



**Finance & Administration Committee**

**Information Item IV-A**

**May 14, 2015**

**Financial Status Update and  
FMO Progress Report**

Washington Metropolitan Area Transit Authority  
**Board Action/Information Summary**

Action  Information

MEAD Number: 201510 Resolution:

Yes  No

**TITLE:**

Financial Status Update and FMO Progress Report

**PRESENTATION SUMMARY:**

An update on WMATA's financial status and progress toward completion of the Corrective Action Plans (CAPs) addressing the findings in the Federal Transit Administration's (FTA) Financial Management Oversight (FMO) Report. Staff will also provide a summary of FMO-related compliance review activities.

**PURPOSE:**

Provide an update to the Committee on WMATA's financial status as it relates to WMATA's Corrective Action Plan (CAP) responses to the Federal Transit Administration's (FTA) Financial Management Oversight (FMO) report. In addition, staff will provide a summary of compliance review activities and deficiencies identified.

**DESCRIPTION:**

**Key Highlights:**

Since last month's report, notable actions affecting WMATA's financial condition:

- WMATA's existing \$88 million line of credit (LOC) with Bank of America Merrill Lynch has been extended for another year, through June 2016.
- On May 1, 2015, WMATA prepaid \$100 million of the outstanding \$200 million of 2014 Grant Anticipation Notes. This action saved WMATA approximately \$380,000 in interest expense that would have been incurred if the \$100 million had not been paid until the final maturity date of October 22, 2015.
- WMATA received \$52 million in Federal grant reimbursements in the month of April and has received an additional \$35 million to date in May, including FTA approval on the first of several labor cost reimbursements. This brings the total amount received since March 2014, when the ECHO restriction was imposed, to \$238 million.
- WMATA's total value of FTA grants awarded since January, 2015 is \$734 million, including the \$148.5 million FFY2015 PRIIA grant application, which received the FTA Administrator's final approval of the program of projects and was awarded on April 8.

FTA confirmed that the CAPs addressing several (2.5) additional Recommendations within the Significant Deficiency, "Access Controls Over the Financial Management

"System" were adequate, bringing the total fulfilled for this Finding to five of six. FTA requested additional evidential documentation to address the one remaining, which WMATA submitted on the requested due date, April 28.

WMATA maintained a cumulative success rate of 98 percent for federal grant reimbursement requests.

Reviews initiated through April by WMATA's Office of Internal Compliance include a consideration of 43 FMO CAPs items.

### **Background and History:**

The FMO report of June 10, 2014, identified nine separate findings, including three material weaknesses and six significant deficiencies. An additional five advisory comments were also identified. A total of 45 recommendations from FTA for addressing the findings and comments were included in the FMO report. The Office of Internal Compliance was established to conduct objective reviews to monitor WMATA's adherence to financial management controls and related policies and procedures.

### **Discussion:**

Since last month's report, the following notable actions have occurred that impact WMATA's overall financial status:

- WMATA's existing \$88 million line of credit (LOC) with Bank of America Merrill Lynch has been extended for another year, through June 2016. This extension will help Metro manage cash flow as the pace of federal reimbursements continues to pick up.
- On April 23, WMATA notified the noteholder of WMATA's \$200 million 2014 Grant Anticipation Notes (GANs) of its intent to prepay \$100 million of principal due on the notes on May 1, 2015, the prepayment call date. The \$100 million prepayment of the GANs principal was made on May 1, saving WMATA approximately \$380,000 in avoided interest charges compared to waiting until the final maturity date of October 22, 2015.
- WMATA received \$52 million in Federal grant reimbursements in the month of April and an additional \$35 million to date in May. This includes FTA approval for the first of several labor cost reimbursements, which represents an important milestone in WMATA's corrective action efforts that could pave the way for additional reimbursements in the coming weeks.
- WMATA's \$148.5 million FFY2015 PRIIA grant application received the FTA Administrator's final approval of the program of projects and final award of the grant. The total value of grants awarded since January is \$734 million.
- On April 28, WMATA management conducted conference calls with jurisdictional chief financial officers and staff, LOC provider banks, Moody's and Standard & Poor's credit rating agencies informing them that WMATA's FY2014 audited financial statements would not be available until after April 30, 2015, and WMATA currently has no specific expected date from its external auditor, McGladrey LLP.

The FMO Dashboard status changes, as of April 30, 2015, are as follows:

- No change in the number of FMO CAPs submitted (62 of 65),
- No change in the status of FMO-related training in key areas,
- With FTA's approval of \$52 million in drawdowns in April, WMATA maintained its drawdown package approval success rate of 98 percent (on a cumulative dollar-value basis) for manually-submitted reimbursement requests, and
- An additional 2.5 FMO Recommendations were deemed adequately fulfilled, based upon CAP submissions and requested follow-up information, for Significant Deficiency III.4, "Access Controls Over the Financial Management System."

WMATA has committed to 65 CAP items in response to FTA's FMO Findings and Advisory Comments. To date, documentation has been submitted for 62 of 65 CAPs. Two Material Weakness CAP submissions, originally due September 8, 2014, have been approved for extension to June 30, 2015, and the third and the final Advisory Comment CAP has an originally committed due date of June 30, 2015.

WMATA's Office of Internal Compliance is responsible for monitoring compliance with FMO CAPs.

#### **Compliance Reviews:**

Our risk based internal compliance review work plan includes a total of 18 scheduled reviews through June 30, 2015.

As of the end of March leading into April, the Office of Internal Compliance had initiated a total of 13 reviews. 8 reviews are currently in progress with 5 of those reviews specifically focused on FMO CAPs. Additionally, Compliance concluded test work for three of the scheduled reviews in the month of April. The results of these reviews have been analyzed and reported to management for appropriate action. Some of the issues noted include inconsistent timekeeping practices for capital labor expenditures and a need to update or develop individual Standard Operating Procedures (SOPs) specific to the timekeeping environment of each department with capital labor expenditure to help ensure compliance with WMATA's Timekeeping Policies and Procedures.

As of the end of April , a total of seventeen (17) deficiencies were identified for reviews completed and reported. Five (5) deficiencies relate to inconsistent timekeeping practices for capital labor expenditures (Grant Management Controls) identified specifically for AGMA, CENI, PLNT, RTTO, and CENV.

Nine (9) deficiencies and opportunities for improvement were identified during the review of the Accounts Payable process (Financial Management Controls).

Three (3) deficiencies relate to compliance with Procurement policies and procedures (Procurement Controls).

Staff is working on corrective actions as recommended for the 5 Grant Management control deficiencies. All other deficiencies are pending management's response.

#### **FUNDING IMPACT:**

Information Item only. No requests with impact on funding.

#### **TIMELINE:**

<b>Previous Actions</b>	July 2014 through April 2015 - Monthly presentations to the F&A Committee on execution of all corrective action plans committed to FTA; and FTA's assessment of WMATA's progress in adequately fulfilling the 38 recommendations across the nine controls findings described in the June 2014 FMO Report.
<b>Anticipated actions after presentation</b>	June 2014 and forward - Completion of the three remaining CAP items and on-going compliance monitoring.

**RECOMMENDATION:**

No action required; information item only.



# Washington Metropolitan Area Transit Authority

## Financial Status Update and FMO Progress Report

Finance & Administration Committee  
May 14, 2015



## Purpose

- Provide update on WMATA financial status
- Provide monthly progress report on FMO Corrective Action Plans (CAPs), FTA feedback and follow-ups



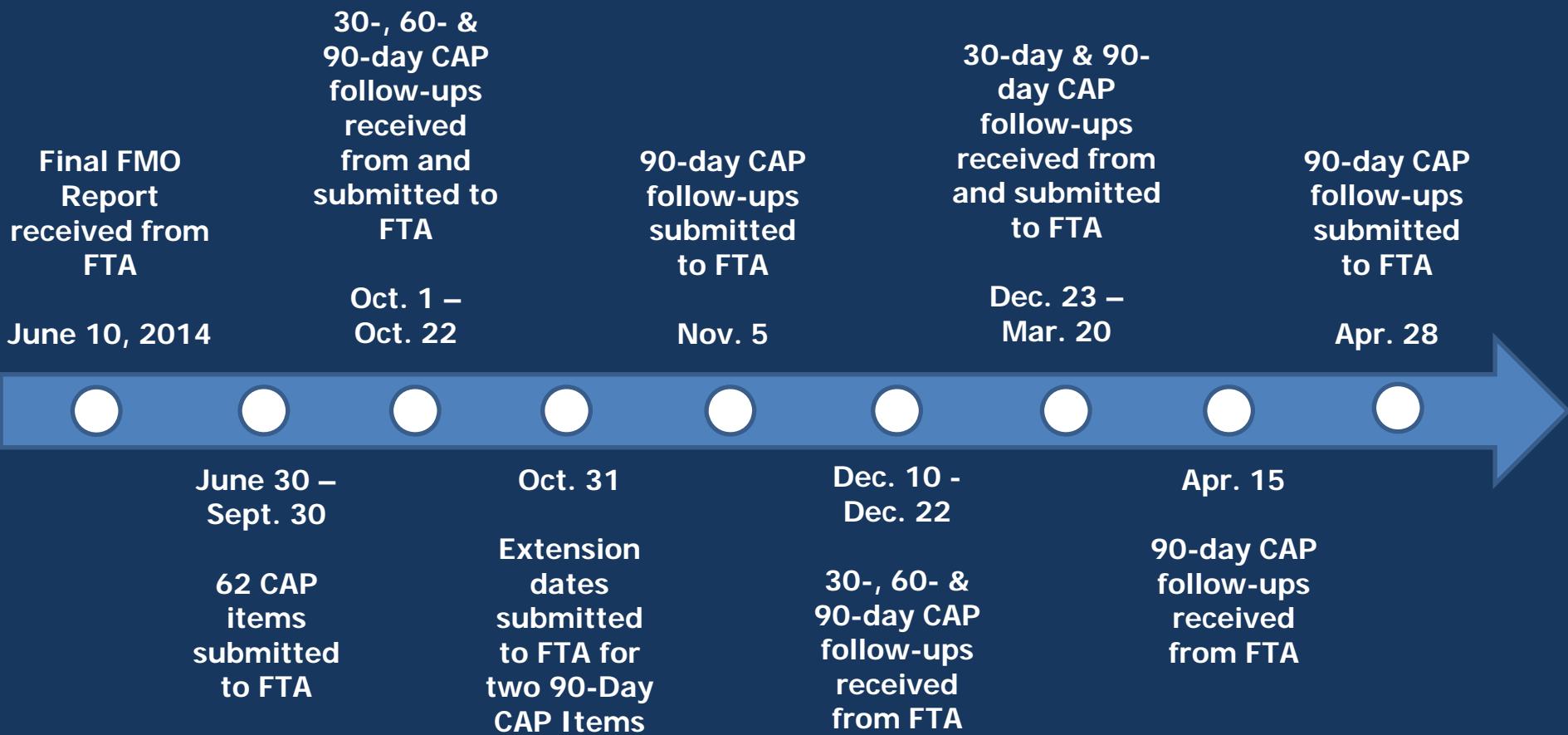


## Financial Update

- \$88 million line of credit extended to June 2016
- On May 1, prepaid \$100 million of \$200 million principal on 2014 GANs
- Of \$238 million in total manual draw grant reimbursements, \$52 million in April and \$35 million to date in May
- FTA approval received for first of several labor cost reimbursements
- Funding partners and creditors informed of delay in FY2014 audited financial statements



# FMO Summary Timeline





# FMO Dashboard

as of 04/30/2015

## Financial Management Oversight (FMO) Review Dashboard

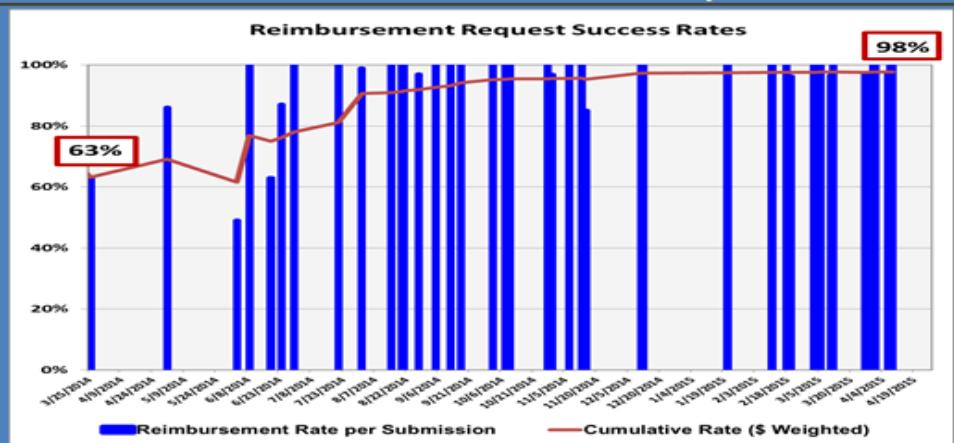
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### FMO CAP Status by Finding

	Completion Risk				TOTAL
	Complete	Significantly Complete	In Progress	Extended	
Material Weaknesses (MW)	23	0	0	2	25
Significant Deficiencies (SD)	31	0	0	0	31
<b>TOTAL FINDINGS</b>	<b>54</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>56</b>
Advisory Comments (AC)	8	0	1	0	9

### Draw Submission Quality



### FMO Compliance Training



### Completion of FTA Recommendations

FMO Finding	Description	FMO Report Recommend.	FTA Confirmed Submission ("Adequate")	Outstanding FTA Recommend.
Mat. Weak. II.1	Budget Controls	3	1	2
Mat. Weak. II.2	Federal Expend. Report. Controls	2	2	0
Mat. Weak. II.3	Procurement Controls	5	5	0
Sig. Defic. III.1	Audit Committee Oversight	2	2	0
Sig. Defic. III.2	Cash & Grants Mgmt Controls	4	4	0
Sig. Defic. III.3	FTA Funded Assets	8	8	0
Sig. Defic. III.4	Financial Mgmt System Access	6	5	1
Sig. Defic. III.5	Controls over JOC	4	4	0
Sig. Defic. III.6	Improve Federal Fin. Report.	4	4	0
Material Weaknesses/Significant Deficiencies		38	35	3
AC IV.1 - IV.5	Advisory Comments	7	N/A	N/A
All FMO Findings and Advisory Comments		45	35	3

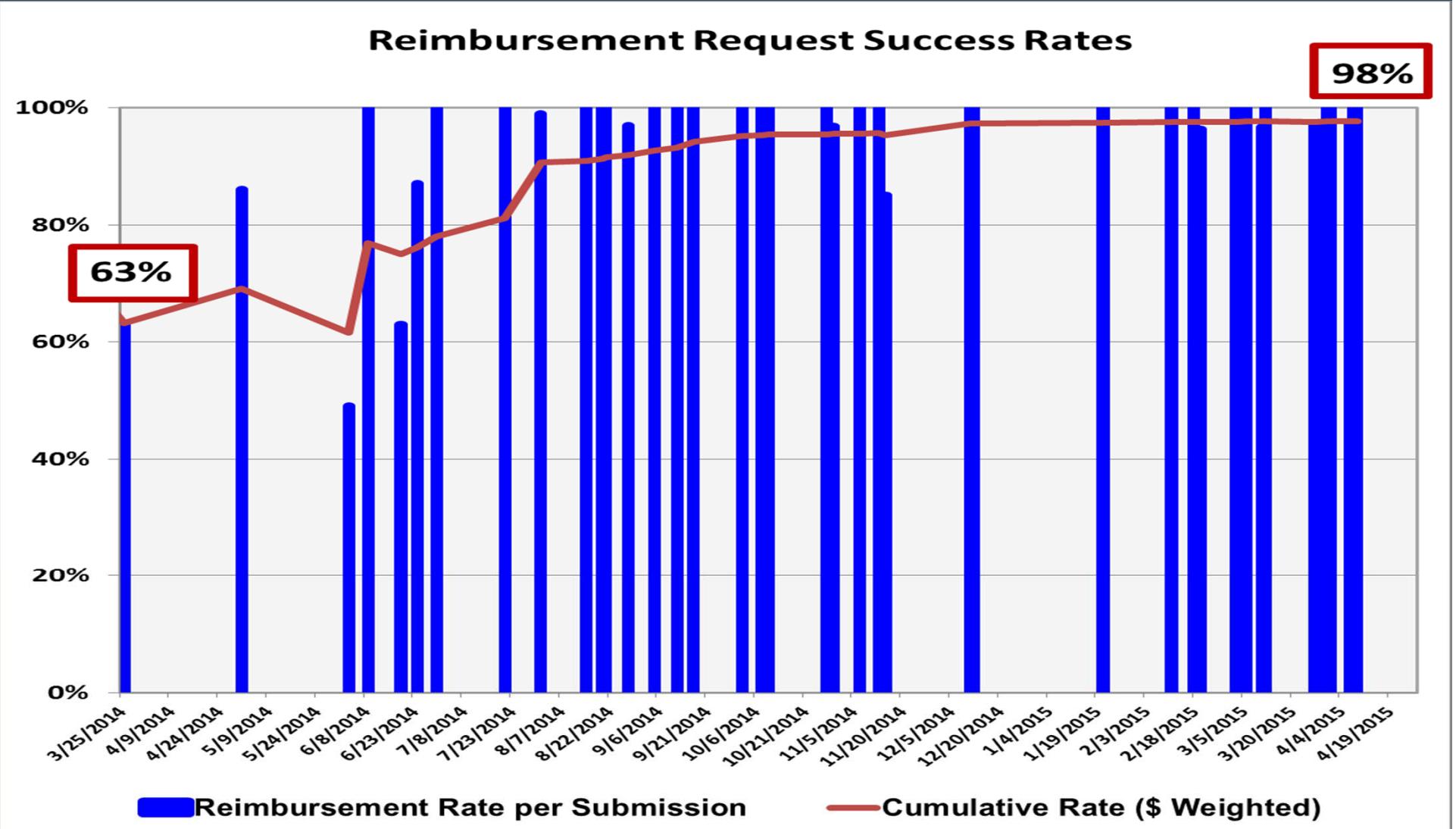


# FMO Dashboard – CAPs Status by Finding



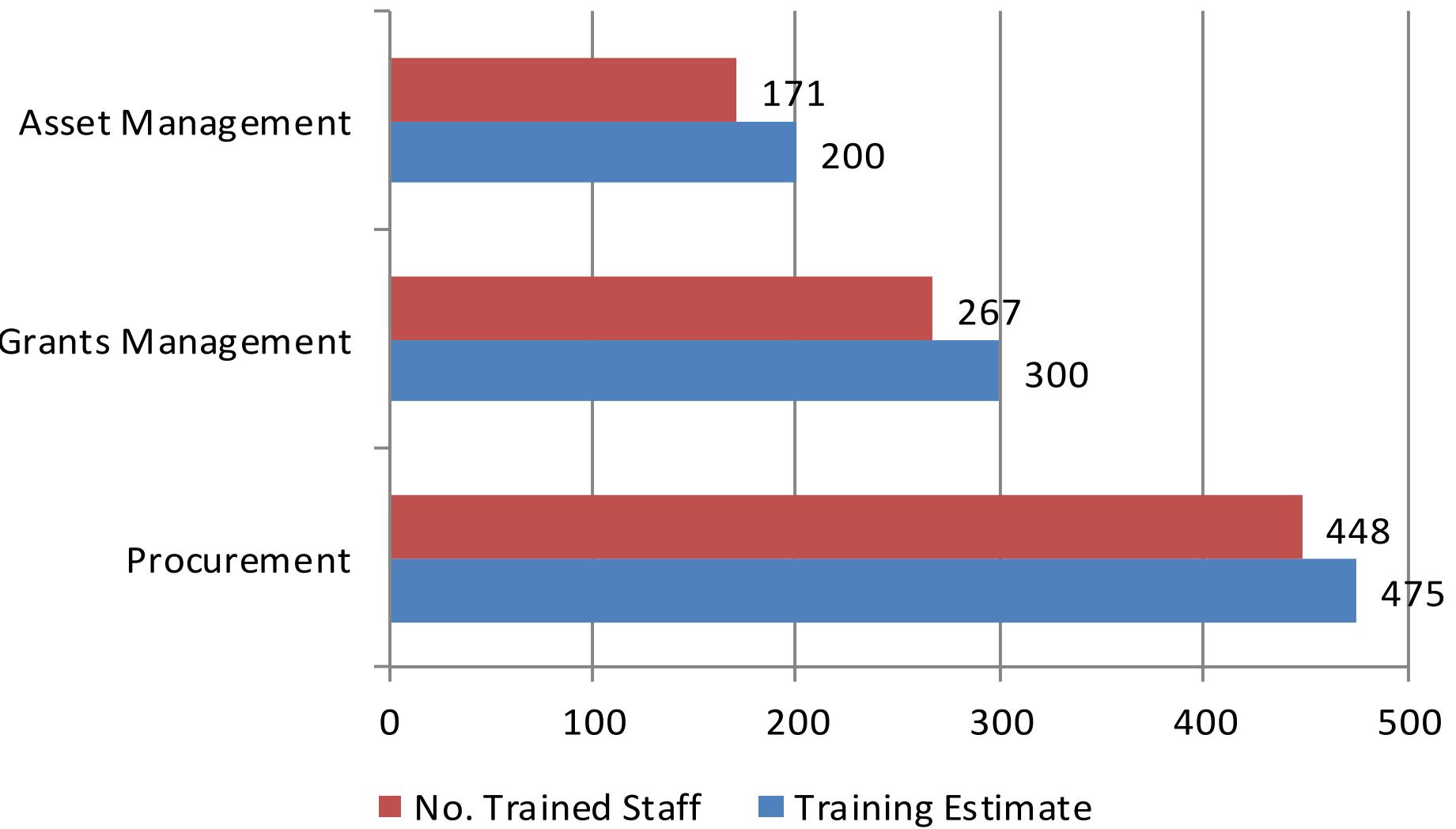


# FMO Dashboard – Reimbursement Request Success Rates





# FMO Dashboard – Compliance Training





# FMO Dashboard – Completion of FMO Recommendations

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Sig. Defic. III.6	Improve Federal Fin. Report.	4	4	0
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All FMO Findings and Advisory Comments		45	35	3



# April FMO Activity Update

- Two CAP follow-up items relating to FMS Access Controls (access review and password policy) received on April 15<sup>th</sup>
- Follow-up responses submitted to FTA on April 28<sup>th</sup>
- WMATA's Office of Internal Compliance initiated or completed FMO CAP Self-Certification Reviews in the following areas:
  - Budget Controls
  - Cash & Grants Management
  - Federal Financial Reporting
  - Procurement & Job Order Contracts
  - Asset Management
  - Human Resources & Payroll



## Next Steps

- Achieve progress milestones and participate in monthly FTA Region III reviews
- WMATA's Office of Internal Compliance will continue follow-up reviews of FMO CAPs as part of overall compliance efforts