. We also noted other findings in which management's response did not directly address the report's findings or recommendations.

An adequate internal control environment would require controls to be in place and functioning that ensures all OIG or external audit findings are addressed timely and not closed out until an agreed upon resolution has been implemented.

##### Grantee's Response

WMATA concurs with the above referenced finding. WMATA has made significant progress over the past two years in improving processes and related control procedures within this area. In addition to several measures taken to-date, WMATA will implement the following corrective action plan to address the noted findings and related recommendations:

- Establish and submit to FTA a policy requiring that (1) any audit findings cited by the WMATA OIG and/or external auditors are addressed timely, (2) if management does not agree with a finding and/or recommendation, the Audit Committee will be informed and it shall determine an appropriate resolution of the disagreement, and (3) the finding and/or recommendation will not be closed out until management has fully addressed the Board-approved corrective action plan. This policy will be in place within 90 days from receipt of this final report.
- Require that, to the extent available from appointed Board Members, at least one member of the Audits and Investigations Committee has knowledge of or expertise on the nature of audit findings and assessment of corrective actions. Within 60 days of receipt of this final report, WMATA will request that the Administrator of the US General Services Administration appoint a person to fill the existing federal vacancy on the Board with a person who has expertise on the nature of audit findings and assessment of corrective actions.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.1 – Audit Committee Oversight of Compliance and Internal Controls (cont'd)

##### Grantee's Response (cont'd)

- Ensure its Audit Committee has access to the services of at least one on-call financial expert. The contract for an on-call financial expert will be solicited within 90 days from receipt of this final report and the contract will be awarded within 60 days from close of the solicitation. The Chair of the Audit Committee will be responsible for managing and directing the on-call financial consultant.
- Amend its procedures to require that all Board members receive audit awareness training on the role of the Audit Committee, the COSO Internal Control-Integrated Framework, and Government Auditing Standards. Amended procedures will be presented to the Board within 90 days of receipt of this final report. Training will be conducted within 60 days of the Board's adoption of the new procedures.
- Amend its procedures to require 1) the Audit Committee to establish expectations for due diligence of WMATA's external auditor and 2) Staff to provide a risk analysis of each finding and report that risk profile to the Committee. WMATA will make these changes within 60 days of the Final Report.
- WMATA will perform a risk analysis and create a matrix of the Corrective Action Plans presented with this FMO and report that information to the Board within 60 days of this final report and then on an on-going basis until each action item is closed.

##### Evaluation of Grantee's Response

The corrective action plan as shown in the Grantee's Response above addresses the recommendations in this report and incorporates the timeline for submittal of the required information. FTA will review the submittals to ensure that the information provided adequately addresses the recommendations and to identify any necessary follow up actions.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.2 – Cash and Grant Management Controls

##### Condition

The Grantee did not have adequate controls over its cash and grant management process, as evidenced by the following weaknesses:

1. FTA funds were not drawn down on some grants for well over a year after expenditures were incurred and reported.
2. In some instances, FTA was over-billed its share of expenditures.
3. Milestone Progress Reports (MPRs) did not include all data required by FTA.
4. Grant close-outs were not always done timely.

##### Standard(s) Impacted

*49 CFR 18.20(b)(3) Internal Control.* "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets."

*49 CFR 18.20(b)(7) Cash Management.* "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by Grantees must be followed whenever advance payment procedures are used. When advances are made by letter-of-credit or electronic transfer of funds methods, the Grantee must make draw downs as close as possible to the time of making disbursements. "

*FTA Circular 5010.1D Chapter VI Section 3 – LOCAL MATCH.* "The grantee agrees to provide sufficient funds or approved in-kind resources to serve as local match for all federally assisted projects in compliance with 49 U.S.C. Chapter 53. The grantee certifies that it has or will have available the proportionate amount of local share promptly as project costs are incurred or become due, except to the extent that the Federal Government determines in writing that the local share may be deferred."

*FTA Circular 5010.1D Chapter III Section 3b – Milestone/Progress Reports.* "Each MPR must include the following data as appropriate:

- (1) Current status of each open ALI within the active/executed grant.
- (2) A narrative description of projects, status, any problems encountered in implementation, specification preparation, bid solicitation, resolution of protests, and contract awards.
- (3) Detailed discussion of all budget or schedule changes.
- (4) The dates of expected or actual requests for bid, delivery, etc.
- (5) Actual completion dates for completed milestones.
- (6) Revised estimated completion dates when original estimated completion dates are not met.
- (7) Explanation of why scheduled milestones or completion dates were not met. Identification of problem areas and narrative on how the problems will be solved. Discussion of the expected impacts and the efforts to recover from the delays.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.2 – Cash and Grant Management Controls (cont'd)

##### Standard(s) Impacted (cont'd)

- (8) Analysis of significant project cost variances. Completion and acceptance of equipment and construction or other work should be discussed, together with a breakout of the costs incurred and those costs required to complete the project. Use quantitative measures, such as hours worked, sections completed, or units delivered.
- (9) A list of all outstanding claims exceeding \$100,000, and all claims settled during the reporting period. This list should be accompanied by a brief description, estimated costs, and the reasons for the claims.
- (10) A list of all potential and executed change orders and amounts exceeding \$100,000, pending or settled, during the reporting period. This list should be accompanied by a brief description.
- (11) A list of claims or litigation involving third party contracts and potential third party contracts that:
  - (a) Have a value exceeding \$100,000,
  - (b) Involve a controversial matter, irrespective of amount, or
  - (c) Involve a highly publicized matter, irrespective of amount.
- (12) A list of all real property acquisition actions, including just compensation, property(s) under litigation, administrative settlements, and condemnation for each parcel during the reporting period.”

*FTA Circular 5010.1D Chapter III Section 5a – Grantee’s Role and Responsibilities.* “The grantee must initiate close-out of a grant when all approved activities are completed and/or applicable Federal funds expended. All close-out documentation must be submitted within 90 days of the completion of all activities in the grant. This requires notifying FTA by letter or e-mail that the grant is ready for close-out.

##### Recommendation(s)

We recommend the Grantee develop and submit to FTA:

- Procedures to ensure minimal time elapsing between when Federal expenditures are incurred and reported and the funds are drawn down.
- A process to ensure draw down of FTA funds is only made on the Federal share of expenditures incurred. The Grantee should also ensure that amounts overdrawn are repaid to the FTA immediately.
- Procedures to ensure MPRs include all required elements upon submission to FTA.
- Procedures to ensure grant close-outs are done timely.

These recommendations should be implemented within 30 days of receipt of this final report to ensure proper completion of the MPRs due for the quarter ended June 30, 2014.

### SECTION III

#### Significant Deficiencies (cont'd)

##### III.2 – Cash and Grant Management Controls (cont'd)

###### Discussion

One of the side effects of the system upgrade issues previously identified in *Finding II.1 Budget Controls*, is that draw downs of FTA funds were not done on some grants that were active prior to the conversion. Over \$2 million in expenditures was incurred and reported in the FFRs for grants DC-03-0039, DC-90-X082 and DC-95-X009 for the quarter ended June 30, 2012. However, the funds for these expenditures were not drawn down for well over a year past this time. Federal guidelines and FTA's Circular 5010.1D require grantees to minimize the time that passes between the incurrence of expenditures and cash advances or requests for reimbursement of funds associated with those expenditures.

During our testing of expenditures associated with draw downs that were made during the review period, we identified the following instances where the amount requested for reimbursement exceeded the Federal share:

Voucher No.	Total Expense	Federal %	Federal Share	Amount Drawn
423744	\$564,765	80%	\$451,812	\$903,624
486642	\$6,314,662	50%	\$3,157,331	\$3,955,394

Also during our review, we examined a sample of MPRs for select grants to determine whether they were filed timely and included the required data. None of the MPRs included the following information: 1) Key issues in project deliverables; 2) When projects are over-budget; 3) Explanation of why scheduled milestones or completion dates were not met. These are major elements required by FTA in order to properly monitor grantees and the status of projects.

Finally, we discovered that the Grantee's controls over grant management were not adequate to ensure that grants were closed out timely. As stipulated in FTA Circular 5010.1D, a grantee must initiate close-out of a grant once all approved activities are completed and/or applicable Federal funds expended. There were some grants that remained open for several years, but for which there was little to no activity in terms of Federal draw downs and reporting of expenditures. Therefore, the FTA commenced the closeout of the following grants due to lack of progress: DC-05-0010, DC-37-X004, DC-57-X004, DC-90-X076, DC-90-X079, DC-90-X081 and DC-90-X082. By notification to WMATA in March 2013, FTA informed the Grantee that these grants would be closed within six months of the letter unless WMATA provided evidence that the projects were still active.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.2 – Cash and Grant Management Controls (cont'd)

##### Grantee's Response

WMATA concurs with the above referenced findings. As described in the response to Finding II.1 (Budget Controls), WMATA has made significant progress in the reconciliation, drawdown, and closeout of the grants that were open during the FMO review period. In addition to the continuing efforts made in this area, within 30 days of receipt of this final report, WMATA will develop and submit policies and procedures on the four recommendations regarding Cash and Grant Management Controls. The policies and procedures will specifically include:

- Procedures to ensure minimal time elapsing between when Federal expenditures are incurred and reported and the funds are drawn,
- A process to ensure drawdown of FTA funds is only made on the Federal share of expenditures incurred and that amounts overdrawn are repaid to the FTA immediately,
- Procedures to ensure MPRs include all required elements upon submission to FTA, and
- Procedures to ensure that grant closeouts are done timely.

WMATA will implement the updated MPR procedures for the period ending June 30, 2014.

##### Evaluation of Grantee's Response

The corrective action plan as shown in the Grantee's Response above addresses the recommendations in this report and incorporates the timeline for submittal of the required information. FTA will review the submittals to ensure that the information provided adequately addresses the recommendations and to identify any necessary follow up actions.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.3 – Controls Over FTA Funded Assets

##### Condition

The Grantee did not have adequate controls over managing and disposing of FTA funded assets, as evidenced by the following weaknesses:

1. A biannual inventory of FTA funded property has not been performed and the results reconciled against the Grantee's accounting records.
2. The asset records were not consistent with the requirements in FTA Circular 5010.1D.
3. There are no formal documented procedures regarding the asset disposal process.
4. Documentation to support changes in the asset records was not complete and accurate.
5. The FTA was not always notified about the disposal of assets timely or remitted its Federal interest from the proceeds of assets that were disposed.
6. The Grantee did not follow proper procedures for managing and reporting property losses of FTA funded assets.

##### Standard(s) Impacted

*49 CFR 18.20(b)(3) Internal Control.* "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets."

*49 CFR 18.32(d) – Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

*49 CFR 18.32(e) – Disposition.* When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:

## SECTION III

### Significant Deficiencies (cont'd)

#### III.3 – Controls Over FTA Funded Assets (cont'd)

##### Standard(s) Impacted (cont'd)

- (1) Items of equipment with a current per-unit fair value of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.
- (2) Items of equipment with a current per unit fair value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.
- (3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.

*FTA Circular 5010.1 D Chapter IV Section 3 (f)(2)(b) – Light Duty Vehicles: “Other light-duty vehicles used as equipment and in transport of passengers (revenue service) such as regular and specialized vans, sedans, and light-duty buses including all bus models exempt from testing in the current 49 CFR part 665: at least four years or an accumulation of at least 100,000 miles.”*

*FTA Circular 5010.1 D Chapter IV Section 3(l)(11) – Casualty, Fire, Natural Disaster, and Misused Property. “When project property is lost or damaged by fire, casualty, or natural disaster, the fair value shall be calculated on the basis of the condition of the equipment or supplies immediately before the fire, casualty, or natural disaster, irrespective of the extent of insurance coverage. If any damage to project property results from abuse or misuse occurring with the grantee’s knowledge and consent, the grantee agrees to restore the project property to its original condition or refund the value of the Federal interest in that property. The grantee may fulfill its obligations to remit the Federal interest by either:*

- (a) With prior FTA approval, investing an amount equal to the remaining Federal interest in like-kind property eligible for assistance, if the like-kind property is within the scope of the project that provided Federal assistance for the property prematurely withdrawn from use; or
- (b) Returning to FTA an amount equal to the remaining Federal interest in the withdrawn project property.”

*FTA Circular 5010.1 D Chapter IV Section 3(l)(12) – Insurance Proceeds. “If the grantee receives insurance proceeds when project property has been lost or damaged by fire, casualty, or natural disaster, the grantee agrees to:*

- (a) Apply those proceeds to the cost of replacing the damaged or destroyed project property taken out of service..., or
- (b) Return to FTA an amount equal to the remaining Federal interest in the lost, damaged, or destroyed project property.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.3 – Controls Over FTA Funded Assets (cont'd)

##### Standard(s) Impacted (cont'd)

The Federal interest is not dependent on the extent of insurance coverage or on the insurance adjustment received.”

*FTA Circular 5010.1D, Appendix E - General.* “When an agency is disposing of vehicles that have met the minimum useful life that have a [fair value] greater than \$5,000 or disposing of vehicles before they reach the minimum useful life, or requesting a budget revision affecting vehicles, the Rolling Stock Status Report...should include the following information:

- a. Vehicle Number
- b. Year
- c. Make/Model
- d. Vehicle Identification Number (VIN)
- e. Date Placed in Revenue Service
- f. Date Removed from Revenue Service
- g. Minimum Useful Life (Years and Miles)
- h. Mileage (At the time Removed from Revenue Service)
- i. Total Number of Vehicles
- j. Total Number of Peak Vehicle Requirements
- k. Total Number of Spare Vehicles”

##### Recommendation(s)

We recommend the Grantee:

- Perform and submit to FTA an inventory of its federally funded assets and reconcile the inventory against the asset management records within the PeopleSoft Asset Management Module (PeopleSoft). Additionally, update the asset information within PeopleSoft so that it is complete and accurate based on the results of the inventory.
- Develop and submit to FTA procedures to ensure that an inventory is performed on a biannual basis and the results are reconciled against asset records.
- Develop and submit to FTA procedures for disposing of assets that include procedures for notifying the FTA about the disposal of assets, determining the fair value of federally funded assets, determining the FTA’s interest in disposed assets, and ensuring that FTA is reimbursed timely.
- Develop and submit to FTA procedures to ensure that Rolling Stock Status Reports are used to notify the FTA when federally funded assets are being disposed.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.3 – Controls Over FTA Funded Assets (cont'd)

##### Recommendation(s) (cont'd)

- Review its asset records and ensure that the FTA has been notified of all disposed federally funded assets, the proceeds received from all disposals in excess of \$5,000, and all vehicles disposed before the end of their useful life.
- Review its asset records and ensure that proceeds from the disposal of federally funded assets are accurately recorded in its accounting records.
- Ensure documentation for changes in the asset records is complete to support information recorded in the financial system.
- Develop and submit to FTA procedures for managing property losses that include procedures for notifying the FTA, calculating the fair value of the vehicles, returning to FTA its remaining Federal interest in the withdrawn project property, and seeking prior FTA approval to invest an amount equal to the remaining Federal interest in like-kind property eligible for assistance (if the like-kind property is within the scope of the project that provided Federal assistance for the property prematurely withdrawn from use).

These recommendations should be implemented within 90 days of receipt of this final report.

##### Discussion

49 CFR Part 18 requires Grantees to perform a biannual inventory of assets and reconcile the asset records against the results of the inventory. WMATA last performed an inventory in 2011; however, the results were not reconciled against the general ledger. An inventory process was initiated in 2013, but it was not completed prior to the end of the FMO review.

During our review, we inspected WMATA's accounting manual and noted that it did not include any requirements for notifying FTA about the disposal of assets, determining the fair value of federally funded assets, determining the FTA's interest in disposed assets, or ensuring that FTA is reimbursed timely. We also selected a sample of 20 items from WMATA's listing of disposed federally funded assets for testing to determine whether they were disposed in accordance with FTA requirements. We noted that seven (7) of the assets were erroneously reported as disposed and were later added back to the asset management system. For the remaining 13 disposed assets, the FTA was not notified of the disposals.

For one (1) of the assets, the proceeds were not recorded accurately. The recorded amount was \$50,000, but the actual proceeds were \$5,000. Also, for 11 of the assets, proceeds in excess of \$5,000 were received; however, the FTA was not notified and its Federal interest was not returned. Additionally, we noted that one (1) of the 13 disposed vehicles was involved in an accident, and an insurance payment was made for the total loss of the vehicle. However, FTA was not notified and its Federal interest was not returned.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.3 – Controls Over FTA Funded Assets (cont'd)

##### Discussion (cont'd)

In addition, we reviewed Property Transaction Request (PTR) Forms, which WMATA uses to document changes in asset records, for the 13 disposed vehicles. For 11 of the assets, the Federal grant number of the assets was not included on the PTR forms. Finally, complete information for the assets was not filled in, including the current value.

We examined asset records within the PeopleSoft system and noted that they did not include all of the information required by FTA Circular 5010.1D. Specifically, the asset records did not identify who holds title to the assets, the percentage of federal participation in the assets, or the use and condition of the assets. The records also did not clearly identify the grant number under which the asset was acquired.

We then selected a sample of 38 assets and tested the asset records for accuracy and compliance with FTA requirements. Of our sample of 38, we identified nine (9) paratransit vehicles that had a useful life of three (3) years instead of the four (4) years (or 100,000 miles) required by the FTA.

We also identified six (6) additional paratransit vehicles where the asset records within PeopleSoft were not consistent with the equipment records maintained by WMATA's Paratransit Division. Specifically, we identified three paratransit vehicles that were listed as retired in the Paratransit equipment records; however, these assets were listed as active in PeopleSoft. We also identified two (2) paratransit vehicles that were identified as insurance losses in the Paratransit equipment records; however, these assets were listed as active in PeopleSoft. Also, one of the vehicles identified as a loss was recorded as being procured under grant DC-90-X086 in the Paratransit records; however, the asset was listed under grant DC-96-X001 in the information provided from PeopleSoft. We also noted that these two grants had different matching ratios (80% versus 100%). Additionally, there was one paratransit vehicle listed as an insurance loss; however, the asset record was not in PeopleSoft.

Also during our asset testing, we identified three (3) paratransit vehicles that were identified as insurance losses before meeting their useful life. We requested documentation to support whether the FTA was notified about the loss and evidence the FTA was appropriately reimbursed for the vehicles. WMATA informed us that the FTA had not been notified about the insurance losses. Therefore, we concluded that the assets were not being managed in accordance with FTA requirements.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.3 – Controls Over FTA Funded Assets (cont'd)

##### Grantee's Response

WMATA management concurs with the recommendations described in the above referenced draft report. Over the past year, WMATA management has recognized the issues in this area. In addition to several significant steps taken to-date, WMATA will implement the following corrective action plan to address the noted findings and related recommendations:

- WMATA has completed the physical 2013 biennial inventory and is currently reconciling against the asset records in PeopleSoft. The final reconciliation and updates in the PeopleSoft Asset Management Module will be completed 90 days subsequent to the final issuance of this FMO report.
- WMATA will finalize the biennial inventory policies and procedures to ensure that a physical inventory is performed on a biennial basis and that the results are reconciled against the asset records in PeopleSoft. The policies and procedures will be completed 90 days subsequent to the final issuance of the FMO report.
- ACCT will review and adjust WMATA's asset records to ensure compliance with the asset records requirements in FTA Circular 5010.1.D. ACCT will also implement a policy that requires a periodic review of WMATA's asset records to ensure continued compliance. This will be completed 90 days subsequent to the final issuance of this FMO report.
- ACCT will update the current Standard Operating Procedure (SOP) and related training manual for new and existing Accountable Property Officers (APOs) and Property Custodians (PCs) that will be designed to ensure proper documentation is submitted for all changes to the asset records in PeopleSoft. This will be completed 90 days subsequent to the final issuance of this FMO report.
- ACCT, OMBS, and the Supply Chain Enterprise Services (SCES) offices are currently reviewing the process controls for federally funded assets to include property losses, disposals, calculation of fair value, notification to the FTA, and timely reimbursement of the FTA (when applicable) in accordance with FTA requirements. A final collaborative written policy will be issued 90 days subsequent to the final issuance of this FMO report.

##### Evaluation of Grantee's Response

The corrective action plan as shown in the Grantee's Response above addresses the recommendations in this report and incorporates the timeline for submittal of the required information. FTA will review the submittals to ensure that the information provided adequately addresses the recommendations and to identify any necessary follow up actions.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.4 – Access Controls Over the Financial Management System

##### Condition

The Grantee did not have adequate controls over managing logical access to the financial management system, as evidenced by the following observations:

1. Information technology (IT) policies and procedures were not adequately documented.
2. There is no process in place for granting and periodically reviewing access controls.
3. There was one terminated employee identified that still had an active account in the PeopleSoft system.
4. Password settings for the PeopleSoft application, and its supporting database, operating system and other software were not consistent with the Grantee's policies.
5. There are inadequate segregation of duties within the database administration, system administration and configuration management roles for PeopleSoft.

##### Standard(s) Impacted

*49 CFR 18.20(b)(3) Internal Control.* "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets."

*FTA Circular 5010.1 D Chapter VI Section 2(b) General* – Grantees and subgrantees are responsible for establishing and maintaining adequate internal controls over all their functions that affect implementation of a grant.

*FTA Circular 5010.1D Chapter VI Section 2(e)(1)(e)* – Standards of Internal Control and Audit Resolutions. Written operating procedures must exist and be simply stated, yet meet the grantee's operating, legal, and regulatory requirements.

##### Recommendation(s)

We recommend the Grantee:

- Develop and submit to FTA a formal process for granting, periodically reviewing and removing access for:
  - PeopleSoft, its supporting database, and its operating system infrastructure.
  - The datacenter where PeopleSoft is stored.
- Develop and submit to FTA a formal process for notifying system administrators to remove access for terminated employees and contractors.
- Submit documentation to FTA of its updated password policy to include stronger password requirements.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.4 – Access Controls Over the Financial Management System (cont'd)

##### Recommendation(s) (cont'd)

- Submit documentation to FTA that it has performed a formal review of all accounts for PeopleSoft, the supporting database and operating system and of all individuals with access to the datacenter where the PeopleSoft infrastructure resides, to ensure that all terminated individuals have been removed and access permissions are consistent with user job responsibilities. Maintain documentation of these reviews on file.
- Develop and submit to FTA procedures to ensure that password settings and requirements are consistent with WMATA's password policies.
- Develop and submit to FTA controls to ensure that the same individuals do not have system administrator access to the application and database in addition to having the ability to move program changes into production.

These recommendations should be implemented within 90 days of receipt of this final report.

##### Discussion

During our review, we identified weaknesses in the Grantee's IT policies and procedures. Specifically, WMATA did not have formal procedures in place for granting, removing and periodically reviewing access to its information systems or the datacenter in which they reside. Consequently, there were instances where access permissions to the systems were not periodically reviewed. We identified a terminated individual with an active account in the financial system. Additionally, datacenter access documentation was incomplete or missing for a sample of individuals tested.

We also identified weaknesses in the Grantee's password policies and instances where WMATA's systems were not configured in accordance with its existing policies. Specifically, password settings for the PeopleSoft Financials and Human Resources (HR) Databases were not configured to enforce password length, expiration, complexity, history or account lockout requirements for all user accounts. Further, the operating systems supporting PeopleSoft were not configured to enforce these same password components for all user accounts. Additionally, the password settings for the STAT tool used to manage and migrate PeopleSoft changes into production were not enforced. Specifically, we identified three (3) database administrators (DBA) who did not change their passwords in accordance with WMATA's policy. Two of the DBAs have not changed their passwords since 2008, and the other since 2010.

We also identified a lack of segregation of duties within the database administration, system administration and configuration management roles for PeopleSoft. We discovered the same three DBAs mentioned above used shared accounts to manage the production databases supporting PeopleSoft. The three DBAs also had system administrator access to the application including access to PeopleTools, which allows administrators to change system configurations and make changes to the application.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.4 – Access Controls Over the Financial Management System (cont'd)

##### Discussion (cont'd)

The three PeopleSoft DBAs also had access to the STAT tool used to migrate changes into production. We inspected their access permissions and noted that two of the three DBAs had both developer access to STAT and access to migrate changes into production for PeopleSoft Financials, while the remaining DBA had both developer access to STAT and access to migrate changes into production for PeopleSoft HR. However, adequate compensating controls were not in place to mitigate the risk of an individual making an unauthorized change and moving it into production.

##### Grantee's Response

WMATA generally concurs with the referenced findings. To-date, WMATA has done the following:

- Developed a draft risk assessment process that ensures the periodic review of financial applications as well as the supporting operating system and database infrastructure. This process will assess systems, users, assets, information and policies and procedures, both from the perspective of regulatory compliance as well as to maintain confidentiality, integrity, and availability of information. The schedule for implementation of this process is in progress for leadership approval. This assessment process will also ensure that access controls are deployed in accordance with published policy as well as ensuring the appropriate separation of duties are integrated within IT operations such as the separation of data base administration and application change control.
- Initiated a multi-phase Role Based Access Control (RBAC) Identity Management program in support of a process for notifying system administrators for terminating user access. The first phase of this project was to automate the termination of network access as a user departs from the Authority. Today, user access is terminated at the network level when they leave WMATA.
- Reviewed the current published password policy P/I 15.11 WMATA User ID and Password Management dated May 11, 2009 and believe it meets current industry best practices for account complexity (strength) requirements. Additionally we were unable to identify a weakness with the current password policy identified in this finding that communicated the policy deficiency in order to correct. WMATA will resubmit the current policy to the FTA for validation. WMATA will establish a password audit process to ensure that the policy is enforced.
- Implemented a daily procedure, in support of formal reviews to ensure all accounts within PeopleSoft are performed, that compares reporting of former personnel from HR systems of record against WMATA financial systems and takes appropriate actions on account changes. Additionally, at least annually, a full account re-attestation process will occur by the Office of Metro IT Security.

## **SECTION III**

### **Significant Deficiencies (cont'd)**

#### **III.4 – Access Controls Over the Financial Management System (cont'd)**

##### Grantee's Response (cont'd)

In addition to the above measures taken WMATA will implement the following corrective action plan to address the noted findings and related recommendations:

- Phase two of the Identity Management program will be to integrate the same methodology at the application level such as the financial management system in an automated fashion to reduce the potential for human error typically associated with manual process.
- Associated process documentation will be provided 90 days subsequent to the final issuance of the FMO report.

##### Evaluation of Grantee's Response

The corrective action plan as shown in the Grantee's Response above addresses the recommendations in this report and incorporates the timeline for submittal of the required information. FTA will review the submittals to ensure that the information provided adequately addresses the recommendations and to identify any necessary follow up actions.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.5 – Controls Over Job Order Contracts

##### Condition

The Grantee's procurement department does not have adequate policies and procedures over its job order contract (JOC) procurement process, as evidenced by the following observations:

1. There are no written procedures for how a contractor is selected after a job order request is received and the contracting officer determines that the work will be carried out by one of the JOC contractors.
2. The Master JOC is missing numerous FTA contract clauses.
3. There are no written procedures to determine if any of the JOC contractors have the expertise to undertake the job in question.
4. Justification for awarding a task assignment to a JOC contractor in lieu of pursuing a competitive procurement is inadequate.

##### Standard(s) Impacted

*49 CFR 18.20(b)(5) Allowable Costs.* Grantees must have procedures to provide reasonable assurance that "OMB cost principles [2 CFR Part 225](#) (incorporated within [49 CFR 18.22](#)), agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs."

*FTA Circular 5010.1D Chapter VI Section 2(e)(1)(e)* – Standards of Internal Control and Audit Resolutions. Written operating procedures must exist and be simply stated, yet meet the grantee's operating, legal, and regulatory requirements.

*FTA Circular 4220.1F – Chapter III, Section 3a* – Written Procurement Procedures. The Common Grant Rule for non-governmental recipients requires the recipient to have written procurement procedures, and by implication, the Common Grant Rule for governmental recipients requires written procurement procedures as a condition of self-certification.

*FTA Circular 4220.1F – Chapter VI, Section 1.* COMPETITION REQUIRED. Except as permitted by Federal law or regulations, the Common Grant Rules require a recipient of Federal assistance to use third party procurement procedures that provide full and open competition.

##### Recommendation(s)

We recommend the Grantee evaluate its JOC program and develop and submit to FTA documented changes that ensure the following:

- The Master JOC includes all required FTA contract clauses.
- The pool of contractors in the JOC program is sufficient in number and capabilities to ensure the ability to have adequate competition among the pooled contractors and that they have the required expertise to perform the services contracted.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.5 – Controls Over Job Order Contracts (cont'd)

##### Recommendation(s)

- There are policies and procedures that document the process for determining which procurements can be adequately competed with the pool of JOC contractors versus which procurements should be competed through a full and open competitive process.
- There is adequate competition among the pool of JOC contractors to ensure that tasks are awarded to the most qualified vendor in the pool.

These recommendations should be implemented within 60 days of receipt of this final report.

##### Discussion

During our review, we examined a competitive request for proposal (RFP) issued by the Grantee that resulted in the selection of three vendors to be included in a contractors' pool from which these contractors would be awarded construction related task orders. Task order award procedures for the "Job Order Contract" program are described in Section 18-13 of WMATA's Procurement Procedures Manual. One of the key control elements of the task order procedure is a requirement that the Contracting Officer prepare a justification for utilizing a task order award to a JOC contractor, as opposed to using a separate full and open procurement, to carry out the work.

However, we noted no written procedures for determining how a contractor is to be selected from the JOC pool of vendors if the contracting officer decides that an assignment will be carried out by issuing a task order to one of the JOC contractors. The Grantee is not required to request a competitive proposal from the JOC contractors and the records that we examined provided no explanation or justification for how contractors are selected. Data provided to us from WMATA indicates the following task order values were awarded to the three JOC contractors during fiscal year 2013:

FQ 11289 (Contractor #1) – \$44,359,553  
FQ 11287 (Contractor #2) – \$11,312,958  
FQ 11288 (Contractor #3) – \$ 2,033,338

From this data it is apparent that the distribution of the work is unbalanced among the three JOC contractors. We were unable to obtain an understanding of why such an unbalanced use of contractors occurred.

We also noted evidence that tasks were assigned to the Grantee's preferred JOC contractor when that contractor did not have the internal expertise or resources to perform the task. Task order FQ 11289-13-003 was for track fastener replacement in the amount of \$6,231,396. This task was awarded to the preferred contractor, who then subcontracted 99 percent of the project to another vendor.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.5 – Controls Over Job Order Contracts (cont'd)

##### Discussion (cont'd)

We noted no documentation to support why this procurement was not competitively bid or why the task was awarded to a JOC contractor who apparently was not qualified to perform the task itself.

Similarly, Task Order FQ 11289-13-072 was for Material Handling and Storage Equipment in the amount of \$3,266,888.42, and was also awarded to the Grantee's preferred contractor. More than 80%, or \$2,667,182, of this task was subcontracted to another vendor. Also, the specification for the equipment procured with this task order was by brand name only, which resulted in a restrictive specification.

Although the Grantee's Procurement Procedures Manual provides procedures for deciding if a job order request should be completed by utilizing a JOC task order or by a competitive bid process, these procedures do not appear to be implemented as intended.

Finally, we read the JOC RFP and the Master JOC contract and noted that numerous FTA required contract clauses and provisions were missing. The omission of required FTA contract provisions could result in JOCs being deemed ineligible for FTA financial participation.

##### Grantee's Response

WMATA concurs with the above referenced findings. WMATA has made significant progress over the past 12 months in improving processes and related control procedures within this area. In addition to several measures taken to-date, WMATA will implement the following corrective action plan to address the noted findings and related recommendations:

- WMATA will ensure that all Federal clauses are included in the issuance of an Offer for Services on a task order by task order basis under the current JOC contract. This action has been immediately implemented in lieu of modification to the Master JOC contract.
- WMATA will review the current Procedure 615-Job Order Contracting Program issued in the Project Implementation Manual and revise to comply with full and open competition requirements within the contractor pool, determination of JOC contract utilization and qualification determination of JOC contractors prior to an Offer for Services issuance. This review has commenced and revised procedures will commence within 60 days of receipt of this final report.
- WMATA will review the July 2013 PPM and revise those procedures related to Task Orders and add a segment on Job Order Contracting to align with the revised Procedure 615-Job Order Contracting Program in the Project Implementation Manual. This action will be developed within 60 days of receipt of this final report.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.5 – Controls Over Job Order Contracts (cont'd)

##### Grantee's Response (cont'd)

- WMATA will review of the JOC program and the need to increase the pool of contractors. WMATA will further review and revise its policies and procedures around JOC administration and formally address procurements that can be adequately competed within the pool of JOC contractors including setting dollar thresholds for procurement opportunities. These reviews have commenced and any proposed procedural changes identified will be developed within 60 days of receipt of this final report.
- WMATA will establish dedicated procurement planning time to review, discuss and determine JOC requests during the weekly Procurement/Operations/Counsel meeting for those requests over \$1M. This action will be developed within 60 days of receipt of this final report.
- WMATA will immediately include in its procurement record a dedicated section of JOC determination for expertise and utilization including direct participation reviews of the JOC contractor on a task by task basis in order to comply with “the 20% of work performed by the JOC contractor on a task assigned” which is a requirement in the current contract.
- WMATA will re-train all staff persons that have procurement function related duties on the policies and procedures established on full and open competition and JOC utilization. This new training will be developed internally and implemented within 60 days of receipt of this final report.
- The Board of Directors and the General Manager/Chief Executive Officer will establish a plan to monitor compliance with reporting by funding source on JOC activity by June 30, 2014.

##### Evaluation of Grantee's Response

The corrective action plan as shown in the Grantee's Response above addresses the recommendations in this report and incorporates the timeline for submittal of the required information. FTA will review the submittals to ensure that the information provided adequately addresses the recommendations and to identify any necessary follow up actions.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.6 – Improve Federal Financial Reporting Process and Procedures

##### Condition

The Grantee's controls over reporting indirect costs and encumbrances in its Federal Financial Reports (FFRs) need improvement.

##### Standard(s) Impacted

*49 CFR 18.20(b)(1) Financial Reporting.* Grantees must have procedures to provide reasonable assurance that "accurate, current, and complete disclosure of the financial results of financially assisted activities [are] made in accordance with the financial reporting requirements of the grant or subgrant."

*FTA Circular 5010.1D – APPENDIX B, FEDERAL FINANCIAL REPORT.* Summary Tab, Item 6 instructs "*Indirect Expense* – If a grantee is charging indirect costs to the grant, complete this section. Enter to total amount of indirect expenses incurred on a cumulative basis. Please note that a grantee must have an approved cost allocation plan in order to incur these expenses.

- a. Type – Enter indirect expense type from the drop down menu
- b. Rate – Rate approved by the cognizant agency
- c. Base – Total base amount from which the indirect cost rate is determined
- d. Period from/Period to – The period covered by the approved rate
- e. Amount Charged – Total amount of indirect expenses charged to the grant on a cumulative basis
- f. Federal Share – Federal share of the indirect expenses charged"

##### Recommendation(s)

The Grantee should develop and submit to FTA policies and procedures that ensure the following:

- The approval process for preparation of FFRs is documented.
- Procedures for determining how encumbrances are allocated to Federal awards are documented.
- Indirect costs are properly reported on the FFRs for applicable grants.
- FFRs are reviewed by someone other than the preparer.

These recommendations should be implemented within 30 days of receipt of this final report.

##### Discussion

During our review, we noted that the Grantee did not have written policies and procedures for how FFR data is to be accumulated, summarized and reported for its FTA grants. There is also no policy that assigns responsibility to a specific individual for the preparation and approval of the FFRs. We further noted that documentation to support the information reported in the FFRs we selected for review was not maintained in a concise manner.

## SECTION III

### Significant Deficiencies (cont'd)

#### III.6 – Improve Federal Financial Reporting Process and Procedures (cont'd)

##### Discussion (cont'd)

The Grantee should maintain a file for all FFRs including support for the expenditures, encumbrances and other data reported in the FFRs.

During our testing of encumbrances, which are reported as “unliquidated obligations” in the FFRs, we noted that the Grantee manually compiles a spreadsheet of encumbrances and distributes the total balance to open grants as FFRs are being prepared. However, there is no documented approval process for how this information is to be accumulated and allocated to grants for reporting in the FFRs.

In addition, during our review of FFRs for grants to which WMATA charges indirect costs we noticed inconsistencies in the rates being reported. The Grantee’s most recently approved indirect cost rate is 2.03 percent. OMB and FTA guidelines require this rate to be applied to Federal expenditures consistently and for the indirect rate and amount of indirect costs applied to grants to be reported on the Summary page of the quarterly FFRs. We examined FFRs submitted for 11 grants during the four quarters from April 2012 through March 2013. Of the 44 FFRs examined, we found that WMATA reported the approved 2.03 percent rate in only six (6) of them. Amounts below the approved rate, ranging from 0.00 to 1.98 percent, were reported in 18 of the FFRs. Amounts above the approved rate, ranging from 2.08 to 3.81 percent, were reported in 20 of the FFRs. The Grantee could not explain these discrepancies.

Currently, WMATA’s budget division (OMBS) prepares the FFRs. However, the information reported is not verified outside of this department prior to submission. Sound controls over the FFR reporting process would ensure that another party outside of OMBS, such as Accounting, reviews the FFRs for completeness and accuracy prior to submission to the FTA.

##### Grantee's Response

WMATA concurs that the controls over reporting indirect costs and encumbrances in FFRs need improvement. Over the past year, WMATA has improved documentation of the FFR process, including encumbrance and indirect cost information. Additionally, WMATA is now maintaining more complete files that include support for expenditures, encumbrances and other data reported.

WMATA will develop and implement FFR policies and procedures as recommended, which will be submitted to FTA within 30 days of receipt of this final report. The policies and procedures will ensure that:

- The approval process for preparation of the FFRs is documented.
- The allocation of encumbrances to Federal awards is documented.
- Indirect costs are properly reported on the FFRs for applicable grants.

## **SECTION III**

### Significant Deficiencies (cont'd)

#### **III.6 – Improve Federal Financial Reporting Process and Procedures (cont'd)**

##### Grantee's Response (cont'd)

- FFRs are reviewed prior to submission to FTA by a qualified individual outside of the direct chain of command of WMATA's grant management office.

##### Evaluation of Grantee's Response

The corrective action plan as shown in the Grantee's Response above addresses the recommendations in this report and incorporates the timeline for submittal of the required information. FTA will review the submittals to ensure that the information provided adequately addresses the recommendations and to identify any necessary follow up actions.

## SECTION IV

### Advisory Comments

For purposes of this review, an advisory comment represents a minor control deficiency in the design or operation of the financial management system that is not significant enough to adversely affect the Grantee's ability to record, process, summarize, and report financial and related data consistent with the requirements of [49 CFR 18.20](#).

The advisory comments presented in this section represent matters that came to our attention during the course of the review, and are offered to WMATA's management as opportunities for improvement. These comments are provided along with recommendations and discussion of the significance of the comments. A grantee's response is not required for advisory comments; therefore, we have not provided an evaluation of the grantee's response. Further, FTA takes no responsibility for reviewing and evaluating any corrective action submittals provided by the grantee.

#### **IV.1 – Improve Documented Procedures for Payroll and Human Resources**

##### Condition

Changes in employees' status are not always communicated timely.

##### Recommendation

The Grantee should document and implement procedures to ensure pay rate and payroll status changes are communicated with the Human Resources (HR) department and processed timely.

##### Discussion

During our testing of terminated employees, we noted that the Grantee paid one individual after the employee's termination date in March 2013. An invoice for reimbursement of approximately \$3,500 was sent to the employee. In another instance, an employee appeared to have discontinued employment in June 2012, but was not technically terminated in October 2012. In both cases, it appears that HR took an excessive amount of time to communicate status changes to the Payroll department. Therefore, procedures should be documented for improving the communication between these departments to ensure status changes are captured timely.

##### Grantee's Response

WMATA concurs, in part, with the above referenced finding. WMATA has an existing Policy/Instruction 7.3.3, *Employee Separation Procedures* that established the responsibilities and foundational procedures by which departments are required to follow so that HR and ACCT/Payroll are notified of the pending separation of an employee prior to employee notification. The policy further established the sequence of events for the recovery of Metro property, identification and removal of network/systems access.

WMATA has begun making additional progress in improving processes and related control procedures within this area. In summary, WMATA has taken the following measures:

## SECTION IV

### Advisory Comments (cont'd)

#### IV.1 – Improve Documented Procedures for Payroll and Human Resources (cont'd)

##### Grantee's Response (cont'd)

- Upgraded the Metroconnect Human Capital Management (HCM) System to version 9.1.; such transactions will be automated. Once a transaction has been initiated in the system by the appropriate department, Human Resources confirms the transaction and Payroll is automatically notified of the action.
- Began training appropriate staff on the new HCM system, including initiating personnel action transactions.

WMATA is prepared to take additional measures to audit the timeliness of transactions for separating employees as follows:

- Provide on-going refresher training to management staff on procedures for processing personnel action transactions. (**On-going**)
- Develop a checklist for departments of required action items when it becomes apparent that an employee will separate from employment. (**Within 60 days**)
- Develop audit report which identifies all terminations that exceed a specified timeframe for initiating the personnel action within the HCM system. (**Within 60 days**)
- Develop additional audit reports to monitor the timely initiation of other personnel action transactions, including but not limited to, employee transfers, department reorganizations, and reporting structure changes. (**Within 180 days**)

## SECTION IV

### Advisory Comments (cont'd)

#### IV.2 – Organizational Structure

##### Condition

The Grantee's organizational structure is not adequately segregated.

##### Recommendation

The Grantee should segregate departments from the CFO.

##### Discussion

During our review we noticed that several departments report to the Chief Financial Officer (CFO), who also holds title as Deputy General Manager of Finance and Administration. Namely, the Finance, Procurement, Information Technology (IT) and MetroAccess (paratransit operations) departments directly report to the CFO.

Industry best practices provide that all of these incompatible responsibilities reporting to the CFO give rise to potential organizational conflicts and inefficiencies. Sound controls would ensure that there was adequate segregation of duties to balance responsibilities, avoid potential conflicts, or the appearance of impropriety.

##### Grantee's Response

WMATA concurs with the above referenced finding. WMATA has made significant progress over the past two years in improving processes and related control procedures within this area. In addition to several measures taken to-date, WMATA will implement the following corrective action plan to address the noted findings and related recommendations:

Prior to receipt of the draft FMO Audit Report, WMATA sought third-party review of its organizational structure as it relates to procurements. WMATA engaged a law firm to conduct a review of its procurement systems. The firm was hired in December 2013 to review and identify potential for organizational conflicts of interest arising within the DGMA/CFO chain of command and specifically the WMATA procurement system. The firm's recommendations related to this Advisory Comment include the following actions taken to-date:

- Elevate the Chief Procurement Office to the ELT.
- Relocate the MetroAccess Services (paratransit) to the Deputy General Manager of Operations.

## **SECTION IV**

### Advisory Comments (cont'd)

#### **IV.2 – Organizational Structure (cont'd)**

##### Grantee's Response (cont'd)

WMATA has improved its organizational structure consistent with the recommendations of the law firm and this Advisory Comment. WMATA has taken the following measures:

- The Office of MetroAccess Services (paratransit operations) was relocated to report to the Deputy General Manager of Operations effective March 1, 2014.
- The Chief Procurement Officer was designated as a full participatory member of the Executive Leadership Team (ELT) effective March 20, 2014.

The General Manager/CEO will ensure that major projects and major procurement activities are not in the same chain of command as the Chief Procurement Officer and shall make necessary changes to WMATA's organizational structure within 60 days of the Final Report.

## SECTION IV

### Advisory Comments (cont'd)

#### **IV.3 – Entity-wide Risk Assessment**

##### Condition

The Grantee has not performed and documented a formal entity-wide risk assessment.

##### Recommendation

We recommend the Grantee's management and Board perform periodic assessments of internal and external risks to the organization. Such a process should be formally documented and re-evaluated at least annually.

##### Discussion

The risk assessment process is the identification, analysis, and management of risks to achieving key organizational objectives. With respect to the scope of this Financial Management Oversight Review a key objective is the preparation of financial statements and financial reports that are fairly presented in accordance with generally accepted accounting principles and the organization's regulatory requirements. While the Grantee performs such procedures periodically through informal means, as a matter of best practices, the process should be a formalized and documented.

##### Grantee's Response

WMATA accepts this finding and notes that this effort is well underway since early 2013. Following the establishment of a new Mission Statement, the WMATA Board of Directors vested the GM/CEO with the authority and responsibility to accomplish the mission. In recognition of the risks that could affect performance towards achieving the mission, the GM/CEO directed that efforts be initiated towards the development of a comprehensive risk assessment framework with initial emphasis on risks in the areas of finance, reputation, infrastructure and human capital.

A scope of work was prepared and the Request for Proposal (RFP) was issued in May 2013. The key purpose of this effort was to evaluate how the organization is identifying and managing critical risk areas and make recommendations that will assist the executive leadership in making needed changes and improvements to fully implement a functioning enterprise risk management (ERM) framework including appropriate placement of various risk management activities. Once an ERM framework is in place, it will operate as a continuing process of assessing, identifying and prioritizing internal and external risks and enabling the Board and senior leadership to develop appropriate mitigation measures to address these risks. Following a review and evaluation of the responses to the RFP, a contract was awarded in August 2013 to a qualified firm. An internal multi-disciplinary steering committee is guiding this effort and the first phase of this effort will be completed in spring 2014.

## **SECTION IV**

### Advisory Comments (cont'd)

#### **IV.3 – Entity-wide Risk Assessment (cont'd)**

##### Grantee's Response (cont'd)

The following timelines are anticipated for this effort following the completion of the first phase in spring 2014:

- Integrate risk management as part of business planning in the development of the FY2015 budget.
- During the remainder of 2014 and 2015, continue to drive the risk culture and practices throughout the organization, including training business unit leaders and project managers.

## SECTION IV

### Advisory Comments (cont'd)

#### **IV.4 – Risk Assessment of Financial Management System**

##### Condition

A formal IT risk assessment has not been performed to determine the risk levels of the Grantee's operations, information and resources that affect FTA funded activities and federal financial reporting. Additionally, when vulnerabilities are identified in the Grantee's IT environment, they are not being remediated in a timely manner.

##### Recommendation

We recommend the Grantee:

- Develop a formal process for performing independent risk assessments of the information systems. The risk assessment should be reviewed periodically to ensure that it continues to address changes in the IT operating environment.
- Develop a formal process for remediating vulnerabilities that includes established timeframes for installing patches.
- Ensure that patch levels for the PeopleSoft system and its supporting infrastructure are up to date.

##### Discussion

In addition to organization-wide risk assessments, as we discussed in the comment above, risk assessments should also be performed in high risk activities. We noted during our review that there are no formal processes in place requiring periodic risk assessments of the Grantee's Information Technology operations, information and resources that affect FTA funded activities and Federal financial reporting. Risk assessments are important because they ensure that all threats and vulnerabilities are identified and considered, that the greatest risks are addressed, and that appropriate decisions are made regarding which risks the Grantee should accept and which ones it should mitigate through security controls.

We also noted that patches were not being applied in a timely manner for the databases supporting PeopleSoft. Specifically, we noted the PeopleSoft Financials database had not been patched since December 2012, and the PeopleSoft Human Resources database had not been patched since September 2011. Additionally, there were missing security patches identified for the AIX operating system supporting PeopleSoft.

##### Grantee's Response

WMATA concurs with the referenced findings. To-date, WMATA has made the following progress within this area:

## SECTION IV

### Advisory Comments (cont'd)

#### IV.4 – Risk Assessment of Financial Management System

##### Grantee's Response (cont'd)

- WMATA has developed a draft risk assessment process that ensures the periodic review of financial applications as well as the supporting operating system and database infrastructure. This process will assess systems, users, assets, information and policies and procedures, both from the perspective of regulatory compliance as well as to maintain confidentiality, integrity, and availability of information. The schedule for implementation of this process is in progress for leadership approval. This assessment process will also ensure that access controls are deployed in accordance with published policy as well as ensuring the appropriate separation of duties are integrated within IT operations such as the separation of data base administration and application change control.
- As of March 2014, WMATA completed the approval process for restructuring the vulnerability management program starting with the authoritative policy being signed that gives authority to the process. Additionally, enterprise vulnerability management tools have been procured and are in final deployment to give system owners a more self-service and ease of use toolset to streamline vulnerability management within their prescribed maintenance window. WMATA will submit the new vulnerability management program Policy for FTA review.
- Patch levels for the financial management system have been brought up to date and all applications, operating systems, and databases for the financial management system now fall under the new enterprise vulnerability management policy. A key component of this vulnerability management policy is the requirement to maintain a sustainment & support plan that outlines the systems maintenance cycle and vendor lifecycles.

Once the current enterprise toolsets are fully deployed, a metrics and measurement program will be implemented that gives leadership situational awareness on their system state as well as gives them decision support on what vulnerabilities are high impact versus low impact that require remediation. A plan for implementing a metrics and measurement program will be provided 90 days after issuance of final report.

## SECTION IV

### Advisory Comments (cont'd)

#### **IV.5 – Contingency Planning Controls Over the Financial Management System**

##### Condition

The Disaster Recovery Plans for the PeopleSoft HR system and the PeopleSoft Financials system were not complete and did not include recovery procedures.

##### Recommendation

The Grantee should implement a formal contingency plan that outlines the recovery procedures in line with its recovery strategy. Additionally, its disaster recovery plan should be tested periodically to ensure that it is viable.

##### Discussion

During our review, we noted that the Grantee had developed a contingency plan for its financial systems. We reviewed the plan and noted that it was incomplete and did not contain any actual recovery procedures. A detailed contingency plan is necessary to ensure that WMATA's grant records and supporting financial records can be recovered in the event of a disaster.

##### Grantee's Response

WMATA concurs with the referenced finding. WMATA has already fully addressed this issue by taking the following measures:

- PeopleSoft Financial system's procedures have been updated to reflect all activities required to recover the system at the secondary CTF site. The procedures are aligned to the WMATA Data Center recovery operations and are tested annually. The last tested date was Oct. 20, 2013.
- PeopleSoft HR system's procedures were updated based on PeopleSoft Version 8.8 which was in production during the time of audit. However, this system has since been upgraded to PeopleSoft HCM 9.1.

As of March 24, 2014 the PeopleSoft HRPR application v8.8 was upgraded to PeopleSoft HCM v9.1. Due to the upgrade the recovery procedures will be developed and tested on the required cycle. A plan to create the procedures for the upgraded HCM system will be developed and commenced within 90 days of issuance of the final report.

**SECTION V**  
Summary of Findings

Finding Reference	Finding	Standards Impacted	Recommendations	Corrective Action Implementation Date
<b>Material Weaknesses</b>				
II.1	Budget Controls	<p><i>49 CFR 18.20(b)(4) – Budget Control</i></p> <p><i>49 CFR 18.30 – Project Change Accounting</i></p> <p><i>FTA Circular 5010.1D Chapter III Section 4a(3)(a) – Budget Revisions that Require Prior Approval</i></p>	<p>We recommend the Grantee:</p> <ul style="list-style-type: none"> <li>• Complete the reconciliation of all costs charged to all active grants to the allowable budget categories, or Activity Line Items (ALI), specified in the Federal awards.</li> <li>• Submit to FTA any requests for budget revisions or amendments for grants necessary as a result of the reconciliation.</li> <li>• Develop and submit to FTA policies and procedures to ensure expenditures incurred are charged to Federal grants in accordance with approved budgets.</li> </ul>	<p>The recommendations for completing the reconciliation and submitting requests for budget revisions should be implemented within 90 days, and the recommendation for developing policies and procedures should be implemented within 30 days of receipt of this final report.</p>
II.2	Controls Over Reporting of Federal Expenditures	<p><i>49 CFR 18.20(b)(1) Financial Reporting</i></p> <p><i>49 CFR 18.20(b)(2) Accounting Records</i></p> <p><i>49 CFR 18.20(b)(4) – Budget Control</i></p> <p><i>FTA Circular 5010.1D – Chapter III, Section 3b, Reporting Requirements</i></p>	<p>We recommend the Grantee develop and submit to FTA:</p> <ul style="list-style-type: none"> <li>• A process to ensure only allowable costs are reported in the FFRs.</li> <li>• A process to ensure information used to report expenditures in the FFRs is consistent with the information used to report expenditures in other annual reports.</li> </ul>	<p>30 days after receipt of final report.</p>
II.3	Controls Over Procurement	<p><i>49 CFR 18.20(b)(5) Allowable Costs</i></p> <p><i>FTA Circular 5010.1D – Chapter IV, Section 3d, Acquisition</i></p> <p><i>FTA Circular 4220.1F – Chapter VI, Section 1. COMPETITION REQUIRED</i></p>	<p>We recommend the Grantee develop and/or submit to FTA:</p> <ul style="list-style-type: none"> <li>• Documentation that WMATA Procurement staff has received training on federally funded procurement requirements.</li> </ul>	<p>60 days after receipt of final report.</p>

**SECTION V**  
Summary of Findings (cont'd)

Finding Reference	Finding	Standards Impacted	Recommendation	Corrective Action Implementation Date
II.3 (cont'd)	Controls Over Procurement (cont'd)	<p><i>FTA Circular 4220.1F</i> – Chapter VI, Section 3. METHODS OF PROCUREMENT</p> <p><i>FTA Circular 4220.1F</i> – Chapter VI, Section 6. COST AND PRICE ANALYSIS</p>	<ul style="list-style-type: none"> <li>• A process to ensure full and open competition practices are followed in procuring products and services.</li> <li>• Procedures for determining whether procurements will be funded using Federal or local sources.</li> <li>• An updated procurement file checklist to include a requirement for an [independent cost estimate] ICE.</li> <li>• Procedures to ensure all components of procurement files are assembled timely.</li> </ul>	
<b>Significant Deficiencies</b>				
III.1	Audit Committee Oversight of Compliance and Internal Controls	<p><i>49 CFR 18.20(b)(3)</i> Internal Control</p> <p><i>49 CFR 18.40(a)</i> Monitoring by grantees</p> <p><i>FTA Circular 5010.1D Chapter II Section 3a</i> – Grantee's Role.</p>	<p>The Grantee should establish and submit to FTA a policy that ensures any audit findings cited by its Internal Office of Inspector General (OIG) and/or external auditors are addressed timely. Findings should not be closed out until they have been fully addressed. If management does not agree with the findings or recommendations, the Audit Committee should be informed and determine appropriate resolution.</p> <p>In addition, the Board of Directors should evaluate the expertise of its Audit Committee's members to assess if they have adequate knowledge or expertise to fully understand the nature of audit findings and assess if corrective actions are adequate.</p>	90 days after receipt of final report.
III.2	Cash and Grant Management Controls	<p><i>49 CFR 18.20(b)(3)</i> Internal Control</p> <p><i>49 CFR 18.20(b)(7)</i> Cash Management</p>	We recommend the Grantee develop and submit to FTA:	30 days after receipt of final report.

**SECTION V**  
Summary of Findings (cont'd)

Finding Reference	Finding	Standards Impacted	Recommendation	Corrective Action Implementation Date
III.2 (cont'd)	Cash and Grant Management Controls (cont'd)	<p><i>FTA Circular 5010.1D Chapter VI Section 3 – LOCAL MATCH</i></p> <p><i>FTA Circular 5010.1D, Chapter III Section 3b – Milestone/Progress Reports</i></p> <p><i>FTA Circular 5010.1D Chapter III Section 5a – Grantee’s Role and Responsibilities</i></p>	<ul style="list-style-type: none"> <li>• Procedures to ensure minimal time elapsing between when Federal expenditures are incurred and reported and the funds are drawn down.</li> <li>• A process to ensure draw down of FTA funds is only made on the Federal share of expenditures incurred. The Grantee should also ensure that amounts overdrawn are repaid to the FTA immediately.</li> <li>• Procedures to ensure [Milestone Progress Reports] MPRs include all required elements upon submission to FTA.</li> <li>• Procedures to ensure grant close-outs are done timely.</li> </ul>	
III.3	Controls Over FTA Funded Assets	<p><i>49 CFR 18.20(b)(3) Internal Control</i></p> <p><i>49 CFR 18.32(d) Management requirements</i></p> <p><i>49 CFR 18.32(e) – Disposition</i></p> <p><i>FTA Circular 5010.1 D Chapter IV Section 3 (f)(2)(b) – <u>Light Duty Vehicles</u></i></p> <p><i>FTA Circular 5010.1 D Chapter IV Section 3(l)(11) – <u>Casualty, Fire, Natural Disaster, and Misused Property</u></i></p> <p><i>FTA Circular 5010.1 D Chapter IV Section 3(l)(12) – <u>Insurance Proceeds</u></i></p> <p><i>FTA Circular 5010.1D, Appendix E - <u>General</u></i></p>	<p>We recommend the Grantee:</p> <ul style="list-style-type: none"> <li>• Perform and submit to FTA an inventory of its federally funded assets and reconcile against the asset management records within PeopleSoft. Additionally, update the asset information within PeopleSoft so that it is complete and accurate based on the results of the inventory.</li> <li>• Develop and submit to FTA procedures to ensure that an inventory is performed on a biannual basis and the results are reconciled against asset records.</li> </ul>	90 days after receipt of final report.

**SECTION V**  
Summary of Findings (cont'd)

<b>Finding Reference</b>	<b>Finding</b>	<b>Standards Impacted</b>	<b>Recommendation</b>	<b>Corrective Action Implementation Date</b>
III.3 (cont'd)	Controls Over FTA Funded Assets (cont'd)		<ul style="list-style-type: none"> <li>• Develop and submit to FTA procedures for disposing of assets that include procedures for notifying the FTA about the disposal of assets, determining the fair value of federally funded assets, determining the FTA's interest in disposed assets, and ensuring that FTA is reimbursed timely</li> <li>• Develop and submit to FTA procedures ensure that Rolling Stock Status Reports are used to notify the FTA when federally funded assets are being disposed.</li> <li>• Review its asset records and ensure that the FTA has been notified of all disposed federally funded assets, the proceeds received from all disposals in excess of \$5,000, and all vehicles disposed before the end of their useful life.</li> <li>• Review its asset records and ensure that proceeds from the disposal of federally funded assets are accurately recorded in its accounting records.</li> <li>• Ensure documentation for changes in the asset records is complete to support information recorded in the financial system.</li> </ul>	

**SECTION V**  
Summary of Findings (cont'd)

Finding Reference	Finding	Standards Impacted	Recommendation	Corrective Action Implementation Date
III.3 (cont'd)	Controls Over FTA Funded Assets (cont'd)		<ul style="list-style-type: none"> <li>• Develop and submit to FTA procedures for managing property losses that include procedures for notifying the FTA, calculating the fair value of the vehicles, returning to FTA its remaining Federal interest in the withdrawn project property, and seeking prior FTA approval to invest an amount equal to the remaining Federal interest in like-kind property eligible for assistance.</li> </ul>	
III.4	Access Controls Over the Financial Management System	<p><i>49 CFR 18.20(b)(3) Internal Control</i></p> <p><i>FTA Circular 5010.1 D Chapter VI Section 2(b) – General</i></p> <p><i>FTA Circular 5010.1D Chapter VI Section 2(e)(1) – Standards of Internal Control and Audit Resolutions</i></p>	<p>We recommend the Grantee:</p> <ul style="list-style-type: none"> <li>• Develop and submit to FTA a formal process for granting, periodically reviewing and removing access for PeopleSoft, its supporting database, its operating system infrastructure, and the datacenter where PeopleSoft is stored.</li> <li>• Develop and submit to FTA a formal process for notifying system administrators to remove access for terminated employees and contractors.</li> <li>• Submit documentation to FTA of its updated password policy to include stronger password requirements.</li> </ul>	90 days after receipt of final report.

**SECTION V**  
Summary of Findings (cont'd)

<b>Finding Reference</b>	<b>Finding</b>	<b>Standards Impacted</b>	<b>Recommendation</b>	<b>Corrective Action Implementation Date</b>
III.4 (cont'd)	Access Controls Over the Financial Management System (cont'd)		<ul style="list-style-type: none"> <li>• Submit documentation to FTA that it has performed a formal review of all accounts for PeopleSoft, the supporting database and operating system and of all individuals with access to the datacenter where the PeopleSoft infrastructure resides, to ensure that all terminated individuals have been removed and access permissions are consistent with user job responsibilities. Maintain documentation of these reviews on file.</li> <li>• Develop and submit to FTA procedures to ensure that password settings and requirements are consistent with WMATA's password policies.</li> <li>• Develop and submit to FTA controls to ensure that the same individuals do not have system administrator access to the application and database in addition to having the ability to move program changes into production.</li> </ul>	

**SECTION V**  
Summary of Findings (cont'd)

Finding Reference	Finding	Standards Impacted	Recommendation	Corrective Action Implementation Date
III.5	Controls Over Job Order Contracts (JOCs)	<p><i>49 CFR 18.20(b)(5) Allowable Costs</i></p> <p><i>FTA Circular 5010.1D Chapter VI Section 2(e)(1)(e) – Standards of Internal Control and Audit Resolutions</i></p> <p><i>FTA Circular 4220.1F – Chapter III, Section 3a – Written Procurement Procedures</i></p> <p><i>FTA Circular 4220.1F – Chapter VI, Section 1. COMPETITION REQUIRED</i></p>	<p>We recommend the Grantee evaluate its JOC program and develop and submit to FTA documented changes that ensure the following:</p> <ul style="list-style-type: none"> <li>• The Master JOC includes all required FTA contract clauses.</li> <li>• The pool of contractors in the JOC program is sufficient in number and capabilities to ensure the ability to have adequate competition among the pooled contractors and that they have the required expertise to perform the services contracted.</li> <li>• There are policies and procedures that document the process for determining which procurements can be adequately competed with the pool of JOC contractors versus which procurements should be competed through a full and open competitive process.</li> <li>• There is adequate competition among the pool of JOC contractors to ensure that tasks are awarded to the most qualified vendor in the pool.</li> </ul>	60 days after receipt of final report.
III.6	Improve Federal Financial Reporting Process and Procedures	<p><i>49 CFR 18.20(b)(1) Financial Reporting.</i></p> <p><i>FTA Circular 5010.1D – APPENDIX B, FEDERAL FINANCIAL REPORT.</i></p>	<p>The Grantee should develop and submit to FTA policies and procedures that ensure the following:</p> <ul style="list-style-type: none"> <li>• The approval process for preparation of FFRs is documented.</li> <li>• Procedures for determining how encumbrances are allocated to Federal awards are documented.</li> </ul>	30 days after receipt of final report.

**SECTION V**  
Summary of Findings (cont'd)

Finding Reference	Finding	Standards Impacted	Recommendation	Corrective Action Implementation Date
III.6 (cont'd)	Improve Federal Financial Reporting Process and Procedures (cont'd)		<ul style="list-style-type: none"> <li>• Indirect costs are properly reported on the FFRs for applicable grants.</li> <li>• FFRs are reviewed by someone other than the preparer.</li> </ul>	
<b>Advisory Comments</b>				
IV.1	Improve Documented Procedures for Payroll and Human Resources	N/A	The Grantee should document and implement procedures to ensure pay rate and payroll status changes are communicated with the Human Resources (HR) department and processed timely.	N/A
IV.2	Organizational Structure	N/A	The Grantee should segregate departments from the CFO.	N/A
IV.3	Entity-wide Risk Assessment	N/A	We recommend the Grantee's management and Board perform periodic assessments of internal and external risks to the organization. Such a process should be formally documented and re-evaluated at least annually.	N/A
IV.4	Risk Assessment of Financial Management System	N/A	We recommend the Grantee: <ul style="list-style-type: none"> <li>• Develop a formal process for performing independent risk assessments of the information systems. The risk assessment should be reviewed periodically to ensure that it continues to address changes in the IT operating environment.</li> <li>• Develop a formal process for remediating vulnerabilities that includes established timeframes for installing patches.</li> </ul>	N/A

**SECTION V**  
Summary of Findings (cont'd)

<b>Finding Reference</b>	<b>Finding</b>	<b>Standards Impacted</b>	<b>Recommendation</b>	<b>Corrective Action Implementation Date</b>
IV.4 (cont'd)	Risk Assessment of Financial Management System (cont'd)		<ul style="list-style-type: none"> <li>• Ensure that patch levels for the PeopleSoft system and its supporting infrastructure are up to date.</li> </ul>	
IV.5	Contingency Planning Controls Over the Financial Management System	N/A	The Grantee should implement a formal contingency plan that outlines the recovery procedures in line with its recovery strategy. Additionally, its disaster recovery plan should be tested periodically to ensure that it is viable.	N/A

## SECTION VI

### Criteria Established By The FTA For Grantees' Financial Management Systems

The following criteria have been set forth by the Federal Transit Administration (FTA) as standards for the financial management systems of FTA Grantees. Unless otherwise noted, these criteria are drawn from [49 CFR 18](#). "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule), Section [18.20](#), "Standards for Financial Management Systems." Additional guidance for applying many of these criteria is provided in various circulars issued by the FTA, U.S. Department of Treasury, and the Office of Management and Budget (OMB).

[18.20\(b\)\(1\)](#), *Financial Reporting*. Grantees must have procedures to provide reasonable assurance that "accurate, current, and complete disclosure of the financial results of financially assisted activities [are] made in accordance with the financial reporting requirements of the grant or subgrant."

[18.20\(b\)\(2\)](#), *Accounting Records*. "Grantees and sub Grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income." The Grantee's project financial accounting system must interface with the Grantee's overall financial management system.

[18.20\(b\)\(3\)](#), *Internal Control*. "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets." Specifically with respect to fixed asset records, [49 CFR 18.32\(d\)](#), requires that Grantees and sub Grantees must maintain a fixed asset control system providing detailed property records for assets acquired under a grant or subgrant, and including procedures to provide reasonable assurance that safeguards are present to prevent or detect unauthorized acquisition, use, or disposition of the property, and that maintenance procedures are implemented for such assets.

[18.20\(b\)\(4\)](#), *Budget Control*. "Actual expenditures or outlays must be compared with budgeted amount for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement."

## SECTION VI

### Criteria Established By The FTA For Grantees' Financial Management Systems (cont'd)

[18.20\(b\)\(5\)](#), *Allowable Costs*. Grantees must have procedures to provide reasonable assurance that "OMB cost principles [2 CFR Part 225](#) (incorporated within [49 CFR 18.22](#)), agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs." If indirect costs are being charged to the grant, Grantees must prepare a cost allocation plan that is approved by its cognizant agency.

[18.20\(b\)\(6\)](#), *Source Documentation*. "Accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

[18.20\(b\)\(7\)](#), *Cash Management*. "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by Grantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on Subgrantee's cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the Grantee must make draw downs as close as possible to the time of making disbursements. Grantees must monitor cash draw downs by their sub Grantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the Grantees."

[18.30](#), *Project Change Accounting*. The Grantee's project financial accounting system must be able to document and track project changes that result in the need for additional funds, a revision in the scope or objectives of the project, or a need to extend the period of availability of funds or any other changes or budgetary transfers which would require the prior written approval of the awarding agency.

## **SECTION VII**

### **Grantee's Response to Findings and Advisory Comments (Full Text)**

FTA's Region III office furnished a draft of this report to Washington Area Metropolitan Transit Authority on March 13, 2014 with a request for the Grantee to respond to the findings and comments. The Grantee's responses were received on April 10, 2014. Summaries of these responses are included with the related findings and comments in previous sections of this report. The full text of the response is provided on the following pages.