



Executive Committee

Information Item III-B

December 12, 2019

Annual Audit Awareness Training

Washington Metropolitan Area Transit Authority
Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:
202142

Resolution:
☐ Yes ☒ No

TITLE:

Annual Board Audit Awareness Training

PRESENTATION SUMMARY:

The 2019 audit awareness training discusses Board oversight responsibilities for internal controls, and internal and external audit activities.

Information on the scheduled Federal Transit Administration (FTA) Fiscal Year 2020 Triennial Review will also be provided.

PURPOSE:

To provide new and existing Board Members with training on internal controls and Board oversight responsibilities. The training session will fulfill the audit awareness training requirements outlined in Article III of the Bylaws of the Washington Metropolitan Area Transit Authority (WMATA) Board of Directors.

Provide the Executive Committee with information on the scheduled FTA Triennial Review.

DESCRIPTION:

Includes information on the scheduled Federal Transit Administration (FTA) Fiscal Year 2020 Triennial Review. **TFC Consulting, Inc.** will assist FTA with the scheduled review.

Key Highlights:

Training is designed to raise awareness of internal controls through a discussion of fundamental concepts and internal controls requirements 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 for Board responsibilities.

WMATA received notification on October 31, 2019 of the upcoming FTA Triennial Review scheduled for FY2020. The Triennial Review occurs every three years, and WMATA's last review was in FY2017.

Background and History:

It is the practice of the Washington Metropolitan Area Transit Authority 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 in compliance with statutory and administrative requirements and consistent with program objectives.

Discussion:

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.

Roles and Responsibilities

A strong internal control environment starts with an organization's tone at the top, which comes from its Board of Directors, executive 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 for internal controls.

Responsibility – Illustrated Using the Three Lines of Defense Model

Everyone at WMATA has some responsibility for internal control, but to help assure that essential duties are performed as intended, the Three Lines of Defense Model brings clarity to specific roles and responsibilities.



Board of Directors, executive and senior management have integral roles in the Model. Senior management is accountable for the selection, development, and evaluation of the system of internal control with oversight by the Board of Directors.

The **First Line** of defense lies with the business and process owners whose activities create and/or manage the risks that can facilitate WMATA's objectives or prevent them from being achieved.

The **Second Line** is put in place by the GM/CEO to support management in ensuring that risks and controls are effectively managed.

Independent audits and assurance services provided by Management Audits, Risk and Compliance (MARC), WMATA's Internal Audit function, serves as the **Third Line** of defense, and MARC collaborates with WMATA OIG's Office of Audits, which also provides independent assurance with a direct reporting relationship to the Board.

A properly structured Three Lines of Defense Model provides the Board of Directors increased opportunity to receive unbiased information about the organization's most significant risks and how those risks are managed to effectively provide oversight.

Guidelines for Oversight Responsibilities

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.

Standards and guidance provided by the COSO Internal Control Framework align with the roles and responsibilities discussed in the Three Lines of Defense Model. The Model provides a structure under the Framework detailing how roles and responsibilities are assigned.

Board Oversight Responsibilities for Internal Controls

- 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.
- 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.
- 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.

Audit Functions

Management Audits, Risk and Compliance (MARC) Internal Audit	WMATA OIG Office of Audits
• Reports to WMATA's General Manager/Chief Executive Officer	• Reports to WMATA's Board of Directors
• Independent from the processes, Offices and Departments it evaluates	• Independent from WMATA management
• Provides independent assurance to management, and reports information to the Board as applicable	• Provides independent assurance to the Board and external stakeholders (the public)
• Focuses on internal compliance and oversight with an emphasis on proactive management of risks to Metro's strategic, operational, financial, and compliance objectives to promote efficiency and effectiveness of operations	• Focuses on promoting economy, efficiency, as well as preventing and detecting fraud, w
• Acts as a liaison to external auditors and reviewers, and independently tracks and monitors WMATA's corrective actions, including actions in response to financial statement audits	• Oversees the independent audit of financial

Scheduled FTA Triennial Review - FY2020

WMATA received notification on October 31, 2019 of the upcoming FTA Triennial Review. The Triennial Review is one of the Federal Transit Administration's (FTA) 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.

In addition to the October 31, 2019 notification letter, FTA also provided WMATA with a Recipient Information Request (RIR) package due back to FTA on December 20, 2020. The Recipient Information Request (RIR) includes a listing of documents and a few questions to provide the FTA Reviewer information on WMATA's transit program.

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.

While not yet confirmed, based on ongoing discussions with the FTA, WMATA expects FTA's site visit to occur in March 2020.

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

In preparation for the upcoming FTA review, MARC will conduct a compliance readiness assessment starting in December 2019, with efforts to continue through FTA's onsite visit.

FUNDING IMPACT:

No funding Impact	
Project Manager:	Elizabeth Sullivan
Project Department/Office:	Management Audits, Risk and Compliance

TIMELINE:

Previous Actions	Annual Audit Awareness Training - Internal Control and Risk Management Principles December 13, 2018
Anticipated actions after presentation	N/A

RECOMMENDATION:

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Annual Audit Awareness Training

Board Oversight Responsibilities
Internal Controls, Internal and
External Audit Activities

Elizabeth Sullivan
December 12, 2019



Purpose

- Required audit awareness training
- Discuss Board oversight responsibilities for Internal Controls
- Report on upcoming FY2020 Federal Transit Administration (FTA) Comprehensive Review, also known as the Triennial Review

Internal Control — Definition and Key Concepts

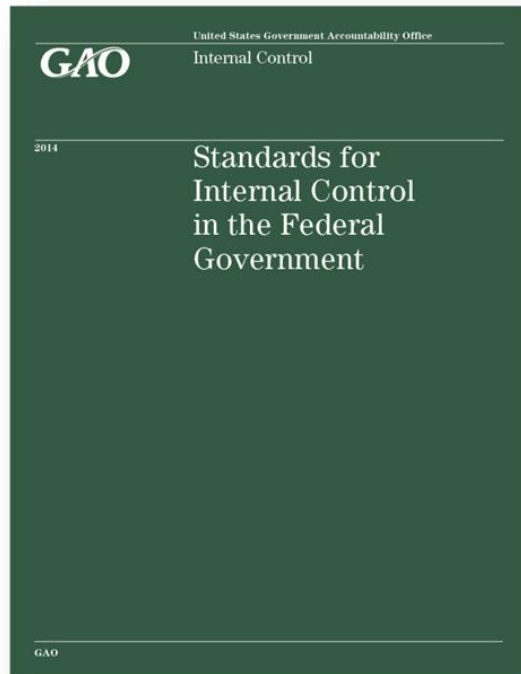
Internal control is a process, effected by an entity's Board of Directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance

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

Roles and Responsibilities – Illustrated



Guidelines for Oversight Responsibilities Standards and Framework



GAO's Green Book – Standards for Internal Control in the Federal Government



The COSO Internal Control Integrated Framework — accepted and recognized as the standard against which organizations measure Internal Control system

COSO — Control Environment



The 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

COSO — Risk Assessment



The 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

COSO — Control Activities



The 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

COSO — Information and Communication



Information and Communication

The 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 – 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

FY2020 FTA Triennial Review Overview

- The Triennial Review is mandated for each recipient of Section 5307 funds
- 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
- Assesses management practices and program implementation to ensure the FTA programs are in compliance with statutory and administrative requirements and consistent with program objectives
- Occurs every three years
- Scheduled for FY2020, WMATA notified October 31, 2019
- Last Triennial Review was FY2017

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

Appendix A

Triennial Review - 21 Areas of Review and Basic Requirements Examined

1. Legal

The recipient must promptly notify the Federal Transit Administration (FTA) of legal matters 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 authority; and financial management systems in place to match, manage, 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 Plan to the Federal Transit Administration (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 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. Where Federal Transit Administration (FTA) funds are used in procurements for services or supplies, or where FTA-funded facilities or assets are used in revenue contracts, FTA Circular 4220.1F applies. FTA funds, even operating assistance, can be segregated from local funds. FTA Circular 4220.1F does not apply to wholly locally-funded capital procurements.

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

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. (Note: Equal Employment Opportunity Commission’s regulation only identifies/recognizes religion and not creed as one of the protected groups.)

15. School Bus

Recipients are prohibited from providing exclusive school bus service unless the service qualified and is approved by the FTA Administrator under and allowable exemption. Federally funded equipment or facilities cannot be used to provide exclusive school bus service.

16. Charter Bus

Recipients are prohibited from using federally 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).

Recipients must annually certify that they are spending at least one percent of such funds for transit security projects or that such expenditures for security systems are not necessary.

Recipients must ensure that at least one percent of such funds are expended on associated transit enhancement projects.

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 leased vehicles.

21. Section 5311 Program Requirements

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