

OFFICE OF THE STATE INSPECTOR GENERAL

Department of Rail and Public Transportation:
Payments to
Washington Metropolitan Area Transit Authority

Performance Audit
December 2018



Michael C. Westfall, CPA
State Inspector General
Report No. 2019-PA-001



COMMONWEALTH OF VIRGINIA
Office of the State Inspector General

Michael C. Westfall
State Inspector General

Post Office Box 1151
Richmond, Virginia 23218

Telephone (804) 625-3255
Fax (804) 786-2341
www.osig.virginia.gov

December 19, 2018

Governor Ralph Northam
PO Box 1475
Richmond, VA 23219

Dear Governor Northam:

The Office of the State Inspector General (OSIG) has completed an audit of the Virginia Department of Rail and Public Transportation's (DRPT) payments to the Washington Metropolitan Area Transit Authority (WMATA) in relation to the Passenger Rail Investment and Improvement Act (PRIIA) funding agreement. The final report, which outlines three findings and recommendations for improvement, is attached for your review and information.

OSIG would like to thank WMATA General Manager Paul Wiedefeld, DRPT Director Jennifer Mitchell and their respective staffs for their cooperation and assistance during this audit.

Respectfully,

A handwritten signature in black ink, appearing to read 'Michael C. Westfall'.

Michael C. Westfall, CPA
State Inspector General

CC: Clark Mercer, Chief of Staff to Governor Northam
Suzette P. Denslow, Deputy Chief of Staff to Governor Northam
Shannon Valentine, Secretary of Transportation
Senator Charles W. Carrico, Sr., Chairman, Senate Transportation Committee
Delegate David E. Yancey, Chairman, House Transportation Committee
Jennifer Mitchell, Director, Department of Rail and Public Transportation
Paul Wiedefeld, General Manager and Chief Executive Officer, Washington Metropolitan Area Transit Authority

HIGHLIGHTS**Department of Rail and Public
Transportation Payments to WMATA****What OSIG Found****Inconsistent DRPT Review of PRIIA-related
Expenditures**

The minimum reporting requirements in the Passenger Rail Investment and Improvement Act (PRIIA) funding agreement do not provide adequate financial information for the Department of Rail and Public Transportation (DRPT) to validate the accuracy, completeness and appropriateness of PRIIA-related expenditures. DRPT did not have documented, detailed internal policies or procedures to perform periodic reviews and validation of PRIIA-related expenditures during the review period and provided no evidence that periodic detailed reviews were performed after the second quarter of fiscal year (FY) 2014.

**Inaccuracies and Inconsistencies in Annual Capital
Funding Agreement (CFA) Reconciliations**

The PRIIA agreement requires Capital Funding Agreement (CFA) reconciliations to be prepared by the Washington Metropolitan Area Transit Authority (WMATA) and provided to jurisdictions to evidence annual contributions and expenditures. CFA reconciliations performed in FY2014 and FY2015 contained inaccurate, incomplete and inconsistent financial information. Also, contributing jurisdictions were not notified of the errors in prior year CFA reconciliation reports and could have relied on this faulty information for internal review requirements.

Noncompliance by WMATA with PRIIA Agreement

Areas of noncompliance were identified regarding the timely issuance of quarterly reports and the reprogramming of funds greater than \$1 million.

Commendable

WMATA successfully implemented corrective action plans associated with the 2014 Federal Transit Administration (FTA) Financial Management Oversight (FMO) review and subsequent follow-up reviews. As a result, WMATA was able to remove drawdown restrictions, correct previously reported errors and reduce efforts to provide documentation for every grant-related expenditure to FTA. During the FY2016 CFA reconciliation process, WMATA created a detailed process and standard operating procedures, which should address identified issues surrounding consistency and accuracy.

DRPT made all quarterly payments for FY2014, FY2015 and FY2016 timely and accurately based on WMATA's payment request.

Why OSIG Did This Audit

The WMATA Office of the Inspector General issued a report in April 2015, finding that contributing jurisdictions had not fully utilized their ability to audit WMATA's expenditure of funds. OSIG decided to evaluate whether DRPT's payments to WMATA were properly calculated and expended appropriately and in compliance with the Capital Funding Agreement (CFA). The audit was conducted with the assistance of SC&H Group Inc., including wholly owned affiliate, SC&H Attest Services, P.C. (SC&H), an outside professional services firm.

What OSIG Recommends

DRPT should develop and implement a comprehensive methodology to effectively review WMATA's PRIIA-related expenditures to ensure funding is properly expended, calculated and supported. DRPT should also document its methodology to evaluate expenditures, programmatic achievements and spending rates.

WMATA should ensure that CFA reconciliations are accurate, complete, comparable and verifiable so that jurisdictions can effectively utilize the information for decision-making. WMATA should also develop a process to revise prior reports when an error is identified and alert contributing jurisdictions of inaccuracies, indicating how they were corrected and the overall impact of the changes made.

WMATA should also periodically evaluate its compliance with PRIIA terms and conditions and correct areas of noncompliance.



For more information, please contact OSIG at (804) 625-3255 or www.osig.virginia.gov

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BACKGROUND

The Washington Metropolitan Area Transit Authority (WMATA) was created in 1967 as an Interstate Compact Agency and an instrumentality of the District of Columbia, the state of Maryland and the Commonwealth of Virginia (Commonwealth) to plan, develop, build, finance and operate a balanced regional transportation system for the national capital area. WMATA began building the rail system in 1969. WMATA provides Metrorail (rapid rail), Metrobus and MetroAccess to a service area of 3.5 million people.

The Department of Rail and Public Transportation (DRPT) is an agency of the Commonwealth that focuses on the movement of people and goods via rail activity, public transportation and commuter services in a safe, reliable and cost-effective manner. DRPT works with local, regional, state and federal governments, as well as private entities to provide support for projects and programs. As an agency entrusted with public dollars, DRPT seeks the highest possible return on investment to maximize limited funding and strives to implement best practice management tools and techniques.

The Passenger Rail Investment and Improvement Act (PRIIA) agreement is an agreement between WMATA and the Commonwealth acting by and through DRPT. Per the PRIIA agreement, dedicated funding is provided to WMATA for projects annually approved through WMATA's Capital Improvement Program (CIP). Per the PRIIA agreement, the Commonwealth is to provide up to a maximum of \$50 million in FY2011 and an additional cumulative \$50 million annually as follows: \$100 million through FY2012; \$150 million through FY2013; \$200 million through FY2014; \$250 million through FY2015; and \$300 million through and beyond FY2016, solely for the purpose of dedicated funding. Funding provided through PRIIA to WMATA cannot be withheld and is not considered reimbursable. The PRIIA agreement expires in 2019 and is expected to be replaced by a new PRIIA agreement. Other contributing jurisdictions, the District of Columbia and Maryland, annually contribute an equal amount as the Commonwealth. Further, the annual federal contribution is \$150 million.

The WMATA Board of Directors approves a six-year capital program each year that includes potential funding sources and a description of the project prioritization process. Per the PRIIA agreement, WMATA will administer the CIP and carry out all necessary procurement actions and management oversight. As part of the annual budget process, WMATA prepares an annual Capital Funding Agreement (CFA) reconciliation of the actual expenditures for dedicated funded projects and activities under the CIP to date, and for that fiscal year, as compared to the planned expenditures for such projects and activities for the same fiscal year.

The WMATA Office of the Inspector General (OIG) was authorized by [Board of Directors Resolution 2006-18](#), approved April 20, 2006. In April 2015, the WMATA OIG issued a report

on the “Review of WMATA’s Local Jurisdictional Subsidies,”¹ which concluded that WMATA did not have adequate internal controls in place to effectively and efficiently manage local jurisdictional subsidies and that the contributing jurisdictions had not fully utilized audit clauses established in the CFA.

¹ <https://www.wmata.com/about/inspector-general/audit-reports.cfm>

SCOPE

The scope of this audit covers Commonwealth payments to WMATA related to the PRIIA agreement that occurred during FY2014, FY2015 and FY2016.²

OBJECTIVES

The objectives of this audit were to determine:

1. Whether Commonwealth payments to WMATA were properly calculated and expended appropriately and in compliance with the Capital Funding Agreement (CFA).³
2. Compliance with the terms and conditions of the PRIIA agreement.

METHODOLOGY

OSIG, with assistance from SC&H Group Inc., including wholly owned affiliate, SC&H Attest Services, P.C., (SC&H), an outside professional services firm, conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that OSIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OSIG believes that the evidence obtained provides reasonable basis for the findings and conclusions based on the audit objectives.

During the planning phase of this audit, it was determined that WMATA had a Federal Transit Administration (FTA) Financial Management Oversight (FMO) review⁴ performed in 2014. The resulting report was issued on March 13, 2014, and identified multiple material weaknesses and significant deficiencies related to key processes for developing grant reimbursements. (Detail on the 2014 FTA/FMO review is in [Appendix 1.](#))

As a result of this review, FTA restricted WMATA's access to drawdown funds for reimbursement for capital expenditures from FTA's Electronic Clearing House Operation (ECHO) beginning March 27, 2014. This date is often referred to as the beginning of "ECHO Restriction." SC&H identified that FTA had implemented the following to ensure the correctness and validity of grant expenditures:

1. Grant transactions⁵ for the period of March 27, 2014, through December 22, 2016, the date the ECHO Restriction was lifted, were manually reviewed by FTA prior to allowing the drawdown of funds.

² The Commonwealth's fiscal year is July 1 through June 30.

³ SC&H utilized the "PRIIA Funding Agreement between the Commonwealth of Virginia acting by and through the Virginia Department of Rail and Public Transportation and the Washington Metropolitan Area Transit Authority" dated July 1, 2010, which will be identified collectively in this report as the CFA or PRIIA.

⁴ For more information on the FTA FMO review and subsequent follow-up reviews, see Appendix 1.

⁵ FTA reviewed all of WMATA's capital expenditures, which included all PRIIA-related expenditures.

2. Grant transactions for the time prior to March 27, 2014, had to be reconciled and corrected by WMATA and those reconciliations had to be approved by FTA.

As the Commonwealth's funds were used to match FTA funds, reviewing transactions occurring during the scope of the audit would have been a duplication of FTA's work. Additionally, significant change in grants-management processes and systems during the audit period would have resulted in outdated and ineffective findings and recommendations. Therefore, the planned audit methodology to audit reimbursement requests for correctness and validity was adjusted.

Instead, SC&H conducted multiple procedures during the audit process to gather and analyze information pertinent to the audit scope and to assist with developing and achieving the audit's objectives. Procedures included:

- Conducting interviews and walk-throughs with WMATA and DRPT staff;
- Analyzing prior review results, including the following FTA reviews that occurred during the audit period:
 - FTA's FMO Report,
 - FTA's Testing and Validation Plan,
 - FTA's Snapshot Review, and
 - Funds Management System Review Report;
- Reviewing a sample of WMATA's corrective action plans and correspondence with FTA regarding the status and implementation of recommendations;
- Reviewing the CFA reconciliation processes, policies and procedures to evaluate the consistency, compliance and accuracy;
- Evaluating DRPT's and WMATA's compliance with the PRIIA agreement;
- Preparing a timeline of key events occurring during the audit period to understand key reviews performed, including transaction review periods, report issuance dates and the period that WMATA was on Electronic Clearing House Operation (ECHO) restriction; and
- Assessing DRPT's PRIIA-related payment and expenditure review processes for efficiency and effectiveness.

FINDINGS

1. INCONSISTENT DRPT REVIEW OF PRIIA-RELATED EXPENDITURES

The use of funding provided by the Commonwealth should be properly validated by DRPT, as inadequate review could result in ineligible or inaccurate expenditures being funded by the Commonwealth.

DRPT met the minimum requirements of the PRIIA agreement with regard to quarterly payments, such as reviewing quarterly reports and the annual CFA reconciliations. Additionally, for the first and second quarter of FY2014, DRPT requested, received and reviewed a sample of transactions and reports from WMATA related to PRIIA-related expenditures as a means of validating that funding was properly expended, calculated and supported.

Following changes in responsible staff at both DRPT and WMATA in mid-FY2014, oversight was performed through the review of quarterly reports and annual CFA reconciliations only. A detailed review of transactions was no longer performed. Further, DRPT did not have documented, detailed internal policies or procedures to perform reviews and validation of PRIIA-related expenditures.

The minimum reporting requirements in the PRIIA agreement do not provide adequate financial information for DRPT to validate the accuracy, completeness and appropriateness of PRIIA-related expenditures. As noted in Finding #3, WMATA was noncompliant with two of the terms and conditions of the PRIIA agreement that were not identified by any DRPT review.

Recommendations

- A. DRPT should determine a comprehensive methodology to effectively and consistently review WMATA's PRIIA-related expenditures to validate that funding is being properly expended, calculated and supported. DRPT could leverage its program managers, who oversee various grant programs throughout the Commonwealth, to determine an appropriate methodology and quantity of transactions to review per period. This methodology should identify the specific reporting requirements (i.e., data elements requested, format, system of record and frequency) to ensure DRPT is receiving accurate and complete financial information to improve consistency and accessibility.
- B. DRPT should document its methodology to evaluate the appropriateness of expenditures, programmatic achievements and spending rates. This process should include, but is not limited to, the following items:
 1. Development of procedures for performing a timely and effective review;
 2. Documentation of roles and responsibilities for both DRPT and WMATA;

3. Documentation to determine next steps, including escalation, if material errors are identified;
4. Establishment of timelines and expectations;
5. Instruction documenting how to obtain consistent, reliable information from WMATA (e.g., specific reports or account codes to request, systems that will be utilized and deadlines to achieve); and
6. Documentation of WMATA contact information for various steps, such as who to receive reports from and who to contact with questions or issues.

Management Response - DRPT

DRPT concurs with the finding and recommendations as identified above.

2. INACCURACIES AND INCONSISTENCIES IN ANNUAL CFA RECONCILIATIONS

The PRIIA agreement requires that WMATA maintain accounting records consistent with generally accepted government accounting procedures⁶ that must be sufficient in detail to determine character and timing of fund items and of obligation and expenditure transactions. The PRIIA agreement also requires CFA reconciliations to be performed.

Although annual CFA reconciliations were completed, they were not presented accurately or consistently from year to year. Expenditure calculations and classifications reported to jurisdictions in the prior annual CFA reconciliations required revisions based on findings from the FY2014 FTA FMO report. More specifically, numbers reported as "Actuals" within the FY2014 and FY2015 CFA reconciliation reports contained errors due to timing issues, calculation of accruals and manual processes (e.g., jurisdictional share calculated outside of the system). These errors required time and effort to correct, but CFA reconciliations were not revised.

WMATA did not have a standard operating procedure or documented process to create the annual CFA reconciliations. Further, the basis of accounting changed from accrual to cash for the preparation of the FY2011-FY2016 five-year reconciliations from previous annual CFA reconciliations. The FY2011-FY2016 CFA reconciliation included a note stating that information contained within the five-year reconciliation superseded all previous reconciliations issued. However, it did not identify or quantify the dollar value or impact of changes. During the FY2011-FY2016 CFA reconciliation process, WMATA created a detailed process and standard operating procedures to perform the annual CFA reconciliations, which should address issues identified surrounding consistency and accuracy.

⁶ The Passenger Rail Investment and Improvement Act (PRIIA) Agreement Terminology

CFA reconciliations performed during this audit period contained inaccurate, incomplete and inconsistent financial information. Also, contributing jurisdictions were not notified of the errors in prior year CFA reconciliation reports and could have relied on that faulty information for internal review requirements.

Recommendations

WMATA should ensure that CFA reconciliations are accurate, complete, comparable and verifiable so that jurisdictions can effectively utilize the information for decision-making. WMATA should also develop a process to revise prior reports when an error is identified and alert contributing jurisdictions of errors/inaccuracies identified, indicating how they were corrected and the overall impact of the changes made.

Management Response - WMATA

WMATA concurs with the finding and recommendations as identified above and provided the following additional information.

SC&H acknowledged that all the issues identified in the FY2014 and FY2015 reports were fixed and addressed in both the FY2016 and the reissued FY2011-FY2016 CFA reports. The only comment noted pertaining to the FY2016 report was that the basis for reporting was changed from Accrual to Cash. We plan to continue to issue future reports on a cash basis to avoid a carryover reconciliation based on any differences in actuals from the estimated accrual amounts.

Additionally, WMATA now has a current process to address this recommendation even though per the CFA, only preliminary results for the Annual Budget Reconciliation process is required. Specifically, when WMATA determined that there were errors and inconsistencies in the previously issued FY2014 and FY2015 reports, WMATA corrected and reissued those reports as part of the updated FY2011-FY2016 cumulative report.

Additionally, in the FY2017 CFA, WMATA included a supplemental schedule, which highlighted changes from the previously issued report. Consequently, no further corrective action is required.

3. NONCOMPLIANCE BY WMATA WITH PRIIA AGREEMENT REPORTING REQUIREMENTS

The PRIIA agreement states that WMATA must provide DRPT with quarterly reports within 45 days after quarter close. SC&H could not determine the timeliness of DRPT's access to WMATA's quarterly reports as nine of the 12 quarterly reports within the audit period did not have dates on them when reviewed from WMATA's website. WMATA was not able to support the date that the quarterly information was posted, but provided dates that the quarterly financial

information was presented to the Board. Of those dates, four of 12 quarterly reports were not posted/provided timely and one quarter was not posted at all.

The PRIIA agreement requires that jurisdictions be given 30 days' notice of requests to reprogram funds greater than \$1 million per project. WMATA stated this occurred multiple times throughout the audit period and contributing jurisdictions were not notified.

Monitoring for these two PRIIA agreement compliance areas was impacted because WMATA focused its compliance efforts on areas impacting funding. Noncompliance with the PRIIA agreement could result in delays in receiving funding and/or WMATA being ineligible for future reimbursements or future funding from the Commonwealth. This could significantly impact WMATA's ability to execute its Annual Work Plan/Capital Improvement Program.

Recommendation

WMATA should create a mechanism to monitor its compliance with key terms, conditions and dates outlined in the PRIIA agreement. Any areas of noncompliance should be documented and corrected timely to mitigate the risk of being ineligible for, or causing delays in, receipt of future Commonwealth funding.

Management Response - WMATA

WMATA concurs with the finding and recommendation as identified above and provided the following additional information, related to reprogramming of funds greater than \$1 million.

As background information, at the time of the signing of the PRIIA Agreement with DRPT, it was WMATA's policy that every reprogramming had to be approved by the Board. Under this policy, WMATA had the ability to inform the jurisdictions of changes in projects in advance of the change. This practice impacted the timing for WMATA to react to changes in projects' schedules and its ability to promptly reallocate funds to accommodate cash flow needs. In FY2011, the Board delegated the authority to approve reprogramming to the General Manager/Chief Executive Officer, with a maximum authority of 5 percent of the value of the capital budget. This limit was subsequently removed and the definition of reprogramming was updated to represent changes among CIP categories instead of changes among projects. WMATA needs to be able to promptly react to changes in projects' schedules, and being required to notify the jurisdictions of changes to projects 30 days in advance of the change would cause delays in the delivery of the projects. For this reason, Management proposes to amend the PRIIA agreement to remove subsection (g) of section six in its entirety.

This proposed amendment will ensure WMATA maintains compliance with the agreement.

AUDIT RESULTS

This report presents the results of OSIG's audit of DRPT's PRIIA payments to WMATA. The following audit testing was performed with immaterial, if any, discrepancies noted:

- Reviewing a sample of WMATA's corrective action plans and correspondence with FTA regarding the status and implementation of recommendations; and
- Preparing a timeline of key events occurring during the audit period to understand key reviews performed, including transaction review periods, report issuance dates and the period that WMATA was on Electronic Clearing House Operation (ECHO) restriction.

Based on the results and findings of the audit test work conducted of DRPT's PRIIA payments to WMATA, OSIG concluded that internal controls were operating properly as they relate to the audit objectives, except as identified in the report findings.

APPENDIX 1: 2014 FTA FMO REVIEW HISTORY

The following provides a summarized history of the FTA FMO review and subsequent reviews performed by FTA and its contractors to ensure WMATA implemented necessary corrective action plans to mitigate controls risks. Although OSIG did not verify the results of the FTA review in order to incorporate those results into our report, it is presented here as informational background for the reader.

Financial Management Oversight Report:

On July 1, 2013, the Federal Transit Administration (FTA) began a Financial Management Oversight (FMO) review at WMATA, which examined the effectiveness of WMATA’s internal control over compliance with FTA’s financial management system requirements from April 1, 2012, to March 31, 2013. The report identified three material weaknesses and six significant deficiencies, as follows:

Material Weaknesses:	
MW.01	Budget controls
MW.02	Controls over reporting of federal expenditures
MW.03	Controls over procurement

Significant Deficiencies:	
SD.01	Audit Committee oversight of compliance and internal controls
SD.02	Cash and grant management controls
SD.03	Controls over FTA-funded assets
SD.04	Access controls over the financial management system
SD.05	Controls over job order contracts
SD.06	Improve federal financial reporting process and procedures

The resulting FMO report was published June 10, 2014, and contained 45 recommendations with WMATA’s management responses, including 65 corrective action plan (CAP) items. As a result of this review, FTA restricted WMATA’s access to drawdown funds for reimbursement for capital expenditures from the FTA’s Electronic Clearing House Operation (ECHO) from March 27, 2014, until December 22, 2016. This period is often referred to as “ECHO Restriction.”

WMATA worked on implementing required recommendations based on FTA-established timelines and provided FTA with updates on its progress.

Expenditure Review

During this ECHO Restriction period, WMATA was required to manually submit reimbursement requests along with relevant supporting documentation to FTA for each capital expenditure. FTA

would review reimbursement packets, which included vendor contract, invoice, purchase order, receiving documentation and other documentation that could support the expense and how it was recorded in the financial management system. Hill International, FTA's contractor for reviewing WMATA's expenditures, reviewed all expenses for the period WMATA was on ECHO Restriction to ensure the expense was properly supported, coded to the accurate ALI/grant and compliant with grant, contract and federal requirements. If approved, FTA would temporarily turn on the password so that WMATA could drawdown the approved funds, then immediately turn it off.

Testing and Validation Plan

On September 30, 2015, FTA issued a testing plan to validate that WMATA implemented necessary corrective actions to address the material weaknesses and significant deficiencies identified in the FMO report. This report also includes concerns identified by FTA not previously identified in the FMO report process. The main purpose of the testing was to obtain a high rate of compliance with each requirement to assure FTA that WMATA has achieved the necessary systematic fixes to its financial management controls. The testing and validation plan includes 20 action items grouped into three categories:

1. Category A: included 10 action items required to remove ECHO Restrictions for all grants awarded after July 1, 2015.
2. Category B: included three action items required to remove ECHO Restrictions for all grants awarded prior to July 1, 2015.
3. Category C: included seven action items required for FMO closeout, but no conditions impacting the removal of ECHO Restrictions.

WMATA was to submit responses for some actions, and other action items would be tested during a follow-up review to be performed by FTA, called a Snapshot Test.

Snapshot Test

On December 19, 2016, FTA completed the FMO Snapshot Test. This test assessed financial control compliance with FTA requirements for activities funded by FTA between July 1, 2015, and March, 31 2016. The test also included a detailed review to assess performance of WMATA's new financial management system, Funds Management System (FMS), implemented on July 1, 2016. This system was implemented to significantly improve WMATA's control environment and remediate findings identified during the assessment of internal controls within the snapshot testing period.

FMS Review

FTA's contractors, Milligan & Company, performed a detailed test of the Funds Management System for the three-month period from July 1, 2016, through September 30, 2016, to assess the

effectiveness of control designed into the new system. The review commenced on November 30, 2016, and the report was issued on December 19, 2016.

Milligan & Company identified one material weaknesses and 10 significant deficiencies broken down into two categories, ECHO Controls and Federal Financial Report (FFR) Controls. The one material weakness related to ECHO Controls was recommended to be mitigated prior to removal of ECHO Restrictions and Milligan stated that WMATA's corrective action plan adequately mitigated that risk of improper payment. The significant deficiencies (i.e., three related to ECHO Controls and seven related to FFR Controls) were determined to be less severe, but warranted the attention of FTA and WMATA. Per WMATA, FTA required that WMATA implement corrective actions associated with the FMS review by January 15, 2017.

ECHO Reinstatement

On December 22, 2016, FTA lifted WMATA's ECHO Restriction and reinstated WMATA's electronic funds drawdown privileges for all grants awarded after July 1, 2015.

Follow-up and Closeout of FMO Review Items

FTA provided WMATA with final approval of open items from the Snapshot Test and Funds Management System test, and formally closed the 2014 FMO review. It was noted that FTA will continue to monitor project management concerns through monthly and quarterly project oversight activities.