



441 G St. N.W.
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Accessible Version

July 15, 2015

The Honorable Susan Collins
Chairman
The Honorable Jack Reed
Ranking Member
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Mario Diaz-Balart
Chairman
The Honorable David Price
Ranking Member
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies
Committee on Appropriations
House of Representatives

Washington Metropolitan Area Transit Authority: Steps Taken to Address Financial Management and Safety Recommendations, but Financial Management Internal Controls Need Strengthening

The Washington Metropolitan Area Transit Authority's (WMATA) public rail transit and bus systems are vital to meeting the transportation needs of the national capital region, accounting for about 1.2-million passenger trips per weekday. Over the last decade, WMATA has also faced financial challenges maintaining the system's infrastructure, and several fatal accidents have occurred on WMATA's rail transit system. In June 2014, the Federal Transit Administration (FTA) provided WMATA with the results of FTA's financial management oversight review of WMATA's financial management systems.¹ FTA's review identified material weaknesses and significant deficiencies in internal control, concluded that WMATA did not maintain effective internal control over its compliance with FTA's financial management system requirements, and included 38 financial management recommendations that FTA requires WMATA to address.² As

¹Milligan & Company, LLC, *Financial Management Oversight Review: Full Scope Systems Review of the Washington Metropolitan Area Transit Authority*, Performed for U.S. Department of Transportation, Federal Transit Administration, and prepared by Milligan & Company, LLC for Samlin Milligan JV (June 10, 2014).

²For the purpose of FTA's financial management oversight reviews, a material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over a grantee's financial management system that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

a result of FTA's review, among other things, FTA restricted WMATA's ability to draw down federal grant funds without prior FTA approval until further notice.³ Furthermore, in recent years the National Transportation Safety Board (NTSB) has made a number of recommendations to WMATA aimed at improving the safety of its rail transit system and, as of the time of our review, was actively investigating a fatal accident that occurred on WMATA's rail transit system.⁴

The House committee report accompanying the Departments of Transportation, Housing and Urban Development, and Related Agencies Appropriations Bill for fiscal year 2015⁵ included a provision for us to review WMATA's progress responding to FTA's and NTSB's recent recommendations to WMATA. This report discusses (1) WMATA's progress addressing the financial management recommendations contained in FTA's June 2014 oversight report, (2) WMATA's progress addressing the safety recommendations NTSB has made to WMATA since 2008, and (3) to what extent WMATA's financial management controls incorporate the risk assessment and monitoring components of internal control. On June 12, 2015, we provided your staff with preliminary briefing slides on the results of our review; this report formally transmits the final updated briefing slides (see enc. 1).

To examine WMATA's progress addressing FTA's and NTSB's recommendations, we reviewed the recommendations FTA and NTSB made to WMATA, as well as related documents, such as WMATA's status reports and WMATA's correspondence with FTA and NTSB regarding these recommendations. With regard to NTSB's recommendations, we limited our review to NTSB's recommendations to WMATA from January 2008 through June 2015. We selected 2008 as our base year because at the time of our review, NTSB's oldest open recommendation to WMATA was from 2008. We did not independently assess the validity of FTA's and NTSB's recommendations or whether WMATA's corrective actions appropriately addressed their findings. To assess the extent to which WMATA's financial management controls incorporate the risk assessment and monitoring components of internal control, we evaluated the nature of the internal control deficiencies FTA identified using the internal control framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).⁶ We focused on examining the risk assessment and monitoring components of internal control because our analysis of FTA's findings indicated that the majority of FTA's recommendations to

³The restrictions FTA placed on WMATA limit its authority to draw down federal funds under its existing grants without prior written approval, as is the general practice for FTA grantees.

⁴On January 12, 2015, a WMATA train stopped in a tunnel after encountering heavy smoke. The smoke caused one passenger fatality and required medical transportation for 86 passengers. As part of its investigation into the accident, NTSB held a fact-finding hearing in June 2015 and expects to publish its final report on the accident in 2016. For more information on NTSB's investigation into this accident, see http://www.nts.gov/investigations/Pages/2015_WMATA_Washington_DC.aspx.

⁵H. Rpt. No. 113-464, at 56 (2014).

⁶Internal control involves the plans, methods, policies, and procedures that an entity uses to fulfill its mission, strategic plan, goals, and objectives. The five components of internal control are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. We used the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) internal control guidance as criteria for WMATA's internal control. COSO guidance has been adopted as the generally accepted framework for internal control and is recognized as the standard against which organizations measure the effectiveness of their systems of internal control. See Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control - Integrated Framework* (New York: American Institute of Certified Public Accountants, 2013).

WMATA were related to those internal control components. We also interviewed officials from WMATA, FTA, NTSB, and the Tri-State Oversight Committee.⁷

We conducted this performance audit from March 2015 to July 2015 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.

In summary,

- According to FTA's assessment, WMATA has generally been responsive to FTA's 38 financial management recommendations. Specifically, according to our review of FTA documents, WMATA has taken positive steps toward addressing 35 of the 38 recommendations it is required to address and is on track to address the remaining three recommendations by June 30, 2015. However, FTA does not plan to close its recommendations to WMATA until it can verify that WMATA's corrective actions have been implemented and are functioning—a process FTA officials estimate will start in 2016.
- Since 2008, NTSB has issued 29 safety recommendations to WMATA that stem from four accidents. Three of these accidents involved WMATA while the fourth involved another transit agency.⁸ While GAO's review of NTSB documents shows that WMATA has implemented most of NTSB's recommendations (21), 8 recommendations were open as of June 2015. These 8 open safety recommendations—which were issued to WMATA from January 2008 through June 2015—require, among other things, that WMATA replace its original, 1000-series railcars; install onboard event recorders in the lead car of each train-set; and install technology that will automatically alert wayside workers of approaching trains. NTSB officials told us that WMATA has been generally timely in implementing its recommendations, and WMATA officials told us they are taking steps toward addressing the remaining recommendations. Even so, according to WMATA officials, the agency likely will not close the remaining recommendations until 2018 because the recommendations require significant research, time, and funding to address. For example, according to WMATA officials, replacing the 1000-series railcars will cost the agency almost \$700 million over 10 years.
- We identified instances where some of the deficiencies noted in FTA's report were previously reported. For example, in 2008, both FTA, during a previous financial management review, and WMATA's Office of Inspector General reported deficiencies related to WMATA's controls over federal expenditures. Specifically, these expenditures were not appropriately accounted for or reported in accordance with federal grant agreements. In some instances the findings continued as part of the material weaknesses or significant deficiencies reported in FTA's June 2014 report. Although WMATA's

⁷The Tri-State Oversight Committee was created by state-level agencies in Maryland, Virginia, and the District of Columbia to jointly oversee rail safety and security at WMATA.

⁸The accidents involving WMATA include a May 2006 accident at the Dupont Circle Station in which a WMATA train struck and killed a WMATA employee; a June 2009 accident near the Fort Totten Station in which two WMATA trains collided resulting in nine fatalities and 52 injuries; and a January 2015 accident that led to one passenger fatality and 86 injuries after a WMATA train encountered heavy smoke in a tunnel near the L'Enfant Plaza Station. The non-WMATA accident occurred in May 2008; in that case, NTSB issued two recommendations to all transit agencies in the United States.

management has taken corrective actions, we found that WMATA (1) has not established a policy and related procedures for conducting periodic assessments of its financial management-related risks and (2) is not currently monitoring the achievement of its financial management internal control objectives in a manner to achieve maximum results. COSO's internal control guidance provides a generally accepted framework for internal control and specifies that an entity should assess the risk of an internal or external event's occurring that would prevent it from achieving its objectives and that an entity's monitoring activities can better achieve maximum results when these activities evaluate all components of internal control. WMATA officials noted a number of factors for why no policy existed for conducting financial management-related risk assessments, including a lack of prioritization by the board of directors. In addition, based on our discussions with WMATA officials and review of the documentation provided, we found that while WMATA has established an Office of Internal Compliance to monitor WMATA's adherence to financial management controls and related policies and procedures, this office is not designed to cover the five components of internal control. The deficiencies we identified could contribute to FTA's findings resurfacing in the future or hamper WMATA's ability to prevent, or detect and correct, on a timely basis a material misstatement in its internal and external reporting.

Conclusions

WMATA has taken steps toward addressing FTA's June 2014 financial management oversight recommendations and, while it has addressed a number of safety recommendations issued by NTSB, certain actions, such as replacing the 1000-series railcars, will require substantial time and funding. However, for an internal control system to be effective, all five components of internal control must be effectively designed, implemented, and operating together in an integrated manner. Therefore, in the case of FTA's findings and recommendations, strengthening WMATA's risk assessment and monitoring components of internal control could better position WMATA toward having a more effective internal control system. Left unaddressed, WMATA increases the risk that the deficiencies identified in FTA's June 2014 oversight report will continue to exist or resurface in the future and that a material misstatement of WMATA's internal and external reporting will not be prevented, or detected and corrected, on a timely basis.

Recommendations for Executive Action

To strengthen the Washington Metropolitan Area Transit Authority's (WMATA) risk assessment and monitoring components of internal control, we recommend that WMATA's board of directors, working with the General Manager and Chief Executive Officer of WMATA, direct the appropriate WMATA officials to take the following two actions:

- develop and implement a policy and related procedures for assessing WMATA's financial management-related risks, and
- develop and implement a policy and related written procedures for the Office of Internal Compliance to monitor the design and operating effectiveness of the five components of internal control related to financial management.

Agency Comments

We provided WMATA, FTA, and NTSB with a draft of this report for their review and comment. WMATA provided written comments, which are reprinted in enclosure II. In its comments, WMATA concurred with our recommendations and stated it planned to take steps to strengthen

its risk assessment and monitoring components of internal control. Specifically, WMATA stated that it will present to its Board of Directors a financial risk management policy, develop and implement related procedures for its Office of Internal Compliance, and conduct a comprehensive assessment of its financial management-related risks. WMATA stated that it expects to complete these actions by June 30, 2016.

NTSB provided technical comments that we incorporated where appropriate. FTA did not have comments on the report.

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We are sending copies of this report to the appropriate congressional committees, the Secretary of Transportation, the Chairman of the National Transportation Safety Board, and the Interim General Manager and Chief Executive Officer of the Washington Metropolitan Area Transit Authority. This report will also be available at no charge on the GAO website <http://www.gao.gov>.

Should you or your staff have questions concerning this report, please contact me at (202) 512-2834 or goldsteinm@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made major contributions to this report were Ray Sendejas, Assistant Director; John Sawyer, Assistant Director; Melissa Bodeau; Wesley A. Johnson; Hannah Laufe; Chari Nash-Cannaday; Kelly Rubin; and Melissa Swearingen.



Mark Goldstein
Director, Physical Infrastructure Issues

Enclosures

Enclosure II: Comments from the Washington Metropolitan Area Transit Authority



June 29, 2015

By email

Ray Sendejas
Assistant Director, Physical Infrastructure Issues
U.S. Government Accountability Office
441 G St, NW
Washington, DC 20548

Dear Mr. Sendejas,

Thank you for allowing the Washington Metropolitan Area Transit Authority (WMATA) an opportunity to provide a formal response to the Government Accountability Office (GAO) report to Congress entitled: *Washington Metropolitan Area Transit Authority: Steps Taken to Address Financial Management and Safety Recommendations, but Financial Management Internal Controls Need Strengthening* (GAO-15-640R).

First, we want to commend the GAO for the thorough and highly professional manner in which the performance audit was conducted. We appreciate the diligent effort by GAO staff representing both the Physical Infrastructure and Financial Management and Assurance Teams, and are pleased to have worked closely with them over several months on this effort.

In general, WMATA concurs with the findings and conclusions presented in the report, and plans to implement GAO's two recommendations. We would, however, like to clarify that WMATA's delay in developing a formal financial management risk policy is not related to Board prioritization. Our corrective action plans for the recommendations follow.

GAO Recommendation:

1. Develop and implement a policy and related procedures for assessing WMATA's financial management-related risks

Corrective action plan:

- a. WMATA will present to the Board of Directors, as part of the October Board cycle, a financial risk management policy. The policy will establish and maintain guidelines for assessing WMATA's financial management-related risks. Related procedures will also be developed and implemented.

Washington Metropolitan Area Transit Authority

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*By Metrorail:
Judiciary Square-Red Line
Gallery Place-Chinatown
Red, Green and
Yellow Lines*

*A District of Columbia
Maryland and Virginia
Transit Partnership*

Ray Sendejas
Page 2

- b. A comprehensive assessment of financial management-related risks will be completed in alignment with WMATA's overarching framework for enterprise risk management.

Target completion – 6/30/2016

GAO Recommendation:

- 2. Develop and implement a policy and related written procedures for the Office of Internal Compliance to monitor the design and operating effectiveness of the five components of internal control related to financial management.

Corrective Action Plan:

- a. WMATA will present to the Board of Directors, as part of the October Board cycle, a financial management control policy. The purpose of the policy will be to establish an effective system of internal control over financial management operations for the Authority in compliance with the requirements and standards set forth by the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control - Integrated Framework. Adoption of the COSO framework for the management of financial controls will facilitate WMATA's ability to monitor the design and effectiveness of the five components of internal control related to financial management across the organization. Related procedures for the Office of Internal Compliance will also be developed and implemented.

Target completion – 6/30/2016

In closing, WMATA looks forward to continuing our productive working relationship with the GAO as it monitors our implementation of its recommendations. These recommendations will serve to guide the improvements that are necessary to reestablish and maintain an effective internal control system, and support WMATA's financial stability objectives.

Sincerely,



Jack Requa
Interim General Manager and
Chief Executive Office

Page 1:

Washington Metropolitan Area Transit Authority

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By email

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Page 2:

Ray Sendejas
Page 2

- b. A comprehensive assessment of financial management-related risks will be completed in alignment with WMATA's overarching framework for enterprise risk management

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Signed by
Jack Requa
Interim General Manager and Chief Executive Office