



**Executive Committee**

**Information Item III-A**

**December 10, 2020**

## **2020 Internal Controls Training**

Washington Metropolitan Area Transit Authority

## Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:  
202235

Resolution:  
☐ Yes ☒ No

### TITLE:

Internal Controls & Oversight Responsibilities

### PRESENTATION SUMMARY:

Staff will facilitate audit awareness training on Board oversight responsibilities for internal controls. Staff will also provide information on the upcoming Federal Transit Administration (FTA) Triennial Review.

### PURPOSE:

Provide the Board with annual refresher training on internal controls with a specific focus on Board oversight responsibilities. The training session will fulfill the Board's audit awareness training requirement. A strong internal control environment starts with an organization's tone at the top, which comes from its Board of Directors and senior management. A clear understanding of internal controls and expectations for internal controls provides the Board with the tools needed to exercise its oversight responsibilities, provide appropriate direction to management, and appropriately hold management accountable for the effectiveness of internal controls.

Provide updates on the upcoming Federal Transit Administration (FTA) Triennial Review.

### DESCRIPTION:

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### Key Highlights:

The training is designed to increase awareness of internal controls through a discussion of fundamental concepts and current regulatory requirements for internal controls applicable to WMATA. The session will center on a discussion of the Committee of Sponsoring Organizations (COSO's) Internal Control - Integrated Framework and its guidance on Board oversight responsibilities.

The FTA Triennial Review occurs every three years, and the Washington Metropolitan Area Transit Authority (WMATA's) last review was in FY2017. WMATA received notification of the upcoming FY2020 FTA Triennial Review on October 31, 2019. This information was previously provided to the Board on December 12, 2019, with expectations that the on-site review would take place in March 2020. However, FTA rescheduled the review due to the COVID-19 Pandemic, and a Virtual Triennial Review is now scheduled for February 2021.

## **Background and History:**

It is WMATA's practice to provide annual audit awareness training to Members of the Board. Under the direction of the Executive Committee, this training session is designed to meet the audit awareness training requirement for new Board Members and serves as a refresher training for existing Members.

The FTA Triennial Review mandated by Congress pursuant to 49 U.S.C. § 5307(f)(2), is conducted to determine whether a recipient is administering its FTA-funded programs in accordance with United States Code, Chapter 53 of Title 49, Federal transit law provisions. The Triennial Review assesses management practices and program implementation to ensure the FTA programs are administered in accordance with FTA requirements and are meeting program objectives.

## **Discussion:**

### **Internal Control – Definition**

Internal control is a process, effected by an entity's Board of Directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO)

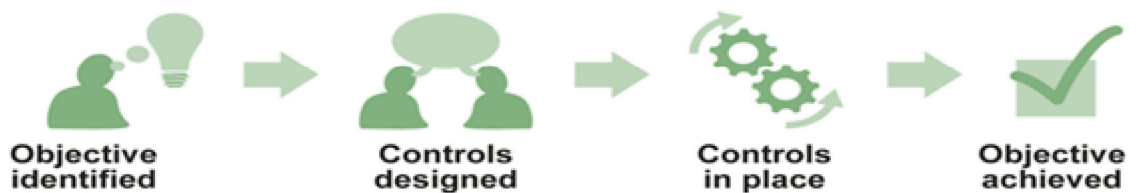
### **Internal Control - Key Concepts**

- Geared to the achievement of objectives in one or more categories - operations, reporting, and compliance.
- A process consisting of ongoing tasks and activities - a means to an end, not an end in itself.
- Effected by people - not merely about policy and procedure manuals, systems, and forms, but about people and the actions they take at every level of an organization.
- Able to provide reasonable assurance - but not absolute assurance, to an entity's senior management and Board of Directors.
- Adaptable to the entity structure - flexible in application for the entire entity or for a particular subsidiary, division, operating unit, or business process.
- Involves the plans, methods, policies and procedures that WMATA uses to fulfill its mission, strategic plan, goals and objectives.
- Internal control is everyone's responsibility.

### **Internal Control – Value**

The achievement of objectives relating to operations, reporting, and compliance:

- Operations – Effectiveness and efficiency
- Reporting – Internal & external financial & non-financial
- Compliance – Adherence to laws and regulations



Source: GAO. | GAO-14-704G

### **Internal Controls - Standards and Framework**

The COSO Internal Control – Integrated Framework (the Framework) outlines the components, principles, and factors necessary for an organization to effectively manage its risks through the implementation of internal controls.

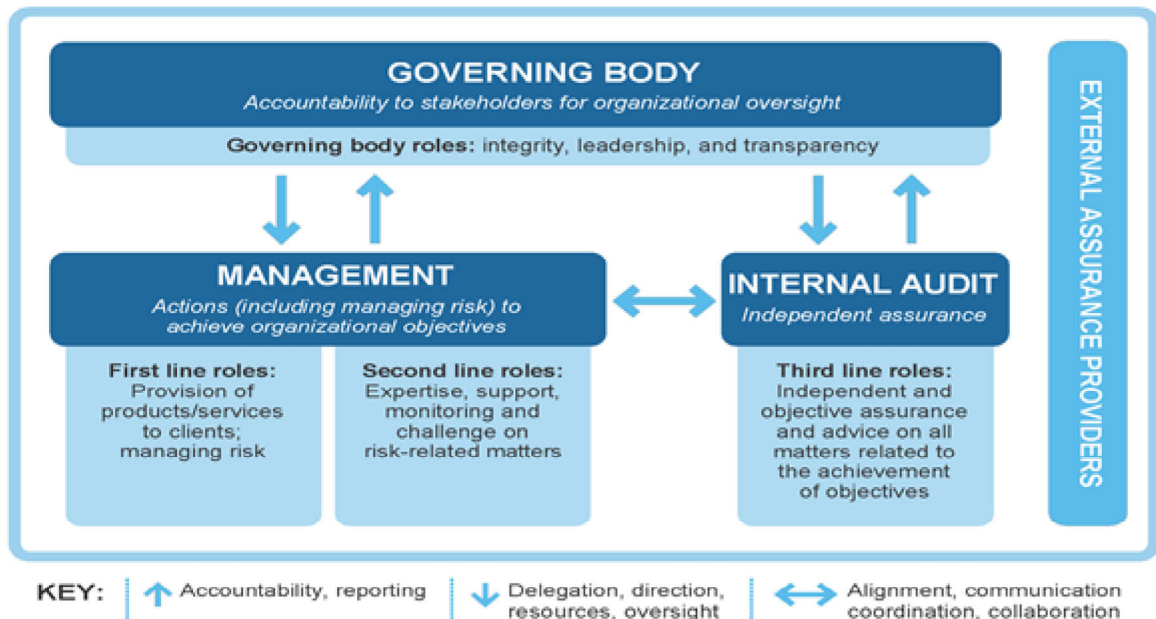
GAO's Green Book – Standards for Internal Control in the Federal Government. The Green Book sets the standards for an effective internal control system for federal agencies and provides the overall framework for designing, implementing, and operating an effective internal control system.

### **Internal Control Responsibility – Illustrated Using the Three Lines Model**

Everyone at WMATA has some responsibility for internal control. To help ensure that organizational objectives are achieved, and essential duties are performed as intended, the Three Lines Model clarifies specific roles and responsibilities. The Model aims to enable value creation and value protection, as well as the overall accomplishment of the organization's mission and objectives. A responsible body (the Board or Board equivalent and its various committees) is needed to provide governance and oversight.

Management executes and manages processes and activities that accomplish the objectives, which includes management control as the **First Line** and risk and control monitoring arms of management as the **Second Line**. To ensure value creation and protection, Internal Audit provides independent assurance to verify that processes and activities are being completed as expected and to identify opportunities for improvement where applicable. Internal Audit is the **Third Line** in this model.

## The IIA's Three Lines Model



Source: The Institute of Internal Auditors

The arrows of accountability, delegation, and alignment illustrate the expected interactions and the collective responsibilities of management, internal audit, and those charged with governance to achieve objectives through effective alignment and collaboration with distinct roles and different levels of accountability.

### Internal Control - Board Responsibilities

- Establish oversight structure aligned with objectives of the organization.
- Establish integrity and ethical values.
- Oversee the definition of and apply the standards of conduct of the organization.
- Develop expectations of competence for organization members.
- Maintain accountability to all members of the oversight body and key stakeholders.
- Commission oversight effectiveness reviews and address opportunities for improvement.
- Oversee management's assessment of risks to the achievement of objectives.
- Evaluate the potential impact of significant changes, fraud, and management override of Internal Control.
- Consider internal and external factors that pose significant risks to the achievement of objectives.
- Determine how proactively the organization manages innovations and changes, such as those triggered by new technology or budgetary and political shifts.
- Oversee management's assessment of risks to the achievement of objectives.
- Evaluate the potential impact of significant changes, fraud, and management override of Internal Control.
- Consider internal and external factors that pose significant risks to the achievement of objectives.
- Determine how proactively the organization manages innovations and changes such as those triggered by new technology or budgetary and political shifts.

- Assess and oversee the nature and scope of monitoring activities, any management overrides of controls, and management's evaluation and remediation of deficiencies.
- Evaluate the integrity and ethical values of senior management.
- Engage with management, internal and external auditors, and others to evaluate the level of awareness of the organization's strategies, objectives, risks, and control implications associated with evolving mission, infrastructure, regulations, and other factors.

### **Scheduled FTA Triennial Review - FY2020**

The Triennial Review is one of the FTA's management tools for examining recipient's performance and adherence to current FTA requirements and policies. Mandated by Congress in 1982, the Triennial Review occurs once every three years. It examines how recipients of Urbanized Area Formula Program funds meet statutory and administrative requirements.

WMATA received initial notification of the scheduled review on October 31, 2019. FTA also provided WMATA with a Recipient Information Request (RIR) package due back to FTA on December 20, 2019, with a formal site visit to follow. The RIR includes a listing of documents and questions to provide the FTA Reviewer information on WMATA's transit programs. The expected site visit was rescheduled due to the Pandemic, and a Virtual Triennial Review is now scheduled for February 2021. The actual dates in February are yet to be determined, and will be coordinated with FTA's assigned reviewer, TFC Consulting, Inc. An updated RIR package (Supplemental RIR) is due back to FTA on December 31, 2020.

The Triennial Review will consider Basic Requirements – minimum requirements expected to comply directly tied to law, regulation, circular, master agreement, or other binding guidance, and Indicators of Compliance in 21 possible areas of review. The details of the 21 areas of the Triennial Review are included in Appendix A.

On October 20, 2020, FTA notified WMATA that the scheduled review will include verification that recipients have completed their required Public Transportation Agency Safety Plans as well as a limited assessment of how recipients have used the Coronavirus Aid, Relief, and Economic Security (CARES) Act and Emergency Relief funds.

### **Management Audits, Risk and Compliance (MARC) - Compliance Readiness Assessment**

The Management Audits, Risk and Compliance (MARC) Annual Internal Audit Plan includes a Compliance Readiness Assessment scheduled in advance of the FTA Review.

- MARC is currently conducting facilitated management self-assessment reviews based on the FTA Triennial Review Guide (FY2020 Contractor's Manual).
- Internal Compliance Readiness efforts were initiated in March 2020 and continue through year-end. Preliminary planning for the Compliance Readiness Assessment began in 2019.

- Additional reviews will be completed in high-risk areas - prior deficiencies, recent FTA focus, and potential for Enhanced Review Module (ERM).
- Compliance readiness efforts will include two additional areas - Public Transportation Agency Safety Plans and WMATA's use of Coronavirus Aid, Relief, and Economic Security (CARES) Act and Emergency Relief funds.

**FUNDING IMPACT:**

Define current or potential funding impact, including source of reimbursable funds.	
Project Manager:	Elizabeth Sullivan
Project Department/Office:	Management Audits, Risk and Compliance

**TIMELINE:**

<b>Previous Actions</b>	Annual Board Audit Awareness Training - December 12, 2019
<b>Anticipated actions after presentation</b>	N/A

**RECOMMENDATION:**

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# Internal Controls & Oversight Responsibilities

Executive Committee  
December 10, 2020





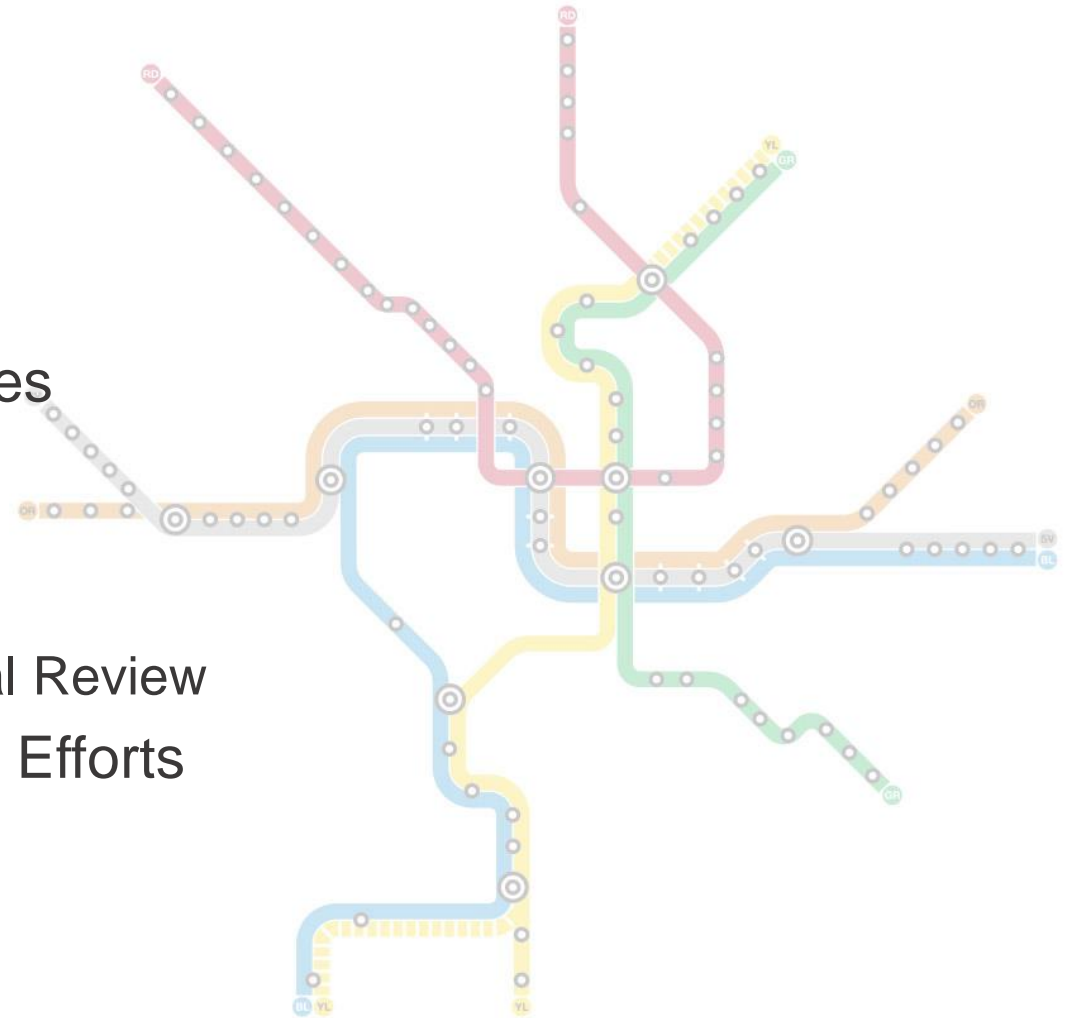
# Purpose

## Training Objectives

- Increase awareness of Internal Controls
- Discuss Board of Directors oversight responsibilities

## Information Item

- Update on Federal Transit Administration (FTA) Triennial Review
- Advise on Internal Compliance Review Readiness Efforts



# Awareness — Definition and Key Concepts

Internal controls is a process, effected by an entity's Board of Directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance

**Source:** Committee of Sponsoring Organizations of the Treadway Commission (COSO)



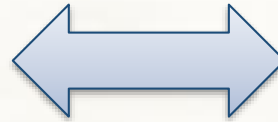
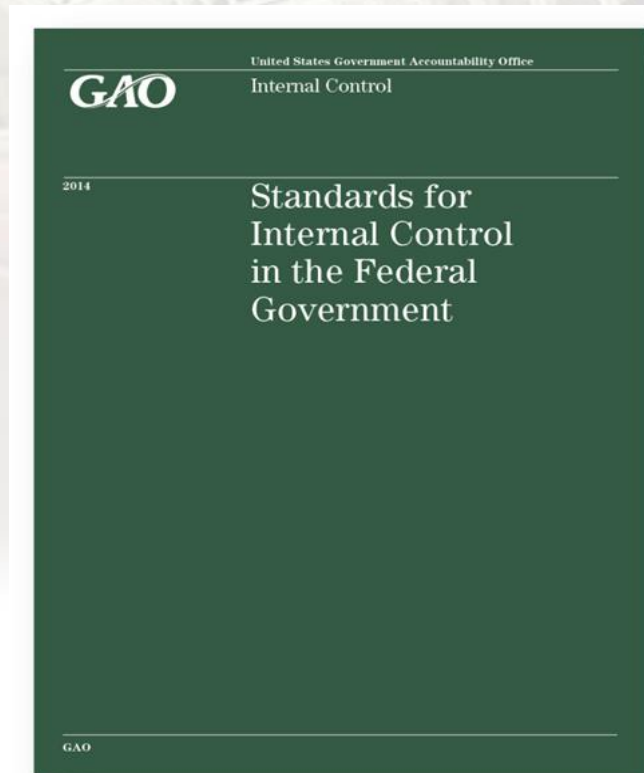
**Internal control is everyone's responsibility**

# Awareness — Regulatory Expectations



- Section 200.303 Office of Management Budget's (OMB) – Uniform Guidance:
  - Establish and maintain effective internal controls over Federal awards in compliance with:
    - COSO - Internal Control Integrated Framework, or
    - Green Book - Standards for Internal Control in the Federal Government
- FTA Circular 5010 (FTA C 5010.1E Chapter VI §2) – Establish and maintain adequate Internal Controls

# Internal Controls - Standards and Framework



## 1 Control Environment

Foundation for all other  
components of Internal Control

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability



# Control Environment — Board Responsibility

- Establish oversight structure aligned with objectives of organization
- Establish integrity and ethical values
- Oversee the definition of and apply the standards of conduct of the organization
- Develop expectations of competence for organization members
- Maintain accountability to all members of the oversight body and key stakeholders
- Commission oversight effectiveness reviews and address opportunities for improvement



Identification and analysis of relevant risks to the achievement of objectives

- 6. Specifies suitable objectives
- 7. Identifies and analyzes risk
- 8. Assesses fraud risk
- 9. Identifies and analyzes significant change

# Risk Assessment – Board Responsibility

- Oversee management's assessment of risks to the achievement of objectives
- Evaluate the potential impact of significant changes, fraud, and management override of Internal Control
- Consider internal and external factors that pose significant risks to the achievement of objectives
- Determine how proactively the organization manages innovations and changes such as those triggered by new technology or budgetary and political shifts



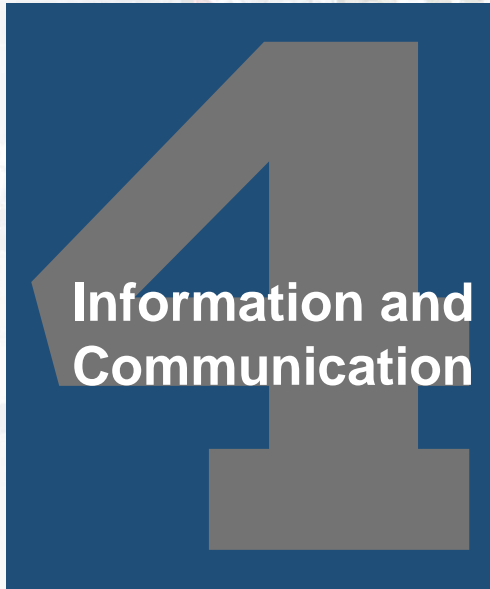


Policies and procedures which help ensure that management directives are carried out

- 10. Selects and develops control activities
- 11. Selects and develops general controls over technology
- 12. Deploys through policies and procedures

# Control Activities – Board Responsibility

- Provide oversight to management in the development and performance of control activities
- Make specific inquiries of management regarding the selection, development, and deployment of control activities in significant risk areas and remediation as necessary



Identification, capture and communication of data and pertinent business information in a form and timeframe that enables people to carry out their responsibilities

- 13. Uses relevant information
- 14. Communicates internally
- 15. Communicates externally

# Information & Communication – Board Responsibility

- Communicate direction and tone at the top
- Obtain, analyze, and discuss information relating to the organization's achievement of objectives
- Review disclosures to external stakeholders for completeness, relevance, and accuracy
- Allow for and address upward communication of issues



# COSO — Monitoring Activities



Helps ensure that Internal Controls continue to operate effectively and involves assessment by appropriate personnel

- 16. Conducts ongoing and/or separate evaluations
- 17. Evaluates and communicates deficiencies

# Monitoring Activities – Board Responsibility

- Assess and oversee:
  - Nature and scope of monitoring activities
  - Management overrides of controls
  - Management's evaluation and remediation of deficiencies
- Evaluate the integrity and ethical values of senior management
- Engage with management, internal and external auditors, and others to:
  - Evaluate the level of awareness of the organization's strategies, objectives, risks, and controls
  - Understand the implications associated with evolving mission, infrastructure, regulations, and other factors

**Are you asking the right questions about**





## FTA Triennial Review - Background

- FTA conducts a Comprehensive Review ("Triennial Review") of Recipients every three years
- WMATA's last review was in 2017
- Review scheduled for FY2020; WMATA notified October 31, 2019
- FTA will evaluate WMATA against the basic requirements for each of the 21 areas of review
- Pre-Site Visit review activities, including Recipient Information Request (RIR), began in October 2019 and continued through December 20, 2019
- Site Visit review activities were rescheduled for February 2021 due to the COVID Pandemic, and will now be conducted virtually to include two additional areas - Public Transportation Agency Safety Plans and the use of Coronavirus Aid, Relief, and Economic Security (CARES) Act and Emergency Relief funds
- To support the scheduled virtual review, an updated RIR (Supplemental RIR) is due to FTA on December 31, 2020



# FTA Triennial Review Focus Area

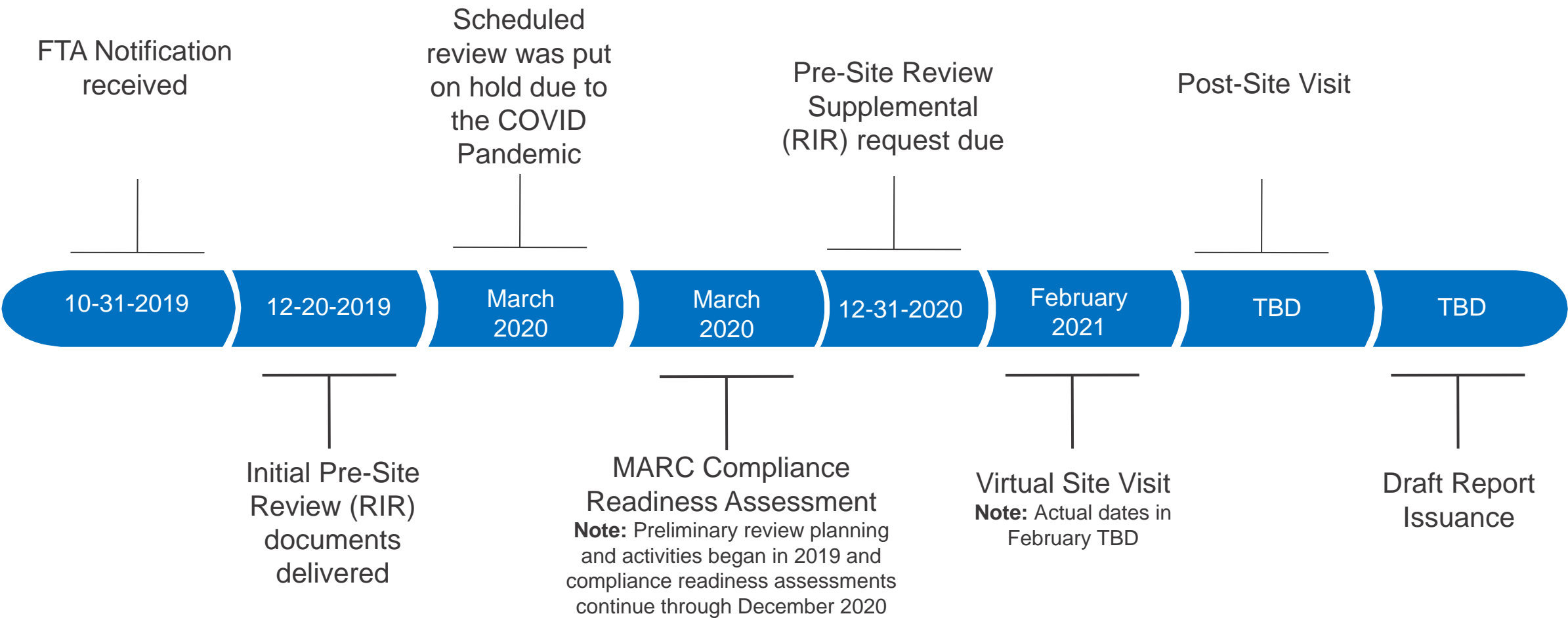
21 Focus Areas, with approximately 151 Basic Requirements and 471 Compliance Indicators

<b>Legal</b>	<b>Financial Management and Capacity</b>	<b>Technical Capacity – Award Management</b>	<b>Technical Capacity – Program Management &amp; Subrecipient Oversight</b>	<b>Technical Capacity – Project Management</b>	<b>Transit Asset Management</b>	<b>Satisfactory Continuing Control</b>
<b>Maintenance</b>	<b>Procurement</b>	<b>Disadvantaged Business Enterprise</b>	<b>Title VI</b>	<b>Americans with Disabilities (ADA) – General</b>	<b>Americans with Disabilities (ADA) – Complementary Paratransit</b>	<b>Equal Employment Opportunity</b>
<b>School Bus</b>	<b>Charter Bus</b>	<b>Drug-Free Workplace Act</b>	<b>Drug and Alcohol Program</b>	<b>Section 5307 Program Requirements</b>	<b>Section 5310 Program Requirements</b>	<b>Section 5311 Program Requirements</b>

# Internal Compliance Readiness Assessment - MARC

- Management Audits, Risk and Compliance (MARC) Annual Internal Audit Plan included a Compliance Readiness Assessment scheduled in advance of the FTA Review
- MARC is currently conducting facilitated management self-assessment reviews based on the FTA Triennial Review Guide (FY2020 Contractor's Manual)
- Internal Compliance Readiness efforts were initiated in March 2020 and will continue through year-end
- Additional reviews will be completed in high-risk areas - prior deficiencies, recent FTA focus, and potential for Enhanced Review Module (ERM)
- Compliance readiness efforts will include two additional areas - Public Transportation Agency Safety Plans and WMATA's use of Coronavirus Aid, Relief, and Economic Security (CARES) Act and Emergency Relief funds

# FY2020 Timeline



RIR – Recipient Information Request



# Questions?

## **Appendix A**

### **FTA Triennial Review - 21 Areas of Review and Purpose**

#### **1. Legal**

The recipient must promptly notify the FTA of legal matters, include clauses in its third party and subrecipient agreements, and additionally notify the U.S. DOT Office of Inspector General (OIG) of any instances relating to false claims under the False Claims Act or fraud. Recipients must comply with restrictions on lobbying requirements.

#### **2. Financial Management and Capacity**

The recipient must have financial policies and procedures; an organizational structure that defines, assigns and delegates fiduciary authority; and financial management systems in place to manage, match, and charge only allowable cost to the award. The recipient must conduct required Single Audits and provide financial oversight of subrecipients.

#### **3. Technical Capacity – Award Management**

The recipient must report progress of projects in awards to the Federal Transit Administration timely.

#### **4. Technical Capacity – Program Management and Subrecipient Oversight**

The recipient must follow the public involvement process for transportation plans; develop and submit a State Management/Program Management Plan to the FTA for approval; report in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) on subawards; and ensure subrecipients comply with the terms of the award.

#### **5. Technical Capacity – Project Management**

The recipient must be able to implement Federal Transit Administration (FTA)-funded projects in accordance with the award application, FTA Master Agreement, and all applicable laws and regulations, using sound management practices; and prepare force account plans.

#### **6. Transit Asset Management**

Recipients must comply with 49 CFR Part 625 to ensure public transportation providers develop and implement transit asset management (TAM) plans.

## **7. Satisfactory Continuing Control**

The recipient must ensure that Federal Transit Administration (FTA)-funded property will remain available to be used for its originally authorized purpose throughout its useful life until disposition.

## **8. Maintenance**

Recipients must keep federally funded vehicles, equipment, and facilities in good operating condition. Recipients must keep Americans with Disabilities Act (ADA) accessibility features on all vehicles, equipment, and facilities in good operating order.

## **9. Procurement**

The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, and conform to applicable Federal law and the standards identified in 2 CFR Part 200. State recipients can use the state's overall policies and procedures. When applied to Federal procurements, those policies and procedures must still be compliant with all Federal requirements as applied to non-state recipients. The flexibility afforded by 2 CFR Part 200 should not be misconstrued as absolving a state from Federal requirements. For example, FTA does not require each State DOT to have policies and procedures separate from the state education department.

## **10. Disadvantaged Business Enterprise**

Recipients must comply with 49 CFR Part 26 to ensure nondiscrimination in the award and administration of US Department of Transportation (US DOT)-assisted contracts. Recipients also must create a level playing field on which DBEs can compete fairly for US DOT-assisted contracts.

## **11. Title VI**

The recipient must ensure that no person shall, on the grounds of race, color, or national origin, be excluded from participating in, or be denied the benefits of, or be subject to discrimination under any program or activity receiving Federal financial assistance without regard to whether specific projects or services are federally funded. The recipient must ensure that all transit services and related benefits are distributed in an equitable manner.

## **12. Americans with Disabilities Act (ADA) – General**

Titles II and III of the Americans with Disabilities Act of 1990 provide that no entity shall discriminate against an individual with a disability in connection with the provision of transportation service. The law sets forth specific requirements for vehicle and facility accessibility and the provision of service, including complementary paratransit service.

## **13. Americans with Disabilities Act (ADA) – Complementary Paratransit**

Under 49 CFR 37.121(a), each public entity operating a fixed-route system shall provide paratransit or other special service to individuals with disabilities that is comparable to the level of service provided to individuals without disabilities who use the fixed route system. “Comparability” is determined by 49 CFR 37.123-37.133. Requirements for complementary paratransit do not apply to commuter bus, commuter rail, or intercity rail systems.

## **14. Equal Employment Opportunity (EEO)**

The recipient must ensure that no person in the United States shall on the grounds of race, color, religion, national origin, sex, age, or disability be excluded from participating in, or denied the benefits of, or be subject to discrimination in employment under any project, program, or activity receiving Federal financial assistance under the Federal transit laws.

## **15. School Bus**

Recipients are prohibited from providing school bus service in competition with private school bus operators unless the service qualifies and is approved by the Federal Transit Administration (FTA) Administrator under an allowable exemption. Federally funded equipment or facilities cannot be used to provide exclusive school bus service.

## **16. Charter Bus**

Recipients are prohibited from using FTA-funded equipment and facilities to provide charter service if a registered private charter operator expresses interest in providing the service. Recipients are allowed to operate community-based charter services pursuant to certain regulatory exceptions.

## **17. Drug-Free Workplace Act**

Recipients are required to maintain a drug free workplace for all award-related employees; report any convictions occurring in the workplace timely; and have an ongoing drug free awareness program.



## **18. Drug and Alcohol Program**

Recipients receiving Section 5307, 5309, 5311, or 5339 funds that have safety-sensitive employees must have a drug and alcohol testing program in place for such employees.

## **19. Section 5307 Program Requirements**

For fixed-route service supported with Section 5307 assistance, fares charged seniors, persons with disabilities or an individual presenting a Medicare card during off peak hours will not be more than one half the peak hour fares.

Recipients are expected to have a written, locally developed process for soliciting and considering public comment before raising a fare or carrying out a major transportation service reduction.

Recipients shall develop, publish, afford an opportunity for a public hearing on, and submit for approval, a program of projects (POP).

## **20. Section 5310 Program Requirements**

Recipients must expend funds on eligible projects that meet the specific needs of seniors and individuals with disabilities. Projects selected for funding under the Section 5310 program must be included in a locally developed, coordinated public transit-human services transportation plan. Recipients must approve all leases of Section 5310-funded vehicles and ensure that leases include required terms and conditions. Either the recipient or subrecipient must hold title to the lease vehicles.

## **21. Section 5311 Program Requirements**

Recipients must expend funds on eligible projects to support rural public transportation services and intercity bus transportation.