

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 17-1-17KE

February 2018



DISTRICT OF COLUMBIA DEPARTMENT OF TRANSPORTATION:

REPORT ON THE EXAMINATION OF THE CAPITAL FUNDING AGREEMENT BETWEEN THE WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY AND THE DISTRICT OF COLUMBIA



Guiding Principles

*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation
* Accountability * Professionalism * Objectivity and Independence * Communication * Collaboration
* Diversity * Measurement * Continuous Improvement*

Mission

Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

Vision

Our vision is to be a world-class Office of the Inspector General that is customer-focused, and sets the standard for oversight excellence!

Core Values

Excellence * Integrity * Respect * Creativity * Ownership
* Transparency * Empowerment * Courage * Passion
* Leadership





OIG

Why the OIG Did This Examination

The District of Columbia is one of several jurisdictions¹ that financially support the Washington Metropolitan Area Transit Authority's (WMATA) Capital Improvement Program (CIP). On July 1, 2010, the District entered into a 6-year Capital Funding Agreement (CFA) to make financial contributions from July 1, 2010, through June 30, 2016. The District's ceiling amount under the CFA was \$397.3 million for this 6-year period.

The OIG assessed WMATA's compliance with certain financial and reporting terms of the CFA. The CFA permits periodic audits for up to three (3) fiscal years. As such, this examination covered July 1, 2013, through June 30, 2016. The OIG identified two findings related to the compliance with the CFA.

What the OIG Recommends

The OIG made eight recommendations to improve or correct compliance with the CFA. Specifically, WMATA should decrease the District's allocated contribution by \$8.1 million in the next fiscal year to return overpayments to the District; implement internal controls to ensure allocated contributions are correct and supported; and submit quarterly reports to jurisdictions that have complete and accurate information.

DISTRICT DEPARTMENT OF TRANSPORTATION:

Report on the Examination of the Capital Funding Agreement Between the Washington Metropolitan Area Transit Authority and the District Of Columbia

What the OIG Found

The District of Columbia paid \$222.6 million in the examination period to fund the CIP, but the District's allocated share should have been \$216.4 million. We found that WMATA did not properly calculate the District's allocated share of the CIP in accordance with the CFA, and the miscalculation resulted in an overpayment of \$6.2 million.

We also found a miscalculation in the FY 2014 operating subsidy that resulted in an additional \$1.9 million in District overpayments to WMATA.

Although the District's share was miscalculated, we found that WMATA expended funds received from the contributing jurisdictions in accordance with the approved CIP and modifications. The capital expenditures under the CFA during the audit period totaled \$602.8 million.

We also found that WMATA provided accurate information about spending on capital projects and contributions in its quarterly reporting to contributing jurisdictions. However, WMATA did not consistently prepare the reports each quarter. The reports also did not contain all required elements specified in the CFA.

¹ The following jurisdictions contribute to the CIP: Maryland acting by and through the Washington Suburban Transit District and the Department of Transportation; the District of Columbia; Arlington County, Virginia; Fairfax County, Virginia; the City of Alexandria, Virginia; the City of Fairfax, Virginia; and the City of Falls Church, Virginia.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



February 16, 2018

The Honorable Jack Evans
Chair
Washington Metropolitan Area Transit Authority
Board of Directors
1350 Pennsylvania Avenue, N.W., Suite 106
Washington, D.C. 20004

Jeff Marootian
Director
District Department of Transportation
55 M Street, N.W., Suite 400
Washington, D.C. 20003

Paul J. Wiedefeld
General Manager
Washington Metropolitan Area Transit Authority
600 5th Street, N.W.
Washington, D.C. 20001

Dear Chairperson Evans, General Manager Wiedefeld, and Acting Director Marootian:

Enclosed are the results of the Office of the Inspector General's (OIG) examination of the Capital Funding Agreement (CFA) between the Washington Metropolitan Area Transit Authority (WMATA) and the District of Columbia (OIG No. 17-1-17KE). The examination was included in the D.C. *OIG Fiscal Year 2017 Audit and Inspection Plan*.

The District Department of Transportation (DDOT) is the District of Columbia agency for which the OIG performed the examination and WMATA is the party responsible for compliance with the CFA subject matter under review. Our examination objectives determined whether WMATA: properly calculated the District of Columbia's allocated share of the Capital Improvement Program (CIP); spent the District of Columbia's contributions in accordance with an approved CIP and approved modifications; and reported accurate information as to spending on capital projects and contributions during the period from July 1, 2013, to June 30, 2016, in accordance with the CFA. We conducted this examination in accordance with generally accepted government auditing standards.

We provided WMATA our draft report on January 8, 2018, and received its response on February 2, 2018. WMATA concurred with six of the eight recommendations regarding policies and procedures, and controls over its CFA processes and documentation. Actions planned by WMATA are responsive and meet the intent of the Recommendations 3, 4, 5, 6, 7, and 8. We consider these recommendations resolved and open pending evidence of stated actions.

However, for Recommendations 1 and 2 regarding miscalculations of the District of Columbia's allocated share of the CIP, WMATA declined to respond pending the completion of its review and discussion with WMATA's Board of Directors and all of WMATA's funding


Chairperson Evans, General Manager Wiedefeld, and
Director Marootian
Examination of WMATA CFA
OIG Project No. 17-1-17KE
February 16, 2018
Page 2 of 3

jurisdictions. Therefore, we consider these recommendations unresolved and open.
WMATA's response to the draft report is included in its entirety at Appendix F.

Based on WMATA's responses, we re-examined our facts and conclusions and determined that the report is fairly presented. However, without a materiality threshold stated in the CFA, we changed the wording used in the draft report from "material misstatement" to "miscalculations" of the District of Columbia's allocated share.

We appreciate the cooperation and courtesies extended to our staff during this examination. If you have any questions, please contact me or Benjamin Huddle, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,


Daniel W. Lucas
Inspector General

DWL/rjb

Enclosure

cc: See Distribution List

DISTRIBUTION:

The Honorable Muriel Bowser , Mayor, District of Columbia, Attention: Betsy Cavendish (via email)
Mr. Rashad M. Young, City Administrator, District of Columbia (via email)
Mr. Barry Kreiswirth, General Counsel, City Administrator, District of Columbia (via email)
Mr. Brian Kenner, Deputy Mayor for Planning and Economic Development, District of Columbia (via email)
The Honorable Phil Mendelson , Chairman, Council of the District of Columbia (via email)
The Honorable Mary M. Cheh, Chairperson, Committee on Transportation and the Environment Council of the District of Columbia (via email)
The Honorable Brandon T. Todd, Chairperson, Committee on Government Operations, Council of the District of Columbia (via email)
Mr. John Falcicchio, Chief of Staff, Executive Office of the Mayor (via email)
Ms. Anu Rangappa, Director of Communications, Office of Communications, Executive Office of the Mayor (via email)
Ms. Jennifer Reed, The Office of Budget and Performance Management (via email)
Ms. Nyasha Smith, Secretary to the Council (via email)
The Honorable Karl Racine, Attorney General for the District of Columbia (via email)
Mr. Jeffrey DeWitt, Chief Financial Officer, Office of the Chief Financial Officer (via email)
Mr. Timothy Barry, Executive Director, Office of Integrity and Oversight, Office of the Chief Financial Officer (via email)
The Honorable Kathy Patterson, D.C. Auditor, Office of the D.C. Auditor, Attention: Cathy Patten (via email)
Mr. Jed Ross, Director and Chief Risk Officer, Office of Risk Management (via email)
Ms. Berri Davis, Director, FMA, GAO, (via email)
Mr. Dennis Anosike, Chief Financial Officer, Washington Metropolitan Area Transit Authority
Mr. Geoffrey Cherrington, Inspector General, Washington Metropolitan Area Transit Authority (via email)

TABLE OF CONTENTS

INDEPENDENT ACCOUNTANT’S REPORT	1
Washington Metropolitan Area Transit Authority’s Compliance with Specified Requirements of the Capital Funding Agreement for the Period from July 1, 2013 to June 30, 2016.....	3
Schedule of Supplementary Information.....	7
APPENDIX.....	9
Appendix A: Background, Objectives, Scope, and Methodology	9
Appendix B: WMATA Fiscal Year 2014 Budget, Summary of State/Local Operating Requirements	11
Appendix C: Allocated Contributions and Expenditures by Jurisdiction	12
Appendix D: Schedule of Findings and WMATA’s Response.....	13
Appendix E: Other Matter	18
Appendix F: WMATA’s Response to the Draft Report.....	20

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



Independent Accountant's Report

To the Chair, Washington Metropolitan Area Transit Authority (WMATA) Board of Directors; General Manager, WMATA; and Director, District Department of Transportation (DDOT), Government of the District of Columbia:

We have examined whether WMATA: (1) properly calculated the District of Columbia's allocated share of the Capital Improvement Program (CIP); (2) spent the District of Columbia's contributions in accordance with an approved CIP and approved modifications; and (3) reported accurate information as to spending on capital projects and contributions during the period July 1, 2013, to June 30, 2016, in accordance with the Capital Funding Agreement (CFA). WMATA is responsible for compliance with the specified requirements of the CFA. Our responsibility is to express an opinion on WMATA's compliance with those requirements based on our examination.

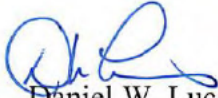
The OIG conducted this examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether WMATA complied, in all material respects, with the specified requirements. An examination involves performing procedures to obtain evidence about whether WMATA complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination disclosed that WMATA did not properly calculate the District of Columbia's allocated share of the CIP, nor did it consistently report its quarterly operations in accordance with the CFA.

In our opinion, except for the miscalculation of the District of Columbia's allocated share of the CIP that resulted in an overpayment and not issuing certain quarterly reports as described in the preceding paragraph, WMATA complied with the terms and conditions specified above and carried out its responsibilities in accordance with the CFA, in all material respects.

WMATA's responses (Appendix F) to the findings identified in our examination are summarized in the accompanying Schedule of Findings (Appendix D). WMATA's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with specified requirements of the CFA for the 3-years ending June 30, 2016. Accordingly, this report is not suitable for any other purpose.


Daniel W. Lucas
Inspector General

February 16, 2018

Washington Metropolitan Area Transit Authority’s Compliance with Specified Requirements of the Capital Funding Agreement for the Period from July 1, 2013 to June 30, 2016

I. WMATA did not properly calculate the District of Columbia’s allocated share of the Capital Improvement Plan (CIP) according to the Capital Funding Agreement (CFA).

The OIG recalculated the allocated contributions billed to the District of Columbia for the examination period (see Table 1 below). WMATA determined this rate based on its FY 2014 approved operations budget (see Appendix B). In addition, WMATA derived a blended allocation rate (see Table 2 on the following page) based on its FY 2014 Annual Work Plan. OIG also recalculated that rate.

Table 1. Fiscal Year 2014 Allocated Operating Percent - District of Columbia
(See Note 1 in the Schedule of Supplementary Information.)

Operating Subsidy	Allocation Percentage ² a	Recalculated by OIG b	Percent Over/(Under) Allocated = a – b
Metrobus	42.17%	42.27%	(0.10%)
Metrorail	33.25%	33.27%	(0.02%)
MetroAccess (Paratransit)	25.43%	23.21%	2.22%
System/Other ³	37.71%	37.77%	(0.06%)

Source: WMATA’s *Fiscal Year 2014 Approved Budget*, Summary of State/Local Operating Requirements (see Appendix B) and OIG recalculation.

² Capital projects related to bus, rail, and access (paratransit) are allocated based on WMATA’s *Fiscal Year 2014 Approved Budget*, Table 3.7, page III-13, available at https://wmata.com/about/records/public_docs/upload/FY2014_Budget_Book_031115.pdf (last visited Aug. 31, 2017). WMATA’s calculations were presented in the budget to 3 significant digits but, in practice, at least 4 significant digits are used to allocate the contributions.

³ The “System/Other” category is used when a project cannot be classified as one of these modes: Rail, Bus, or Paratransit. The stated percentage is an average of the Bus and Rail subsidies per CFA Sec. 3(b)(4).

Washington Metropolitan Area Transit Authority's Compliance with Specified Requirements of the Capital Funding Agreement for the Period from July 1, 2013 to June 30, 2016

Table 2. Blended Allocation Rate - District of Columbia (See Note 2 in the Schedule of Supplementary Information.)

Operating Subsidy	Allocation Percentage c	Recalculated by OIG d	Percent Over Allocated = c - d
Blended Allocation Rate ⁴	37.17%	36.13%	1.04%

Source: WMATA (blended allocation rate is calculated but it is not published) and OIG recalculation.

WMATA applied the District of Columbia's blended allocation rate to determine the District's share (see Table 3 below). The table also shows the OIG's recalculation of the District of Columbia's allocated share.

Table 3. Allocated Contributions - District of Columbia (See Note 3 in the Schedule of Supplementary Information.) Dollars in Millions.

Funding Period/ Type	Total Requirement		District Billed and Received f = e x c	Recalculated		Over Paid = f - g
	All Jurisdictions e	Blended Allocation Rate c		Blended Allocation Rate d	Recalculated Billed Amount g = e x d	
FY 2014	\$195.9	37.17%	\$72.8	36.13%	\$70.8	\$2.0
FY 2015	202.4	37.17%	75.2	36.13%	73.1	2.1
FY 2016	182.9	37.17%	68.0	36.13%	66.1	1.9
Rail/Power Upgrades	<u>17.7</u> ⁵	37.17%	<u>6.6</u>	36.13%	<u>6.4</u>	<u>0.2</u>
Total	\$598.9		\$222.6		\$216.4	\$6.2

Source: WMATA's *Capital Funding Agreement Final Reconciliation Report, Fiscal Years 2011-2016* (by fiscal year version prepared by WMATA for this examination (see Appendix C)) and OIG recalculation.

⁴ The allocation percentages by mode of transportation (including the "System/Other" mode) are blended to achieve a single allocation rate for simplicity. This single blended allocation rate is a mix of the bus, rail, paratransit, and system/other funding part of the FY 2014 budgeted capital projects and is integral to WMATA's subsidy allocation.

⁵ Amount shown differs from the *Capital Funding Agreement Final Reconciliation Report* due to timing of Virginia's approval and payment of the FY 2016 Rail and Power Upgrades. The OIG adjusted the amount to include Virginia's portion for completeness.

Washington Metropolitan Area Transit Authority’s Compliance with Specified Requirements of the Capital Funding Agreement for the Period from July 1, 2013 to June 30, 2016

II. WMATA spent the District of Columbia’s contributions in accordance with the approved CIP and approved modifications.

Table 4 below shows expended cash for all jurisdictions, which includes local matching funds to federal formula grants and system performance funds expended in the examination period. The OIG examined these amounts.

Table 4. Expended Cash – All Jurisdictions (See Note 4 in the Schedule of Supplementary Information.) Dollars in Millions.

Fiscal Year	Expended Cash h	Examined by OIG i	Questioned Costs = h - i
FY 2014	\$203.6	\$203.6	-
FY 2015	173.3	173.3	-
FY 2016	222.4	222.4	-
Rail/Power Upgrades	<u>3.5</u>	<u>3.5</u>	<u>-</u>
Total	\$602.8	\$602.8	-

Source: *Capital Funding Agreement Final Reconciliation Report* by FY (see Appendix C) and OIG examination.

Washington Metropolitan Area Transit Authority’s Compliance with Specified Requirements of the Capital Funding Agreement for the Period from July 1, 2013 to June 30, 2016

III. WMATA’s quarterly reports to contributing jurisdictions provided accurate information about spending on capital projects and contributions but were not consistently prepared or complete.

WMATA prepares a report on the results of the preceding quarter for the contributing jurisdictions, but we found no report provided (NRP) for some quarters in the examination period.

Table 5. Quarterly Results Reporting (See Note 5 in the Schedule of Supplementary Information.)

Funding Period	Quarter 1	Quarter 2	Quarter 3	Quarter 4
FY 2014	NRP	NRP	NRP	NRP
FY 2015	NRP	NRP	NRP	NRP
FY 2016 ⁶	NRP	Issued	Issued	Issued

Source: OIG Summary.

⁶ The quarterly reports issued in FY 2016 lacked two required elements: the status of all cash and debt sources relative to budget and the Annual Work Plan; and comparison of the billed amount to amounts actually paid out for the preceding quarter. Thus, WMATA issued incomplete reports. Appendix D, Finding 2 provides more information about quarterly reporting.

Schedule of Supplementary Information

Note 1: Allocated Operating Percent

WMATA recalculates the jurisdictional allocated contribution every 3 years based on the approved operating budget allocation for the first year in the period (see Appendix B). Thus, the OIG applied the FY 2014 operations allocation formulas to the examination period, July 1, 2013, to June 30, 2016, as shown in Note 2.

WMATA allocates system performance and formula match funding among the jurisdictions based on the operating subsidy. There are three separate operating subsidy allocations, one each for bus, rail, and paratransit. WMATA Board of Directors resolutions define the calculations of the operational subsidies. WMATA applies an average of the rail and bus allocations, per the CFA, for capital project expenditures that it cannot allocate to bus, rail, or paratransit. This report refers to the fourth allocation type as “System/Other.”

WMATA used incorrect inputs or could not substantiate how the methodology it used conformed to certain Board resolutions (see Appendix D, Finding 1). Combined, they resulted in differences between WMATA’s calculated operating allocations by mode of transportation and the figures that OIG recalculated.

Note 2: Blended Allocation Rate

WMATA applied the four allocations (described in Note 1) to determine an overall blended allocation rate for each jurisdiction. We found that WMATA did not maintain documentation to support its calculation of the blended allocation rate of 37.17 percent (see Appendix D, Finding 1). Table 6 below shows the OIG’s recalculation using WMATA’s current methodology, which is consistent with the CFA.

Table 6. OIG Recalculated Blended Allocation Rate – District of Columbia

Mode	FY 2014 Board Approved CIP (000’s) j	Proportion of Budget by Mode k = j ÷ (∑ j)	Allocation Percentage Recalculated by OIG b	Blended Allocation Rate Recalculated by OIG = k x b
Metrobus	\$242,469.0	25.29%	42.27%	10.69%
Metrorail	561,474.0	58.57%	33.27%	19.49%
MetroAccess (Paratransit)	9,649.0	1.01%	23.21%	0.23%
System/Other	<u>144,993.0</u>	<u>15.13%</u>	37.77%	<u>5.71%</u>
Total (∑)	\$958,585.0	100.00%		36.13%

Source: OIG calculation.

Schedule of Supplementary Information

Note 3: Allocated Contributions

State and local funds contribute to Metro's capital budget according to the subsidy calculations stated in the approved Annual Work Plan. Each contributing jurisdiction pays WMATA the allocated contribution on a quarterly basis.

WMATA calculated the District of Columbia's contribution for FYs 2014 through 2016 to be \$222.6 million. The OIG recalculated the contribution and determined it should have been \$216.4 million, which means the District of Columbia overpaid by \$6.2 million (see Appendix D, Finding 1).

Note 4: Expended Cash

The OIG examined the expended cash reported in WMATA's *Capital Funding Agreement Final Reconciliation Report, Fiscal Years 2011-2016* which was prepared on a cash expenditure basis and does not include any accrued expenditures or open obligations related to active projects during the examination period.

Several federal programs and the noted jurisdictions fund the CIP. Federal formula grants require local matching funds, which are generally 20 percent of project cost. Federal allocated revenues are based on WMATA's determination of grant requirements and may be subject to change during the grant closeout process by the grantor.

Jurisdictions contribute to the system performance funding to advance additional capital investments beyond those funded by federal grants and matching funds. The CFA allows for annual adjustments to projects in the 6-year CIP to meet on-going and updated capital needs.

Note 5: Quarterly Reporting

Per CFA Sec. 4(b)(5), WMATA shall, at the conclusion of every quarter, prepare a report on the result of the preceding quarter for submittal to the contributing jurisdictions. Such report shall contain:

- A review of the capital projects' scope, cost, and schedule of changes;
- Status of contracts necessary for the implementation of capital projects;
- Status of year-to-date expenditures relative to the budget and Annual Work Plan;
- Status of all cash and debt sources relative to budget and the Annual Work Plan;
- Updated cash flow projections and program cash requirements; and
- Comparison of the billed amount to the amounts actually paid out for the preceding quarter.

WMATA did not provide quarterly reports in FYs 2014, 2015 and the 1st quarter of FY 2016, mostly because WMATA was unable to track and report on use of funds by jurisdiction (see Appendix D, Finding 2).

APPENDIX A: Background, Objectives, Scope, and Methodology

BACKGROUND:

The interstate compact—comprised of the District of Columbia, Maryland, and five jurisdictions in Virginia—entered into a multi-year Capital Funding Agreement (CFA) with the Washington Metropolitan Area Transit Authority (WMATA) in July 2010. The CFA provides financial contributions from each jurisdiction to support WMATA’s FY 2011-2016 Capital Improvement Program (CIP). The total estimated cost of the CIP was approximately \$5 billion, which includes substantial federal contributions and other jurisdictional contributions under separate agreements.

Under the CFA, the District of Columbia agreed to provide its allocated contribution to the CIP from July 1, 2010, through June 30, 2016, with a ceiling amount of \$397,314,000. Effective June 30, 2016, participating jurisdictions extended the CFA for an additional year. The District of Columbia approved (on June 30, 2016) an amendment to the CFA to provide a 1-year extension from July 1, 2016, to June 30, 2017. The amendment increased funding to WMATA by \$92,100,000, setting the new District of Columbia ceiling amount at \$489,414,000.

The WMATA Board of Directors uses formulas to distribute operational costs among the jurisdictions. The formulas apply separately to each asset type: rail, bus, and paratransit. In addition, WMATA applies the average of the rail and bus formulas to project expenditures it cannot allocate to a specific mode of transportation. WMATA recalculates the jurisdictional allocated contribution every 3 years based on the approved operating budget allocation for the first year in the period.

The Annual Work Plan identifies CIP projects and activities in the capital budget for a specific fiscal year and the estimated annual cash required from contributing jurisdictions. The WMATA Board of Directors approves the Annual Work Plan and CIP prior to the start of the fiscal year. To provide accountability to the jurisdictions, the agreement also states that WMATA shall provide quarterly reports within forty five (45) days following the conclusion of each quarter.

In accordance with Section 5(i)(2)(A) of the CFA, “a [c]ontributing [j]urisdiction or its agent may perform an audit of WMATA’s expenditures of funds and the sources of those funds provided by [the CFA] for a period of up to three (3) fiscal years preceding a request for audit....”

OBJECTIVES:

We conducted our examination from March 2017 to November 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

APPENDIX A: Background, Objectives, Scope, and Methodology

Our objectives were to determine whether: (1) WMATA properly calculated the District of Columbia's allocated share of the CIP according to the CFA; (2) the District of Columbia's contributions were spent in accordance with an approved CIP and approved modifications; and (3) WMATA submitted quarterly reports to contributing jurisdictions with accurate information about spending on capital projects and contributions.

SCOPE:

The examination focused on the allocated percentages for the contributing jurisdictions within the compact area, the uses of capital funds, and the sources of those funds provided by the District of Columbia for Fiscal Years 2014 - 2016 (July 1, 2013, to June 30, 2016) under the CFA.

METHODOLOGY:

To confirm our understanding, we conducted interviews with WMATA staff members and appropriate officials involved in verifying the accuracy of capital project expenditures and funds allocated in accordance with the CFA. We interviewed DDOT officials to gain an understanding of their role in the CFA. We reviewed the CFA and applicable laws and regulations to assess whether WMATA complied with requirements in all material respects.

To assess the reliability of WMATA's data, we: (1) performed testing for obvious errors in accuracy and completeness; (2) reviewed related documentation, including third-party audit reports on data verification; and (3) interviewed agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of our examination.

We recalculated the District of Columbia allocated contribution; verified contributions billed to the District of Columbia and payments; tested capital transactions' compliance with CFA and certain internal control activities; and verified the accuracy and completeness of reported information.

APPENDIX B: WMATA Fiscal Year 2014 Budget, Summary of State/Local Operating Requirements

Total	District of Columbia	Montgomery County	Prince George's County	City of Alexandria	Arlington County	City of Fairfax	Fairfax County	City of Falls Church	
Metrobus Operating Subsidy									
Regional Bus Subsidy	\$334,911,897	\$140,795,757	\$48,414,918	\$58,147,333	\$15,070,783	\$25,913,262	\$595,418	\$44,733,365	\$1,241,062
Non-Regional Bus Subsidy	\$74,064,627	\$31,654,276	\$9,446,136	\$22,401,907	\$2,005,491	\$1,172,393	\$0	\$7,384,424	\$0
Subtotal	\$408,976,524	\$172,450,033	\$57,861,055	\$80,549,240	\$17,076,274	\$27,085,655	\$595,418	\$52,117,788	\$1,241,062
<i>Percent of Total</i>	100%	42.2%	14.1%	19.7%	4.2%	6.6%	0.1%	12.7%	0.3%
Metrorail Operating Subsidy									
Base Allocation	\$210,209,477	\$71,535,422	\$38,841,418	\$34,319,211	\$9,918,665	\$20,545,015	\$679,055	\$33,736,294	\$634,396
Max Fare Subsidy	\$6,899,906	\$661,753	\$3,062,217	\$1,403,777	\$282,158	\$179,667	\$57,871	\$1,215,514	\$36,950
Subtotal	\$217,109,383	\$72,197,175	\$41,903,635	\$35,722,987	\$10,200,823	\$20,724,682	\$736,926	\$34,951,808	\$671,346
<i>Percent of Total</i>	100%	33.3%	19.3%	16.5%	4.7%	9.5%	0.3%	16.1%	0.3%
MetroAccess Subsidy									
	\$106,383,741	\$27,053,896	\$22,012,993	\$41,660,271	\$991,660	\$925,047	\$289,621	\$13,351,129	\$99,126
<i>Percent of Total</i>	100%	25.4%	20.7%	39.2%	0.9%	0.9%	0.3%	12.5%	0.1%
Net Operating Subsidy	\$732,469,648	\$271,701,104	\$121,777,682	\$157,932,498	\$28,268,756	\$48,735,384	\$1,621,965	\$100,420,725	\$2,011,534
	100%	37.1% ⁷	16.6%	21.6%	3.9%	6.7%	0.2%	13.7%	0.3%

Source: Excerpt from WMATA's FY 2014 Approved Budget, Table 3.7, page III-13, available at https://wmata.com/about/records/public_docs/upload/FY2014_Budget_Book_031115.pdf (last visited 8/31/2017).

⁷ This is the percentage of the FY 2014 operating subsidy attributable to the District. This is not the blended allocation rate described in Table 2 or Note 2 of this report.

APPENDIX C: Allocated Formula Match and System Performance Contributions by Jurisdiction (Dollars in Millions)

FY 2014 Allocated Contributions by Jurisdiction					
Jurisdiction	Original CFA	Billed to Jurisdiction	Received from Jurisdiction	Expended Cash	(Over)/ Under Expended
District of Columbia	\$66.0	\$72.8	\$72.8	\$75.6	\$(2.8)
Montgomery County	30.6	33.4	33.4	34.7	(1.3)
Prince Georges County	33.7	34.7	34.7	36.0	(1.4)
City of Alexandria	7.2	8.8	8.8	9.1	(0.4)
Arlington County	13.5	16.4	16.4	17.0	(0.6)
City of Fairfax	0.5	0.5	0.5	0.5	-
Fairfax County	24.0	28.7	28.7	29.9	(1.1)
City of Falls Church	0.5	0.6	0.6	0.7	-
Formula Match & System Performance	\$176.1	\$195.9	\$195.9	\$203.6	\$(7.7)
FY 2015 Allocated Contributions by Jurisdiction					
Jurisdiction	Original CFA	Billed to Jurisdiction	Received from Jurisdiction	Expended Cash	(Over)/ Under Expended
District of Columbia	\$67.3	\$75.2	\$75.2	\$64.4	\$10.8
Montgomery County	31.2	34.5	34.5	29.5	5.0
Prince Georges County	34.4	35.8	35.8	30.7	5.2
City of Alexandria	7.4	9.1	9.1	7.8	1.3
Arlington County	13.8	16.9	16.9	14.5	2.4
City of Fairfax	0.5	0.5	0.5	0.5	0.1
Fairfax County	24.5	29.7	29.7	25.4	4.3
City of Falls Church	0.5	0.6	0.6	0.6	0.1
Formula Match & System Performance	\$179.5	\$202.4	\$202.4	\$173.3	\$29.1
FY 2016 Allocated Contributions by Jurisdiction					
Jurisdiction	Original CFA	Billed to Jurisdiction	Received from Jurisdiction	Expended Cash	(Over)/ Under Expended
District of Columbia	\$68.7	\$68.0	\$68.0	\$82.7	\$(14.7)
Montgomery County	31.9	31.2	31.2	37.9	(6.7)
Prince Georges County	35.1	32.4	32.4	39.4	(7.0)
City of Alexandria	7.5	8.2	8.2	10.0	(1.8)
Arlington County	14.1	15.3	15.3	18.6	(3.3)
City of Fairfax	0.5	0.5	0.5	0.6	(0.1)
Fairfax County	24.9	26.8	26.8	32.6	(5.8)
City of Falls Church	0.5	0.6	0.6	0.7	(0.1)
Formula Match & System Performance	\$183.1	\$182.9	\$182.9	\$222.4	\$(39.6)
FY 2016 Rail and Power Upgrades by Jurisdiction					
Jurisdiction	Original CFA	Billed to Jurisdiction	Received from Jurisdiction	Expended Cash	(Over)/ Under Expended
District of Columbia	-	6.6	6.6	1.3	5.3
State of Maryland	-	6.2	6.2	1.2	5.0
Commonwealth of Virginia ⁸	-	5.0	5.0	1.0	4.0
Formula Match & System Performance	\$-	\$17.7	\$17.7	\$3.5	\$14.3
Total District of Columbia FY 2014-2016	202.0	222.6	222.6	224.0	(1.4)
Total FY 2014-2016	\$538.7	\$598.9	\$598.9	\$602.8	\$(3.9)

Source: Based on WMATA's *Capital Funding Agreement Final Reconciliation Report, Fiscal Years 2011-2016*,⁹ Table 2: FY 2011-2016 Allocated Contributions by Jurisdiction. Totals do not sum due to rounding.

⁸ Virginia's contribution was excluded in the original reconciliation due to timing. The OIG added it for completeness.

⁹ This referenced WMATA report presented a 6-year summary of contributions and expenditures. For the purpose of this examination, WMATA expanded this 6-year summary by FY. An excerpt, related to our examination objectives, is shown above (Appendix C).

APPENDIX D: Schedule of Findings and WMATA's Response

Finding 1. There were errors in calculating the District of Columbia's allocated share.

Condition

WMATA did not properly calculate the District of Columbia's allocated share of the CIP according to the CFA. The OIG recalculated the allocation formula from the 2014 approved Operating Budget and the approved Annual Work Plan and found a 1.04 percent discrepancy between the recalculated blended allocation percentage and WMATA's calculation. WMATA's blended allocation percentage used to determine the District of Columbia's allocated share was 37.17 percent. We determined the correct percentage to be 36.13 percent for FYs 2014 through 2016.

Criteria

CFA, Sec. 3, Capital Improvement Program Financial Plan, subsection (b) Formula for Contributing Jurisdiction Funding states:

The Allocated Contributions of the Contributing Jurisdictions for the Capital Improvement Program will be based on the Board-adopted FY 2010 Operations Allocation Formulas applied to each project as shown in the FY 2011-2016 CIP applied to each element of the Capital Improvement Program as follows:

- (1) The Rail allocation formula will apply to Rail projects and debt issued for Rail projects.
- (2) The Bus allocation formula will apply to Bus projects and debt issued for Bus projects.
- (3) The Paratransit formula will apply to Paratransit projects and debt issued for Paratransit projects.
- (4) An average of the Rail and Bus allocation formulas will apply to General financing expenditures and for project expenditures that cannot be allocated to Rail, Bus, or Paratransit.
- (5) Dedicated Funding funded projects — Will be divided equally among the District of Columbia, State of Maryland, and Commonwealth of Virginia subject to the provisions of the various state laws establishing dedicated funding sources to match federal funds made available under the Passenger Rail Investment and Improvement Act of 2008.

The allocation formulas will be recalculated every three (3) years to reflect the then-current approved Operating Budget allocation and applied prospectively to the three subsequent Annual Work Plans.

Additionally, WMATA Board of Directors Resolutions #95-14, #98-27, #98-32, and #99-31 specify operation allocation formulas to calculate subsidies by rail, bus, or paratransit.

APPENDIX D: Schedule of Findings and WMATA's Response

Cause

WMATA was unable to provide the OIG with supporting documentation or procedures to show how it calculated the FY 2014 blended allocation rate. WMATA did provide the current methodology/practice used to calculate the blended rate and attempted to recreate the FY 2014 calculation to agree with the previously applied 37.17 percent. However, WMATA was unable to produce the same calculation.

Additional factors that contributed to the condition:

- The incorrect land area from 2010 Census data was used to calculate population density for the District of Columbia;
- WMATA's methodology used to calculate the paratransit subsidy allocation is not consistent with Board Resolution #99-31 because the required data to perform the calculations is unavailable, according to management.
 - The alternate methodology used was based on the number of passengers (i.e., customers, personal care assistants, and companions) using the service rather than the number of trips. WMATA declined to explain why the number of passengers is a better approximation of direct and overhead costs than the number of trips. The OIG concluded that trips are a better approximation given the available data because multiple passengers on the same trip do not increase costs;
- WMATA's methodology used to calculate the Regional Metrobus subsidy allocation is not consistent with Board Resolution #98-27. WMATA erroneously used regional, non-regional, and reimbursable route ridership data to calculate the regional bus subsidy when it should have only used regional data; and
- WMATA did not maintain certain source documentation supporting passenger revenue and costs used to calculate Metrobus allocations.

Effect

The OIG determined the correct allocation should have been 36.13 percent. As a result, the District of Columbia's CIP contribution was \$6.2 million higher than it should have been for FYs 2014-2016.

We also noted an incorrect calculation of the District of Columbia's allocated share for WMATA's Fiscal Year 2014 operating subsidy (see Appendix B). Although an evaluation of the operating subsidy was not part of our examination objectives, we had to recalculate the FY 2014 operating allocation formulas to determine the capital allocation for the 3-year examination period. We determined that the net effect of this additional discrepancy on the District of Columbia's operational share was the District paid an extra \$1.9 million in FY 2014 for operations (see Appendix E). The \$1.9 million is in addition to the \$6.2 million in overpayments to the capital allocation, resulting in \$8.1 million in total overpayments by the District of Columbia.

APPENDIX D: Schedule of Findings and WMATA's Response

Recommendations

We recommend that the General Manager, WMATA:

1. Reduce the District of Columbia's allocated contribution in the next fiscal year by \$8.1 million.
2. Identify and correct current allocation practices that do not comply with the CFA (e.g., land area, regional bus subsidy, and paratransit).
3. Develop and implement written policies and procedures over the process for determining the CIP allocated contribution.
4. Develop and implement a formal review and approval process to ensure the calculations for the CIP allocated contribution are performed accurately, consistently, and in compliance with the CFA. This process should identify and quantify specific drivers that affect changes to the allocation.
5. Develop and implement policies for retaining documents, including documentation of calculations and the original source data used in the allocation process.
6. Develop and implement spreadsheet controls, such as change, version, access, and backup, to protect against loss and improper or accidental changes to spreadsheets that have vital information.

Finding 2. WMATA did not submit quarterly reports during most of the examination period and reports submitted contained deficiencies.

Condition

WMATA prepared and submitted quarterly reports for the 2nd, 3rd, and 4th quarters of FY 2016 in compliance with the CFA, but did not submit quarterly reports for FYs 2014, 2015, and the first quarter of 2016.

We reviewed quarterly reports submitted to the District of Columbia for completeness and noted the reports did not contain two of six elements required by CFA Sec. 4(b)(5):¹⁰ the "status of year-to-date expenditures relative to budget and the Annual Work Plan;" and "comparison of the billed amount to amounts actually paid out for the preceding quarter."

To verify the reports' accuracy, we compared the 4th quarter report for FY 2016 that WMATA Office of Management and Budget (OMBS) prepared to WMATA's Approved Budget CIP supporting documentation. We noted one error between the Approved Budget CIP and the amount reported in the quarterly report. The budgeted CIP total of \$1,207.0 million did not agree with the Approved Budgeted CIP of \$1,165.2 million, resulting in a net variance of \$41.8 million.

¹⁰ The six specific elements required for quarterly reports are listed in the Criteria section on the next page of this report.

APPENDIX D: Schedule of Findings and WMATA's Response

Criteria

Section 4(b)(5) of the Capital Funding Agreement (CFA) states:

At the conclusion of every quarter, WMATA shall prepare a report on the result of the preceding quarter for submittal to the Contributing Jurisdictions no later than forty five (45) days following the close of the quarter. Such report shall contain a review of capital project scope, cost, and schedule changes; the status of contracts necessary for the implementation of capital projects; the status of year-to-date expenditures relative to budget and the Annual Work Plan; the status of all cash and debt sources relative to budget and the Annual Work Plan; updated project cash flow projections and program cash requirements; and a comparison of the billed amount to amounts actually paid out for the preceding quarter. Such report shall be provided in a quarterly financial report to the WMATA Board.

Cause

WMATA officials said they did not provide quarterly reports in FY 2014, 2015 and the 1st quarter of FY 2016 because:

- WMATA was unable to track and report on use of funds by jurisdiction.
- The PeopleSoft system upgrade caused issues with billing and allocating to funding sources. Data generated from that system was unreliable; therefore, management decided not to provide reports to the jurisdictions.
- The Quarterly Jurisdictional Report must be sent to the jurisdictions 45 days after the end of the previous quarter. To comply with this deadline, OMBS uses estimated data instead of actual costs generated from accounting.

Effect

Without quarterly reports, the District of Columbia could not monitor CIP performance or determine whether WMATA spent the District of Columbia's allocated share of contributions according to the CFA.

Recommendations

We recommend that the General Manager, WMATA:

7. Establish policy and procedures to ensure the accuracy of data reported in the quarterly report before submitting the report to the District of Columbia and jurisdictional partners.
8. Ensure quarterly financial reports contain all required reporting elements per the CFA.

APPENDIX D: Schedule of Findings and WMATA's Response

WMATA's Response and Office of the Inspector General's Comments

We provided WMATA our draft report on January 8, 2018, and received its response on February 2, 2018. WMATA concurred with six of the eight recommendations regarding policies and procedures, and controls over its CFA processes and documentation. Actions planned by WMATA are responsive and meet the intent of the Recommendations 3, 4, 5, 6, 7, and 8. We consider these recommendations resolved and open pending evidence of stated actions.

However, for Recommendations 1 and 2 regarding miscalculations of the District of Columbia's allocated share of the CIP, WMATA declined to respond pending the completion of its review and discussion with WMATA's Board of Directors and all of WMATA's funding jurisdictions. WMATA's response to the draft report is included in its entirety at Appendix F.

The OIG used the methodology for calculating the allocated share of the CIP represented by WMATA to be applicable during the examination period. We note that WMATA had ample time during the audit period to provide all applicable data and methodologies, and represented that all documents available were provided. As such we request that WMATA reconsider its position and reconcile the District of Columbia's overpayment as specified in the CFA.

Actions Required

We request that WMATA provide us within 30 days of the date of this final report, the action plan to resolve Recommendations 1 and 2.

APPENDIX E: Other Matter

We also noted the improper calculation of the District of Columbia’s allocated share for WMATA’s Fiscal Year 2014 operating subsidy (see Appendix B). Although an evaluation of the operating subsidy was not part of our examination objectives, we had to recalculate the FY 2014 operating allocation formulas to determine the capital allocation for the 3-year examination period.

Operational percentages determine operating subsidy allocations for each jurisdiction. WMATA recalculates the percentages each year, so the recalculated percentages from FY 2014 only apply to the spending for that specific year. We did not examine FYs 2015 or 2016, so there may be discrepancies in those FYs.

We found discrepancies between the recalculated Metrobus, Metrorail, and MetroAccess operational allocation percentages and WMATA’s published allocation percentages. For FY 2014, WMATA’s published net operating share for the District of Columbia was 37.09 percent and we determined the correct percentage to be 36.83 percent – a difference of 0.26 percent.

The net effect of these discrepancies on the District of Columbia’s operational allocated share, related to the FY 2014 Operating Budget, is an overstatement that resulted in the District paying an extra \$1.9 million (see Table 7 below).

Table 7. Allocated Operating Contributions - District of Columbia

Subsidy Type	FY 2014 Operating Requirement All Jurisdictions l	District's Allocated Operating Subsidy m	Allocation Percentage Recalculated by OIG b	OIG Recalculated District's Allocation Subsidy n = l x b	(Under)/Over Allocated Amount = m - n
Metrobus	\$408,976,524	\$172,450,033	42.27%	\$172,874,377	(\$424,344)
Metrorail	217,109,383	72,197,175	33.27%	72,232,292	(35,117)
MetroAccess	<u>106,383,741</u>	<u>27,053,896</u>	23.21%	<u>24,691,666</u>	<u>2,362,230</u>
Total	\$732,469,648	\$271,701,104		\$269,798,335	\$1,902,769

Source: WMATA’s Fiscal Year 2014 Approved Budget, Summary of State/Local Operating Requirements (see Appendix B) and OIG recalculation.

The calculation of the operating allocations are defined in WMATA Board of Directors Resolutions #95-14, #98-27, #98-32, and #99-31.

We determined that the following factors contributed to the condition (all previously discussed in Finding 1):

- WMATA used the incorrect land area from 2010 Census data to calculate population density for the District of Columbia;

APPENDIX E: Other Matter

- WMATA’s methodology used to calculate the Paratransit subsidy allocation is not consistent with Board Resolution #99-31 because the required data to perform the calculations is unavailable according to management.
 - The alternate methodology used was based on the number of passengers (i.e., customers, personal care assistants, and companions) using the service rather than the number of trips. WMATA declined to provide an explanation as to why the number of passengers is a better approximation of direct and overhead costs than the number of trips. The OIG concluded that trips are a better approximation given the available data because multiple passengers on the same trip do not increase costs;
- WMATA’s methodology to calculate the Regional Metrobus subsidy allocation is not consistent with Board Resolution #98-27. WMATA erroneously used regional, non-regional, and reimbursable route ridership data to calculate the regional bus subsidy when it should have only used regional data; and
- WMATA did not maintain certain source documents to support passenger revenue and costs used to calculate Metrobus allocations.

APPENDIX F: WMATA'S Response to the Draft Report



February 2, 2018

Daniel W. Lucas
Inspector General
Government of the District of Columbia
Office of the Inspector General
717 14th Street, N.W., Suite 500
Washington, DC 20005

Re: Draft Report on the Examination of the Capital Funding Agreement (CFA) between the Washington Metropolitan Area Transit Authority (WMATA) and the District of Columbia (OIG No. 17-1-17KE).

Dear Inspector General Lucas,

Thank you for providing WMATA with an opportunity to respond to the draft report dated January 8, 2018 ("DC OIG Report").

WMATA will implement the DC OIG Report recommendations regarding policies, procedures and controls over the process and documentation. WMATA objects to the language in the draft opinion stating that there was a material misstatement made by WMATA. The report does not identify a materiality standard nor explain what elements were found to be misstated. WMATA suggests changing the draft language in the DC OIG Report.

WMATA acknowledges the findings regarding lack of documentation. Because the capital allocation records were not retained, the DC OIG audit team decided to calculate the operating subsidy and capital assistance allocations using the methodology developed by WMATA in CY2017 for the allocation of the FY2018 subsidy. Without the capital allocation records it is not known if a different methodology was used in CY2013 to develop the FY2014 operating subsidy and capital assistance allocations, potentially resulting in different allocation amounts.

Before responding to the findings and recommendations concerning corrections to the District of Columbia's (DC) allocated contributions, WMATA must review and discuss the findings and potential corrective actions with the WMATA Board of Directors and all of WMATA's funding jurisdictions for the following reasons:

- Operating subsidy and capital assistance allocations are prospective and based on budgetary assumptions, planned activities, and various estimates. Operating subsidy and capital assistance allocations are not recalculated based on actual results. Subsequent changes to the methodology and inputs do not impact the total operating subsidy or capital contributions and any changes would impact amounts paid not just by the District of Columbia, but all other funding jurisdictions.

Washington
Metropolitan Area
Transit Authority

600 Fifth Street, NW
Washington, DC 20001
202/962-1234

By Metrorail:
Judiciary Square—Red Line
Gallery Place-Chinatown—
Red, Green and
Yellow Lines
By Metrobus:
Routes D1, D3, D5, P6,
T0, T1, 80, X2

A District of Columbia,
Maryland and Virginia
Transit Partnership

APPENDIX F: WMATA'S Response to the Draft Report

Page 2

- Other funding jurisdictions are performing audits with different scopes and methods and WMATA anticipates each audit will have different results.
- Operating subsidy and capital assistance amounts billed to the funding jurisdictions are established by resolution of the WMATA Board of Directors – changes would require Board approval.

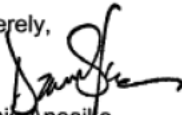
WMATA has developed and implemented significant financial management reforms over the past three years. These reforms include, but are not limited to, new processes and procedures for internal controls, reporting, and records retention. During this time period WMATA also completed CFA reconciliation reports covering the FY2011-2017 period and began providing allocation calculations to the funding jurisdictions for review and comment. Additional actions in response to the DC OIG Report recommendations include:

- WMATA will develop and implement written policies and procedures for the process to determine the operating subsidy and capital assistance allocations to include a formal review and approval process, standards and expectations for documentation and data retention, and internal controls to include spreadsheet controls. These formal policies and procedures will be established by September 30, 2018 and will be fully implemented in the FY2020 budget cycle.
- WMATA will also establish and implement formal policies and procedures to improve data accuracy and to ensure the reports include all required reporting elements established in the CFA by September 30, 2018.
- WMATA will review the findings of the report with the WMATA Board of Directors and, consistent with the Disputes section of the CFA, attempt to resolve funding disputes. Due to the challenges detailed above, it may be necessary to enlist a third party to conduct an independent review and recommend an appropriate resolution to the parties.

In addition, WMATA's Office of Management Audits, Risk and Compliance (MARC), an internal audit and review function reporting directly to WMATA's GM/CEO, will validate future operating subsidy and capital assistance allocations.

We expect to complete our review with the Board and the funding jurisdictions by December 31, 2018, after which we will provide a detailed response to DC OIG Report recommendations regarding the District's allocated contributions.

Sincerely,



Dennis Anosike
Chief Financial Officer

cc: Jack Evans, Chair, Board of Directors
Paul J. Wiedefeld, General Manager and Chief Executive Officer