
Review of WMATA's Local Jurisdictional Subsidies

Final Report



Contract Audit No. 15-001
April 28, 2015

Washington Metropolitan Area Transit Authority
Office of Inspector General

M E M O R A N D U M



FINAL AUDIT REPORT WITH RECOMMENDATIONS

Contract Audit No. 15-001

SUBJECT: Review of WMATA's Local Jurisdictional Subsidies DATE: April 28, 2015

FROM: OIG – Helen Lew /S/

TO: GMGR – Jack Requa

This **Final Audit Report**, entitled *Review of WMATA's Local Jurisdictional Subsidies*, presents the results of our audit. The objective of the audit was to determine the adequacy of the Washington Metropolitan Area Transit Authority's (WMATA) controls to effectively and efficiently manage local jurisdictional subsidies. The scope of the audit period covered the length of the Capital Funding Agreement Fiscal Year (FY) 2011 through FY2016, hereafter referred to as CFA, with a specific focus on FY2014.

BACKGROUND

As noted in the CFA, WMATA's transit system has played a critical role in the growth and prosperity of the National Capital Region, particularly the District of Columbia and the surrounding counties in the State of Maryland and the Commonwealth of Virginia. Furthermore, WMATA's continued economic vitality is essential to the regional transportation system and the environmental quality, economic, educational and cultural life of the Washington region. To sustain this economic vitality, WMATA was built and is operated through the substantial investment of public funds by the Federal Government and by State and Local Governments in the region. However, according to the CFA, the lack of sufficient, secure, and reliable funding to rehabilitate and maintain the WMATA transit system and to replace rail cars, buses, and other key transit assets has created a transportation crisis. This crisis has threatened the continued health and vitality of the transit system and has jeopardized the public investment.

To address this issue, WMATA adopted five Interim Capital Contribution Agreements. All five Interim Capital Contribution Agreements were closed out by June 17, 2004. The next agreement, known as the Metro Matters Funding Agreement, was adopted October 21, 2004, and was in effect for six FYs covering the periods of FY2005 - FY2010. When that agreement expired at the end of FY2010 (June 30, 2010), the jurisdictions that funded WMATA at that time signed a follow-on agreement known as the CFA.

WMATA's Capital Improvement Program (CIP) is governed by the CFA. The CFA lays out the terms by which the program is to be funded and the general principles on how WMATA will manage, invest, and report on the CIP. WMATA is in the fifth year of the CFA, which covers the initial six-year CIP from FY2011 through FY2016. The CFA allows for annual adjustments to projects in the CIP to meet WMATA's ongoing and updated capital needs. The CIP is funded primarily through Federal, State and Local funding sources with long-term financing used strategically at the discretion of the Board of Directors (Board) and the funding jurisdictions.

WMATA develops its capital program of projects using a transparent, public process. The capital program is developed with public representatives of jurisdictions from WMATA's Board of Directors and Jurisdictional Coordinating Committee. The Jurisdictional Coordinating Committee is comprised of transportation staff from local jurisdictions, transportation departments, agencies, and other interested parties.

According to the CFA, section 5, *Annual Budget Reconciliation Process*, there is a "budget process" that takes place annually during the term of the CFA and is due to the Contributing Jurisdictions "on or before October 15th." This process touches on several critical reporting elements WMATA is required to provide to all Contributing Jurisdictions, all of which are reinforced verbatim in WMATA's *Grants Management Manual* (dated July 2014). This manual also identifies officials from the Office of Management Budget Services (OMBS) to be responsible for the preparation of this process.

Additionally, the CFA, section 5(i), part 2, outlines an audit provision that states "a Contributing Jurisdiction or its agent may perform an audit of WMATA's expenditures of funds and the sources of those funds provided by the CFA. However, the Contributing Jurisdiction will assume all financial responsibility for any costs associated with the performance of such audits."

The Office of Government Relations (GOVR) reports to the Chief of Staff (CHOS) and has responsibility for securing federal, state, and local funds to support WMATA's operating and capital budgets. The WMATA Chief Financial Officer (CFO) has overall responsibility for the financial integrity and administrative functions of WMATA. This includes the management of operating and capital budgets and administration of local jurisdictional funds. Both CHOS and the CFO report to WMATA's General Manager and Chief Executive Officer (GM/CEO)

The Office of the Treasurer (TRES), Office of Accounting (ACCT), and OMBS report to the CFO. TRES is the custodian of WMATA funds and is responsible for receiving the cash funds from the jurisdictions and notifying ACCT when they are received. ACCT records the cash funds received by TRES and enters them into the General Ledger. OMBS has responsibility for the preparation and administration of the annual operating budget and six-year capital budget. OMBS also is responsible for budget preparations to the Board and external communication with local Governments.

Contributing Jurisdictions

In FY2014, WMATA had seven Contributing Jurisdictions from various State and Local Governments; they are: (1) the State of Maryland, (2) the District of Columbia, (3) Arlington County, (4) Fairfax County, (5) the City of Alexandria, (6) the City of Fairfax, and (7) the City of Falls Church.

Prior Related Reports

The Office of Inspector General (OIG) identified three prior reports issued by OIG and the U.S. Department of Transportation (DOT) Federal Transit Administration (FTA) relating to grants/subsidy management. These reports are discussed below.

On December 23, 2008, OIG issued a Report entitled, *Review of Capital Projects: Internal Controls*. OIG found internal control weaknesses over grants management adversely affected WMATA's ability to provide assurances that federal funds were being used for their authorized purposes.

On November 19, 2012, OIG issued a report entitled, *Integrated Financial Organization (IFO) Projects*. OIG found WMATA used operating funds to pay for federal expenditures without the corresponding reimbursement from grants. This caused cash flow problems resulting in WMATA borrowing funds to supplement operating funds. The challenges WMATA faced in mapping project expenses with federal grants prevented WMATA from timely reimbursing the operating resources. WMATA borrowed at least \$129 million from other sources to replenish the operating fund because of mapping issues.

On January 24, 2014, Milligan & Company, LLC (MC) issued a Financial Management Oversight (FMO) review entitled, *Full Scope Systems Review of the Washington Metropolitan Area Transit Authority*, on behalf of DOT FTA. The FTA reported WMATA did not have adequate controls in place to ensure that Federal expenditures were incurred and charged to grants in accordance with approved budgets and were accurately reported.

On May 5, 2014, OIG issued a report entitled, *Review of WMATA's Labor Expenditures Charged to Federal Grant Awards*. OIG found unsupportable labor expenditure charges to capital projects and comingling of FTA grant awards due to employee work hours not being properly recorded and allocated in accordance with federal requirements.

AUDIT RESULTS

OIG found WMATA does not have adequate internal controls in place to effectively and efficiently manage local jurisdictional subsidies. OIG found inadequate oversight as it relates to some key established procedures in the CFA. Specifically, WMATA did not provide oversight to ensure the CFA Annual Budget Reconciliation Report had been completed. As a result, WMATA has not prepared or distributed a CFA Annual Budget Reconciliation Report to the Contributing Jurisdictions since FY2012.

OIG also found Contributing Jurisdictions have not fully utilized provisions established for them in the CFA. Specifically, Contributing Jurisdictions have not consistently exercised their rights to perform external audits of WMATA's expenditures of funds and the source of those funds. This matter is discussed in the "Other Matter of Concern" section of this report.

We provided a draft of this report to the GM/CEO for review and comment on March 19, 2015. We received a response from the CFO on April 10, 2015. Management agreed with our findings and recommendations and provided some comments. We did not revise our report, but management's comments are included in a footnote on page five of this report. Management also provided information on actions taken and planned to address OIG's recommendations. The complete text of Management's response is included as Attachment 2 to this report.

Finding 1 – WMATA has not prepared or distributed a CFA Annual Budget Reconciliation Report since FY2012.

WMATA has not prepared or distributed a CFA Annual Budget Reconciliation Report to a Contributing Jurisdictions since FY2012. In our review of the CFA reporting requirements issued to selected Contributing Jurisdictions (the District of Columbia, the State of Maryland, and Arlington County in the Commonwealth of Virginia), WMATA issued an Annual Budget Reconciliation Report for the first two years of the CFA (FY2011 and FY2012).

The first Annual Budget Reconciliation Report for FY2011 had a report date of June 30, 2011, and according to ACCT and OMBS personnel we interviewed, the Annual Budget Reconciliation Report was prepared based on a joint collaboration between ACCT and OMBS. ACCT personnel informed OIG that problems with the Integrated Financial Organization project, specifically PeopleSoft 9.1, limited their ability to assist OMBS in preparing the FY2012 Annual Budget Reconciliation Report.

According to ACCT personnel, this issue led to ACCT being phased out of the Annual Budget Reconciliation Report preparation process, leaving OMBS solely responsible for delivering the FY2012 Annual Budget Reconciliation Report to the Contributing Jurisdictions. The FY2012 Annual Budget Reconciliation Report was not issued with a formal report date. However, on April 10, 2013, an email with an attachment of the FY2012 Annual Budget Reconciliation Report was sent from WMATA's Office of Planning to the Contributing Jurisdictions.

Since that time, OIG found WMATA, specifically OMBS, has not prepared or delivered an Annual Budget Reconciliation Report to the Contributing Jurisdictions. This lack of required reporting was verified through interviews with personnel from selected Contributing Jurisdictions, ACCT, and OMBS.

On December 9, 2014, OIG personnel interviewed the Managing Director of OMBS to gain an understanding as to why an Annual Budget Reconciliation Report had not been completed since Fiscal Year 2012. According to the Managing Director, the former Chief Financial Officer had not assigned responsibility for the Annual

Budget Reconciliation Report to any office or department. OIG personnel also spoke to staff within TRES and ACCT. TRES personnel stated their office did not play a role in the reconciliation process and ACCT personnel stated no formal responsibility had been assigned to their department by the former CFO.¹

According to the WMATA Grants Management Manual, section 2-2-2, dated July 2014, OMBS is responsible for the preparation of the Annual Budget Reconciliation Report. Additionally, in the OMBS calendar year 14-16 Business Plan, the OMBS Managing Director is listed as the lead for completing the Annual Budget Reconciliation Report and delivering progress reports that are consistent with the CFA requirements.

Based on additional interviews with ACCT and OMBS personnel, the key reason WMATA has not provided an accurate and complete Annual Budget Reconciliation as outlined in the CFA is because WMATA is currently unable to map and trace Contributing Jurisdictional funds used for projects to the general ledger. The Managing Director of OMBS stated since Fiscal Year 2012, the same problem (tracking of funding source) that caused a gap in accounting for federal grant funds is happening with jurisdictional funds. In addition, he confirmed OMBS has not issued an Annual Budget Reconciliation Report since FY2012.

Accordingly, because no Annual Budget Reconciliation Report has been prepared since FY2012, Contributing Jurisdictions have not received an Annual Work Plan that includes the results of the Annual Budget Reconciliation Report as required in the CFA.

According to the CFA, sections 5(a) and 5(b), part of the annual budget process each year during the term of the CFA agreement, WMATA shall prepare a reconciliation of six items (see Attachment 1). The reconciliation must be completed on or before October 15, of each year. According to the CFA, the reconciliation should also determine whether there is a surplus of funds paid by the Contributing Jurisdictions. The CFA states the results of the reconciliation shall be used in the Annual Work Plan for the fiscal year currently in effect at the time the reconciliation is completed.

The lack of an effective and timely reconciliation process results in financial transactions that are not properly verified for accuracy and completeness. A lack of reconciliation could also affect funding decisions, ultimately hindering the determination of the value of surplus or restricted cash assets WMATA's jurisdictional partners can either reallocate to meet future WMATA capital needs, or utilize in their jurisdictions for other matters.

¹ In WMATA Management's response to this report, it was suggested that the last three sentences of the paragraph assigned to this footnote be modified to read as: "According to the Managing Director, WMATA financial management had not developed or implemented sufficiently detailed process and procedures that clearly defined roles and responsibilities necessary for the preparation of the Annual Budget Reconciliation Report."

Recommendations:

We recommend the GM/CEO:

- 1.1 Direct the CFO to review the current process followed by WMATA to reconcile funds received from Contributing Jurisdictions and make appropriate changes to ensure current and historic financial data are properly completed, supported, accurate, sourced and are in accordance with the CFA and grant management requirements.

OTHER MATTER OF CONCERN

The CFA provisions authorizing jurisdictions to perform an external audit have not been consistently exercised

During our audit, we identified a matter of concern regarding a provision outlined in the CFA for Contributing Jurisdictions that has not been exercised consistently. According to section 5(i)/2-a of the CFA, “a Contributing Jurisdiction or its agent may perform an audit of WMATA’s expenditures of funds and the sources of those funds provided by this Agreement for a period of up to three (3) fiscal years preceding a request for audit from the Contributing Jurisdiction provided that the request is received not later than one hundred eighty (180) days after the release of the WMATA audit for the preceding year and transmittal of the audit to the Contributing Jurisdiction with a notice of their audit rights under this Agreement. Any such audit shall be commence within sixty (60) days after the date of the request, and shall be completed (to the maximum extent practicable) within 180 days after the date commenced. The Contributing Jurisdictions will assume all financial responsibility for any costs associated with the performance of such audits.”

We found since the CFA’s inception on July 1, 2010, only one external audit and one external review were conducted by the Contributing Jurisdictions we reviewed. Additionally, we found that prior to the CFA, only on external audit was conducted by a Contributing Jurisdiction we reviewed.

OIG auditors interviewed representatives from the State of Maryland, Arlington County, Virginia, and the District of Columbia, about their use of the CFA provision relating to external audits. The state of Maryland conducted two external audits, one in March 2011 (under the current CFA) and one in March of 2007, (under the Metro Matters Agreement). Arlington County, Virginia conducted one external review in September of 2014. According to District of Columbia representatives, the District had not conducted an external audit under the current CFA.

We interviewed a representative of GOVR who confirmed that the audit conducted by the Maryland Department of Transportation (MDOT) in 2011, is the only external audit conducted by a Contributing Jurisdiction since the inception of the CFA on July 1, 2010.

Representatives for the State of Maryland and Arlington County did not provide a reason as to why more external audits/reviews had not been conducted under the current CFA. District of Columbia representatives informed OIG that no external audits were conducted because in their opinion, the need to conduct an external audit of WMATA had not presented itself.

OIG noted there are benefits to performing an external audit for a Contributing Jurisdiction. For example, Arlington County retained a contractor to perform an external review of WMATA regarding the construction of three "Super Stops." The findings of that external review showed, Arlington County had received an invoice in the amount of \$429,127 from WMATA on March 22, 2012, for additional estimated costs to complete one "Super Stop." This invoice from WMATA was sent to Arlington County in addition to the \$1,000,000 Arlington County had already advanced to WMATA. Arlington County disputed this invoice, indicating they had not received sufficient documentation for how the \$1,000,000 they previously provided was drawn down, and they were not informed on what made up the balance of the additional cost to complete the project. As a result of discussions between WMATA and Arlington County finance staff, WMATA issued a credit of \$419,118 to the March 22, 2012, invoice, leaving Arlington County with a net balance of \$10,009. Arlington County paid the remaining \$10,009 on September 2, 2014.

Another example of the benefits to performing an external audit can be seen in an external audit (covering the period of FY2007 – FY2009) issued by MDOT in March 2011, showing WMATA made an omission of statistical data from a calculation of a regional bus subsidy allocation. This error benefited Virginia counties at the expense of other jurisdictions. The State of Maryland overpaid WMATA by approximately \$98,352.

It is also beneficial for the results of external audits conducted by a Contributing Jurisdiction to be shared with other Contributing Jurisdictions. As an illustration, District of Columbia representatives were unaware of the results of an external audit (covering the period of FY2006) issued by MDOT in March 2007. The results of this audit found formula calculations for a regional bus subsidy were inaccurate, resulting in an over allocation of expenses to Maryland and DC and an under allocation of expenses to Virginia. As a result, WMATA corrected the error and credited \$738,065 to Maryland for the regional bus subsidy overpayment.

Failure to perform audits of jurisdictional subsidies may result in critical errors going undetected. An external audit could also ascertain whether a Jurisdiction is accurately charged based on the services provided and the scheduled allocated contribution for a Jurisdiction.

Recommendation

We recommend the GM/CEO:

2.1 Direct the Managing Director of GOVR to encourage Contributing Jurisdictions to exercise their rights according to the CFA when applicable to ensure compliance with the CFA and appropriate use of Jurisdictional Funds.

OBJECTIVES, SCOPE AND METHODOLOGY

The objective of the audit was to determine the adequacy of the Washington Metropolitan Area Transit Authority's (WMATA) controls to effectively and efficiently manage local jurisdictional subsidies. The scope of the audit period covered the length of the CFA (FY2011, July 1, 2010 through FY2016, June 30, 2016) with a specific focus on FY2014, July 1, 2013 through June 30, 2014. We selected three jurisdictional subsidies to review -- the District of Columbia, the State of Maryland, and Arlington County in the Commonwealth of Virginia.

Subsequent to the entrance conference, a review of the CFA was conducted, and an outline of the OIG audit was prepared. OIG efforts focused on identifying and reviewing doctrine² governing the management of funds WMATA receives from Contributing Jurisdictions and determining if controls set in place over Contributing Jurisdictions funds were effective and efficient. We reviewed reports³ prepared by WMATA that were submitted to Contributing Jurisdictions in order to assess if the information was compliant with reporting requirements in the CFA.

We looked for opportunities for process improvements that could lead to enhanced operations and program results. However, since no CFA Annual Budget Reconciliation Report had been prepared since FY2012, we were not able to verify the accuracy or completeness of the CFA Annual Budget Reconciliation Report.

Survey instruments were developed and utilized to ensure consistency in the gathering of information from WMATA personnel. Using those survey instruments, interviews were conducted with WMATA personnel in OMBS, ACCT, TRES, and GOVR regarding controls set in place to manage funds received from Contributing Jurisdictions. Specifically, we focused on controls over the Annual Budget Reconciliation Process as outlined in section 5(a) of the CFA (see attachment 1). The results were recorded and converted into auditor work papers.

Survey instruments were developed and utilized to ensure consistency in the gathering of information from representatives from the District of Columbia, the State of Maryland, and Arlington County. Using those survey instruments, interviews were conducted with these selected Contributing Jurisdictions to gain an

² OIG reviewed the following doctrine governing the management of funds WMATA receives from Contributing Jurisdictions: WMATA Standard Operating Procedures (SOP), the Capital Funding Agreement, Interim Capital Contribution Agreements, Metro Matter Agreements, Board Resolutions, and the FY2014 Triennial Review of WMATA.

³ CFA required reporting includes the Annual Work Plan, Quarterly Reports, and Annual Budget Reconciliation.

understanding of their role in the CFA. The results were recorded and converted into auditor work papers. Additionally, we reviewed reports Contributing Jurisdictions received from WMATA in order to assess if the information was compliant with reporting requirements in the CFA. We also received two external audit reports performed by the State of Maryland, and one external review performed by Arlington County in regards to WMATA's management of funds received from the Contributing Jurisdictions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. OIG held Exit Conferences on January 21, and February 26, 2015, to discuss the findings from the audit with management personnel and representatives from WMATA's Local Jurisdictions, respectively.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) by the affected Departments/Offices will be monitored and tracked through the OIG's Audit Accountability and Resolution Tracking System. Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth specific action items and target completion dates necessary to implement final corrective actions on the findings and recommendations contained in this report.

We appreciate the cooperation and assistance extended by your staff during the audit. Should you or your staff have any questions, please contact Andrew Clemmons, Assistant Inspector General for Audit, on (202) 962-1014, or me on (202) 962-2515.

Attachments

cc: GMGR - S. Pant
CFO - D. Anosike
CHOS - B. Richardson
COUN - M. Pohl

Attachment 1

According to the CFA, "as part of its annual budget process in each year during the term of this Agreement, WMATA shall prepare a reconciliation of:

1. The actual expenditures for projects and activities under the current Capital Improvement Program to date, and for that fiscal year, as compared to the planned expenditures for such projects and activities for the same fiscal year;
2. The actual Allocated Contribution of each of the Contributing Jurisdictions to date, as compared to the scheduled Allocated Contribution of each Contributing Jurisdiction for the current CIP;
3. The projected Allocated Contributions of each Contributing Jurisdiction for the current CIP;
4. The actual amount of Federal grant funds received for the Capital Improvement Program, as compared to the budgeted or projected amount of Federal grant funds for the same fiscal year;
5. The current forecast of expenditures; and
6. The estimated cost to complete the remaining projects and activities in the current Capital Improvement Program and expected sources of those funds.

On or before October 15, WMATA shall have performed the reconciliation described in the above section, including whether there is a surplus of funds paid in by the Contributing Jurisdictions. The results of this reconciliation shall be used in the Annual Work Plan for the fiscal year then currently in effect at the time that the reconciliation is completed..."

M E M O R A N D U M



SUBJECT: OIG Draft Report –
Contract Audit No. 15-001

DATE: April 10, 2015

FROM: CFO - Dennis Anosike

THRU: Interim GM/CEO – Jack Requa

TO: OIG – Helen Lew

The subject draft report – Contract Audit No. 15-001 "Review of WMATA's Local Jurisdictional Subsidies" was issued on March 19, 2015. Management has reviewed this report and provides the following comments:

Finding 1 – WMATA has not prepared or distributed a CFA Annual Budget Reconciliation Report since FY2012

Management agrees with this finding. However, we request that the last three sentences on page 4 of the draft report be modified to read as:

"...since FY2012. According to the Managing Director, WMATA financial management had not developed or implemented sufficiently detailed processes and procedures that clearly defined roles and responsibilities necessary for the preparation of the Annual Budget Reconciliation Report."

Recommendation 1.1 – Direct the CFO to review the current process followed by WMATA to reconcile funds received from Contributing Jurisdictions and make appropriate changes to ensure current and historic financial data are properly completed, supported, accurate, sourced and are in accordance with the CFA and grant management requirements.

Management accepts this recommendation. Since the time when this audit started and well before the discussions of findings during the exit conference, the CFO has taken the following key actions:

- Hired independent consultants to perform critical data analyses and assist staff with identifying and addressing integrity issues and anomalies involving incorrect project charging within PeopleSoft General Ledger and Project Costing;
- Redesigned and improved documentation of key business processes and procedures within budgets, grants management, and procurement;
- Increased staff resources focused on ensuring on-going compliance with federal regulations and jurisdictional obligations; and,

Washington
Metropolitan Area
Transit Authority

RECEIVED
APR 14 2015

- Continuing efforts toward reconciling and mapping multiple prior years' capital costs to appropriate funding sources (both federal and jurisdictional).

The work to properly align prior years' capital costs with appropriate funding sources is both time consuming and resource intensive. This effort is necessary to:

- Complete WMATA's Corrective Action Plan commitments in response to the FTA's FMO Report Findings;
- Enable aged, prior years' open grants to be fully drawn down and closed; and,
- Ensure the accuracy of WMATA's capital projects' financial records in order to complete the reconciliation of annual capital budgets, capital projects spending and jurisdictional funding which will, in turn, enable preparation of the outstanding Annual (jurisdictional funding) Budget Reconciliation Reports (FYs 2012 – 2014) as required by the Capital Funding Agreement.

CFO staff anticipates the outstanding Annual Budget Reconciliations for FYs 2012 through 2015 will be completed by December 31, 2015.

Recommendation 2.1 – Direct the Managing Director of GOVR to encourage Contributing Jurisdictions to exercise their rights according to the CFA when applicable to ensure compliance with the CFA and appropriate use of Jurisdictional Funds

Management accepts this recommendation. GOVR has initiated discussions with the jurisdictions on the preliminary audit findings including regular updates that have been and will continue to be provided to the JCC. Jurisdictions have been asked to monitor the progress on compliance with the reporting requirements and ask questions as and when they come up.

Thank you for the opportunity to review the draft report and provide comments for your consideration in preparing the final report.

cc: CHOS – B. Richardson
COUN – M. Pohl
GMGR – S. Pant

[REDACTED]