



Finance & Administration Committee

Information Item III-D

July 10, 2014

**Update on Financial Management Oversight
Report**

Washington Metropolitan Area Transit Authority
Board Action/Information Summary

Action Information

MEAD Number:
200922

Resolution:
 Yes No

TITLE:

Update on FMO Report

PRESENTATION SUMMARY:

Update the Committee on the status of WMATA's Corrective Action Plan (CAP) responses to the Federal Transit Administration's (FTA's) Financial Management Oversight (FMO) report, including required changes to the Board's Bylaws.

PURPOSE:

Provide a progress report on the status of FMO CAPs, seek Board amendments to Board's Bylaws regarding Audits and Investigations Committee to comply with two FMO CAPs, and discuss monitoring proposals for procurement and grants management.

DESCRIPTION:

Key Highlights:

- With Board approval to amend the Bylaws and update the responsibilities of the Audits and Investigations Committee regarding oversight and guidance of WMATA's Office of Inspector General and external auditor, this will complete the Board's actions addressing Significant Deficiency III.1 "Audit Committee Oversight of Compliance and Internal Controls" in the 2014 FMO report
- As of July 10, WMATA will have submitted documentation to FTA for closure of 20 CAP items. Of the remaining 45 CAP items, 22 are significantly complete and 13 are in progress.

Background and History:

The Financial Management Oversight (FMO) report of June 10, 2014, identified fourteen separate findings: three material weaknesses, six significant deficiencies, and five advisory comments. A total of 45 recommendations for addressing the findings were also included in the report.

Metro officially responded to the draft report within the requested 30-day response timeframe. Metro agreed with the findings and proposed 65 Corrective Action Plan (CAP) items to address the various findings and recommendations. Metro committed to implementing 100 percent of the CAP items for the more substantial findings (material weaknesses and significant deficiencies) within 90 days of the final FMO report. Metro also committed to completing all CAP items for the advisory comments within one year,

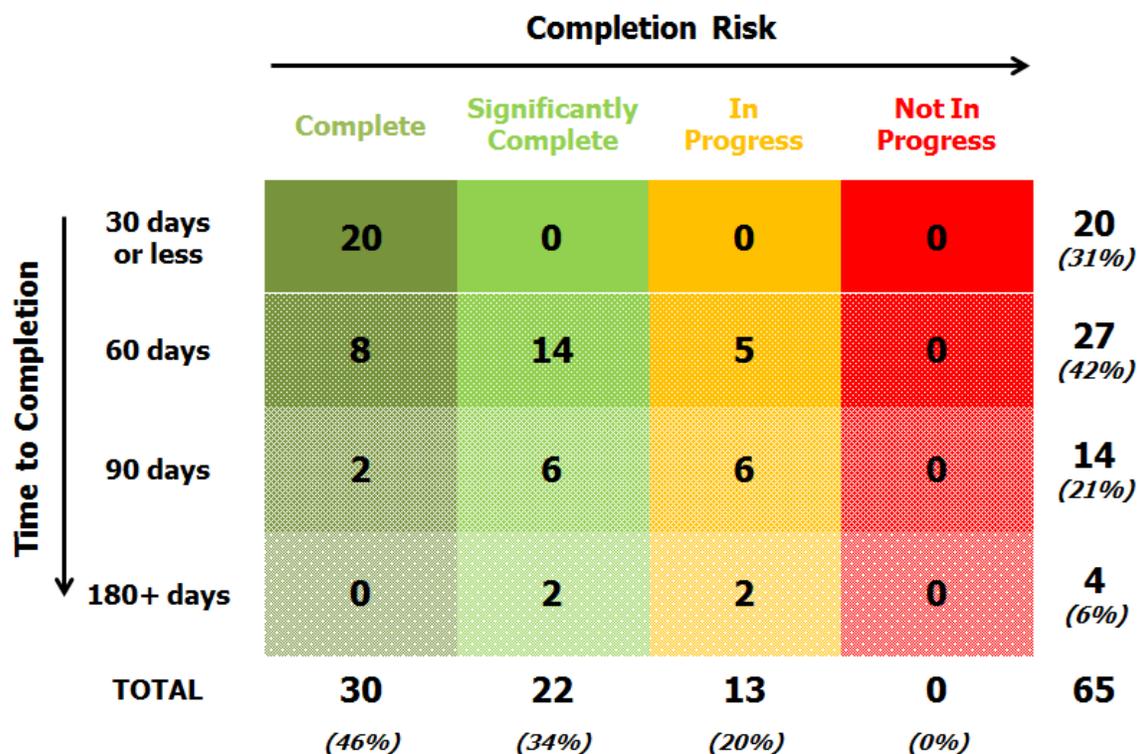
even though responding to advisory comments is optional.

FTA did not take exception to any of Metro’s responses or CAP items, and the release of the final report “started the clock” on Metro’s commitment to complete the 30-, 60-, and 90-day items.

Discussion:

The 30-day submission deadline is July 10, 2014. As of that day, Metro will have completed and submitted documentation on 20 CAP items to FTA for review and approval. All CAP items committed to a shorter than 30-day deadline were submitted on June 30, 2014. Of the remaining 45 CAP items, work has been started on all items, none of which are currently at risk of missing their submission deadlines. Metro remains committed to meeting the remaining deadlines and closing out all of the findings from the FMO report. The two tables below summarize the status as of July 10 of the 65 CAP items by finding level and by submission deadline.

		Completion Risk				
		Complete	Significantly Complete	In Progress	Not In Progress	
Financial Controls Risk ↑	Material Weaknesses (MW)	11	9	5	0	25 <i>(38%)</i>
	Significant Deficiencies (SD)	16	9	6	0	31 <i>(48%)</i>
	Advisory Comments (AC)	3	4	2	0	9 <i>(14%)</i>
	TOTAL	30 <i>(46%)</i>	22 <i>(34%)</i>	13 <i>(20%)</i>	0 <i>(0%)</i>	65



In order to address specific FMO findings regarding the Audits and Investigations Committee (see Significant Deficiency III.1 “Audit Committee Oversight of Compliance and Internal Controls”), a change to WMATA’s Board Bylaws is required. Following the adoption of the proposed changes, the Audits and Investigations Committee will: set expectations for the external auditor; review a risk analysis of external auditor findings; resolve disagreements regarding audit findings; and ensure audit awareness training for Board members. The proposed changes to the relevant section of the Bylaws (in Section XII.C, “Board Committee Responsibilities”) are underlined in the excerpted section of the Bylaws below:

"The **AUDITS AND INVESTIGATIONS COMMITTEE** provides oversight of the quality and integrity of the Authority’s internal controls, compliance systems and accounting, auditing, financial reporting processes, and investigation processes. The Committee provides policy direction and guidance to the Inspector General. The Committee receives and reviews significant audit and investigative findings and corrective actions; establishes criteria and mechanisms for forwarding those findings to the Board; receives and reviews the recommendation of the Inspector General on the selection of the external auditor and recommends appropriate action to the Board; sets expectations for the due diligence of the external (financial statement) auditor, reviews the reports of the external auditor and reviews a staff-provided risk analysis of each finding of the external auditor. The Committee resolves disagreements between external auditors, WMATA’s Office of Inspector General and WMATA management. The Committee ensures that each Board Member receives audit awareness training within one year of becoming a Member of the Board. The Committee will meet in public session at least two times annually, at least two times annually with the Inspector General, and meet with the external auditor once before and once after conducting the annual audited financial statements of the Authority."

In addition, in separate Board memoranda dated June 30, 2014, the GM/CEO outlined initial plans for monitoring WMATA's compliance with the new procurement and grants management policies that were adopted by the Board in April in response to the draft FMO report. Key sections of the memoranda are excerpted below for reference, and staff will update the proposed plans following discussion with the Board members at the July 10 Finance and Administration Committee meeting.

Monitoring Plan for Procurement

It is recommended that the Chief Procurement Officer present separate quarterly and annual reports to the Board of Directors that display compliance with the adopted policies via performance measures and supporting detail. The Board policy areas and proposed performance measures include:

Board Policy	Performance Measure
Full and open competition	% of new quarterly actions: competitive, sole source, modifications, options
Full and open competition	Summary of IDIQ activity
Prohibit practices that restrict competition	% participation by required staff at Procurement Planning Forums
Identify/prohibit organizational conflicts of interest	% of procurements for which identification of organizational conflict performed
Prohibit personal conflicts of interest	% of procurements for which identification of personal conflict performed
Detail requirements for independent cost estimates (ICE)	% of procurements with ICE performed
Provide annual training for procurement personnel and attorneys	% of required staff completing planned NTI training on a 3-year basis
Controls over JOC	Distribution of JOC contracts among contractors to achieve parity (+/-10%) on percentage of work and total spend

Monitoring Plan for Grants Management

In order to ensure that WMATA achieves and sustains the necessary improvements in grants management, particularly in the areas emphasized by the Board, staff proposes the following indicators that can be tracked on a quarterly basis.

1. *Grant Applications*: By maintaining accurate project scopes, schedules, and budgets in a grant-ready state, WMATA will improve the linkage between the annual CIP and the grant applications, which will reduce the time needed to execute annual formula and PRIIA grants. Management's goal is to execute all grants within 120 days of the notice of final apportionment (federal funding availability).
2. *Federal Reporting*: A key focus in improving grants management will be on submitting timely, accurate, and complete FFRs and Milestone Progress Reports (MPRs). Management will provide quarterly updates to the Board to confirm that complete and accurate FFRs and MPRs were filed timely.
3. *Grant Revisions and Amendments*: WMATA should be revising and/or amending

every open grant on a quarterly basis to align with updated project budgets and force account plans. Management will provide quarterly updates to the Board on the revision/amendment status of each open grant.

4. *Grant Reimbursements*: WMATA should drawdown grant reimbursements in a consistent and timely manner to minimize the balance of unreimbursed expenses and reduce available balances on older grants. Management will provide quarterly updates on the number and amount of drawdowns, the amount of unreimbursed eligible expenses, and the date of the most recent drawdown for each open grant.
5. *Timely Grant Closeouts*: WMATA must eliminate the backlog of prior year grants that currently meet FTA's closeout criteria and continue to close grants in a timely manner. Management will provide quarterly updates on the status of grants that are in closeout status.

FUNDING IMPACT:

No funding impact – only action item is change to Board Bylaws.	
Project Manager:	Thomas J. Webster
Project Department/Office:	CFO/OMBS

TIMELINE:

Previous Actions	June 2014 – Submission of monitoring plans for procurement and grants management.
Anticipated actions after presentation	September 2014 – Next FMO status update to Committee

RECOMMENDATION:

Approve proposed changes to Bylaws regarding responsibilities of Audits & Investigations Committee.



Washington Metropolitan Area Transit Authority

Update on Financial Management Oversight (FMO) Report

Finance and Administration Committee

July 10, 2014



Purpose

- Provide progress report on FMO Corrective Action Plan
- Approve changes to Bylaws regarding Audit & Investigations Committee
- Discuss monitoring proposals for procurement and grants management





Background

- FMO Report contained 14 findings and 45 separate recommendations
- Metro responded with 65 Corrective Action Plan (CAP) items:

3 Material Weaknesses (MW):	25 CAP items
6 Significant Deficiencies (SD):	31 CAP items
5 Advisory Comments (AC):	9 CAP items
<hr/>	
14 Findings	65 CAP items
- FTA did not take exception to any of WMATA's responses or CAP items in final report



Background (cont.)

- Metro committed to implementing 100% of CAP items for MW and SD findings within 90 days
- Committing to CAP items for AC findings is optional, but Metro will complete all by June 2015





Timeline





FMO Corrective Action Plan Status as of 7/10/14: By Finding

Completion Risk

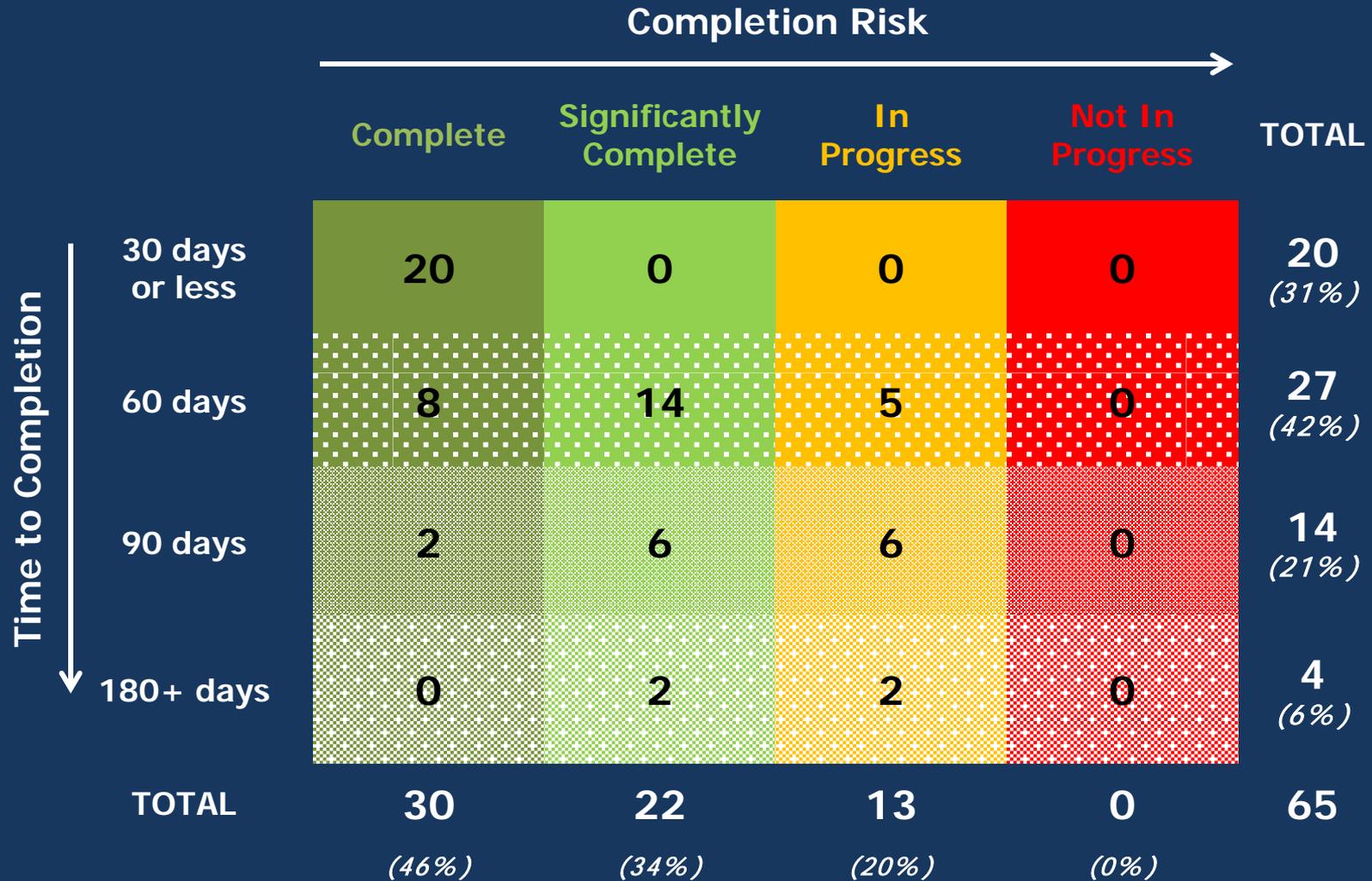


Financial Controls Risk ↑

	Complete	Significantly Complete	In Progress	Not In Progress	TOTAL
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FMO Corrective Action Plan Status as of 7/10/14: By Completion Date





Proposed Changes to Bylaws for Audits & Investigations Committee

- Changes needed to (a) improve WMATA's finance and administrative functions and (b) complete the Board's actions with regard to the FMO
- Audits and Investigations Committee will:
 - Set expectations for the external auditor
 - Review a risk analysis of external auditor findings
 - Resolve disagreements regarding audit findings
 - Ensure audit awareness training for Board members



Long-Term Monitoring (After CAP Items Are Completed)

- Need to ensure corrective actions and new policies/procedures are sustained and built on
- GM/CEO has proposed monitoring framework for procurement and for grants management, as required in April Board resolutions
- After completion of FMO CAP process, will finalize long-term monitoring plans



Next Steps

- Update Committee on 60-day and 90-day submissions to FTA at September 11 meeting
- Finalize long-term monitoring plans



Recommendation

- Approve proposed changes to Bylaws regarding responsibilities of Audits & Investigations Committee

SUBJECT: APPROVAL OF REVISED BYLAWS TO UPDATE AUDITS AND INVESTIGATIONS COMMITTEE RESPONSIBILITIES

RESOLUTION
OF THE
BOARD OF DIRECTORS
OF THE
WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

WHEREAS, The Washington Metropolitan Area Transit Authority (WMATA) Board of Directors is committed to continuing to improve WMATA's finance and administration functions, including procurement, grants management, budgeting, reporting and risk assessment; and

WHEREAS, Staff will provide the Board of Directors with publicly-available quarterly financial reports on the status of all open and pending Federal Transit Administration (FTA) grants; and

WHEREAS, Staff will perform risk analyses and update a matrix of the Corrective Action Plans agreed to under the FTA's Financial Management Oversight Audit (FMO) and report to the Board of Directors; and

WHEREAS, Staff will provide the Audits and Investigations Committee with access to the services of at least one on-call financial expert; and

WHEREAS, Pursuant to Resolution 2014-18, the Board of Directors directed the General Manager/Chief Executive Officer (GM/CEO) to present a plan to monitor the Grant Management Policy, so that key performance measures can be adopted and monitored by the Board; and

WHEREAS, Pursuant to Resolution 2014-19, the Board of Directors directed the GM/CEO to present a plan to monitor compliance with procurement policies, so that key performance measures can be adopted and monitored by the Board; and

WHEREAS, In order to further improve WMATA's finance and administrative functions and to complete the Board of Directors' actions with regard to the FMO, the Bylaws of the WMATA Board of Directors must be amended to state that the Audits and Investigations Committee will set expectations for the external auditor, review a risk analysis of external auditor findings, resolve disagreements regarding audit findings and ensure audit awareness training, as follows:

The **AUDITS AND INVESTIGATIONS COMMITTEE** provides oversight of the quality and integrity of the Authority's internal controls, compliance systems and accounting, auditing, financial reporting processes, and investigation processes. The Committee provides policy direction and guidance to the Inspector General. The Committee receives and reviews significant audit and investigative findings and corrective actions; establishes criteria and mechanisms for forwarding those findings to the Board; ~~reviews the reports of the external (financial statement) auditor;~~ receives and reviews the recommendation of the Inspector General on the selection of the external auditor and recommends appropriate action to the Board; ~~sets expectations for the due diligence of the external (financial statement) auditor,~~ reviews the reports of the external auditor and reviews a staff-provided risk analysis of each finding of the external auditor. The Committee resolves disagreements between external auditors, WMATA's Office of Inspector General and WMATA management. The Committee ensures that each Board Member receives audit awareness training within one year of becoming a Member of the Board. ~~The Committee provides policy direction and guidance to the Inspector General.~~ The Committee will meet in public session at least two times annually, at least two times annually with the Inspector General, and meet with the external auditor once before and once after conducting the annual audited financial statements of the Authority.

now, therefore be it

RESOLVED, That the Board of Directors approves the attached revised Bylaws of the Washington Metropolitan Area Transit Authority Board of Directors to update the responsibilities of the Audits and Investigations Committee, which Bylaws supersede all prior Bylaws of the Board of Directors; and be it further

RESOLVED, That this Resolution shall be effective immediately.

Reviewed as to form and legal sufficiency,



Kathryn H.S. Pett
General Counsel