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# *Office of Inspector General*

# *Audit Report*

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## **MWAA'S FINANCIAL MANAGEMENT CONTROLS ARE NOT SUFFICIENT TO ENSURE ELIGIBILITY OF EXPENSES ON FTA'S DULLES RAIL PROJECT GRANT**

*Federal Transit Administration*

*Report Number: ZA-2014-021*  
*Date Issued: January 16, 2014*





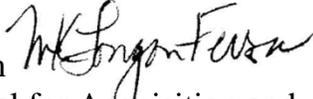
# Memorandum

**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: **ACTION:** MWAA's Financial Management  
Controls Are Not Sufficient To Ensure Eligibility  
of Expenses on FTA's Dulles Rail Project Grant  
Federal Transit Administration  
Report No. ZA-2014-021

Date: January 16, 2014

From: Mary Kay Langan-Feirson   
Assistant Inspector General for Acquisition and  
Procurement Audits

Reply to  
Attn. of: JA-60

To: Federal Transit Administrator

The Metropolitan Washington Airports Authority (MWAA) is an independent public body responsible for the design and construction of Phases 1 and 2 of the Dulles Corridor Metrorail Project (Dulles rail project).<sup>1</sup> In March 2009, the Federal Transit Administration (FTA) awarded MWAA the last in a series of grants for Phase 1 of the Dulles Rail project, providing \$975 million in Federal funds including \$77 million in American Recovery and Reinvestment Act (ARRA) funds. With responsibility for managing a multibillion-dollar public transit project and almost a billion dollars in Federal funds, MWAA plays a vital role in the Washington, DC, metropolitan area's transportation system and economy. Since Dulles Phase 1 has a significant Federal investment, effective FTA oversight is important to ensure the appropriate expenditure and disbursement of these funds.

On November 1, 2012, we reported on weaknesses in MWAA's management policies and processes.<sup>2</sup> Specifically, we identified weaknesses in MWAA's internal controls that led to questionable procurement practices, mismanagement,

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<sup>1</sup> Phase 1 of the Dulles rail project will add a new Metrorail line in Virginia from the East Falls Church station on the Orange Line, through Tysons Corner and on to Wiehle Avenue in Reston. Phase 2 will continue the line to Washington Dulles International Airport and into Loudoun County. In addition to the Dulles rail project, MWAA is responsible for operations and development of the Reagan National and Washington Dulles International Airports.

<sup>2</sup> MWAA's *Weak Policies and Procedures Have Led To Questionable Procurement Practices, Mismanagement, and a Lack Of Overall Accountability* (OIG Report Number AV-2013-006), Nov. 1, 2012. OIG reports are available on our Web site at <http://oig.dot.gov>.

and a lack of overall accountability. When conducting that work, we identified potential financial management weaknesses related to MWAA's FTA grants for Phase 1 of the Dulles rail project. When MWAA was unable to provide support for a number of expenditures, as early as March of 2012, we initiated a separate audit focused on MWAA's financial controls for the Dulles rail project. The objective of this audit was to determine whether MWAA has controls in place to ensure FTA funds for Dulles rail project Phase 1 were spent on eligible expenditures.

We conducted the audit in accordance with generally accepted Government auditing standards. As part of our audit, we selected a statistical sample of 6 of 37 FTA disbursements to MWAA for the Dulles rail project. These 6 disbursements consisted of 283 transactions<sup>3</sup>—such as payroll expenses, travel reimbursements, and contract expenses—with total project costs of \$281 million (\$104.5 million of which was reimbursed by FTA<sup>4</sup>). This sample allowed us to project the total amount of unsupported and unallowable costs that MWAA claimed and FTA reimbursed, during the period we reviewed. We also assessed the Authority's process for submitting claims for Federal reimbursement. During the course of our review, we made several requests for documentation from MWAA. However, MWAA took extended periods of time to provide the requested information, which was frequently incomplete and required additional follow-up requests. Consequently, we established several cut-off dates so that we could complete our audit. Ultimately, our scope was limited to a review of documents MWAA provided by our final cut-off date of June 14, 2013—4 months after MWAA representatives committed to providing all requested documentation. Exhibit A provides the full details of our scope and methodology.

## RESULTS IN BRIEF

MWAA lacks adequate controls to ensure that expenses claimed for funding on the FTA grant for Phase 1 of the Dulles rail project are eligible for reimbursement. Our review of 282 Dulles rail project transactions determined that MWAA claimed both unsupported and unallowable costs for Federal reimbursement on the Dulles rail project.<sup>5</sup> Specifically:

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<sup>3</sup> One of the six disbursements consisted of a claim for a transaction related to the ARRA grant. MWAA did not provide support for this transaction until after our final cut-off date of June 14, 2013, so we did not perform a full review of this transaction. Consequently, we only reviewed transactions from 5 of the 6 disbursements—a total of 282 transactions valued at \$85 million. See exhibit B for more information on these disbursements.

<sup>4</sup> According to the terms of the grant, FTA reimburses MWAA for a percentage of the costs claimed (an average of 31.03 percent over the life of the grant), and MWAA provides matching funds for the remaining costs.

<sup>5</sup> FTA requested data so that it could immediately begin to resolve the issues we identified. We provided FTA with lists of the transactions reviewed, lists of the unsupported and unallowable costs we identified, and explanations for why we concluded the transactions were unsupported or unallowable.

- MWAA lacked sufficient documentation to support expenses reimbursed with \$36 million in FTA grant funds. Based on these findings, we project that MWAA received \$139 million<sup>6</sup> in Federal grant funds for unsupported transactions during the period we reviewed, about 36 percent of FTA's total disbursements during this period (\$384 million).
- MWAA received a total of \$119,000 in FTA grant funding for unallowable costs, such as payments to lobbyists, that are ineligible for Federal reimbursement. Based on these findings, we project that MWAA received \$350,000<sup>7</sup> in Federal grant funds for unallowable transactions during the period we reviewed.

These unsupported and unallowable costs are attributable to MWAA's lack of sound grant management controls. For example, MWAA's process for claiming grant funds does not adequately document costs claimed for reimbursement, as FTA grant regulations require. Given that \$289 million in Federal grant funds remain available for disbursement, improvements to MWAA's financial management controls are critical for effective management of the Federal investment in the Dulles rail project.

We are making recommendations to FTA to increase its oversight of MWAA's controls for ensuring that Dulles rail project expenses claimed by MWAA are eligible for reimbursement.

## **BACKGROUND**

Phase 1 of the Dulles rail project, which has a budget of \$3.1 billion, will add a new Metrorail line in Virginia from the East Falls Church station on the Orange Line, through Tysons Corner and on to Wiehle Avenue in Reston. Phase 2 will continue the line to Washington Dulles International Airport and into Loudoun County.<sup>8</sup> Construction of Phase 1 began in March 2009, and the grant agreement states that the project is to be completed by December 2014.

As of March 2013, FTA has obligated about \$686 million in Federal funds to MWAA for Phase 1. According to the terms of the grant, FTA reimburses MWAA for a percentage of the costs claimed (an average of 31.03 percent over the life of the grant), and MWAA provides matching funds for the remaining costs.

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<sup>6</sup> Our estimate has an actual lower limit of \$36 million and a 90-percent upper confidence limit of \$248 million.

<sup>7</sup> Our estimate has an actual lower limit of \$119,000 and a 90-percent upper confidence limit of \$585,000.

<sup>8</sup> To date, FTA has not committed funding to Phase 2 of the Dulles rail project and, therefore, does not have an official oversight role.

FTA provides a streamlined electronic interface with grantees for management of all grants. Once grant funds are awarded, the grantee is eligible to make electronic claims for reimbursement. FTA does not require grantees to submit supporting documentation for each reimbursement claim; however, grantees are required to have all supporting documentation readily available in the event FTA conducts a review. FTA periodically performs grant oversight reviews, such as Financial Management Oversight (FMO) Reviews and Procurement System Reviews (PSR). In 2010 and 2011, FTA performed both an FMO review and a PSR review of MWAA's Dulles rail project Phase 1 grant. In these reviews, FTA noted deficiencies in MWAA's project management system and its maintenance of procurement history records.

## **MWAA LACKS FINANCIAL MANAGEMENT CONTROLS TO ENSURE FTA GRANT FUNDS WERE SPENT ON ELIGIBLE COSTS**

MWAA lacks adequate controls to ensure the eligibility of expenses claimed for reimbursement on the FTA grant for Phase 1 of the Dulles rail project. As a result, MWAA has claimed both unsupported and unallowable costs for reimbursement on the Dulles rail project. Given that \$289 million in Federal grant funds remain available for disbursement, improvements to MWAA's financial management controls are critical for effective management of the Federal investment in the Dulles rail project.

### **MWAA's Financial Management Controls Are Inadequate To Manage Federal Grant Funds for Phase 1 of the Dulles Rail Project**

FTA requires grant recipients to have sound financial management systems and adequate internal controls in place to track and manage Federal grant funds.<sup>9</sup> However, our review identified the following weaknesses in MWAA's systems and controls for managing Federal grant funds for Phase 1 of the Dulles rail project.

**MWAA's process for claiming grant funds does not adequately record costs claimed for reimbursement.** DOT regulations require that a grantee's financial management system contain records that adequately identify the use of funds provided for Federal assistance.<sup>10</sup> However, MWAA's accounting records do not accurately reflect the use of FTA grant funds on the Dulles rail project. MWAA's accounting records are inaccurate because MWAA uses a separate project

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<sup>9</sup> FTA Circular 5010.1D § IV 2.b (Nov. 1, 2008).

<sup>10</sup> 49 Code of Federal Regulations (CFR) § 18.20(b)(2) (2012).

management system to track project costs and prepare grant reimbursement claims. The accounting and project management systems are not integrated, so when MWAA makes adjustments to data in the project management system—such as when costs are deemed ineligible for Federal reimbursement—corresponding changes are not made in the accounting system. For example, MWAA’s project management system shows a \$278,000 transaction as entirely eligible for reimbursement. However, the Authority’s accounting system shows that only \$219,000 of that amount is eligible for reimbursement (see table 1).

**Table 1. Example of Discrepancy Between MWAA’s Program Management System Records and Accounting System Records**

Transaction date	Amount of eligible costs shown in accounting system	Amount of eligible costs shown in project management system	Difference
February 2009	\$219,371	\$277,685	(\$58,314)

Source: Records from MWAA’s accounting system and project management system.

FTA’s 2010 Financial Management Oversight Review reported a similar issue. Specifically, the review noted that MWAA’s project management system was not integrated with other financial management systems, such as its accounting system. However, FTA did not verify MWAA’s statements that it had implemented a system that interfaced with the accounting system—which, according to MWAA, addressed FTA’s concerns. During this review, we found that while MWAA had implemented a new accounting system in June 2011, it still has not integrated the system with its project management system for obtaining reimbursement from FTA. MWAA plans to implement its accounting system as the single control system for Phase 2 (which currently has no Federal funding); however, it has no planned changes to its existing systems for the remainder of Phase 1. Inaccurate data in MWAA’s accounting system limits MWAA’s ability to support reimbursement claims in a timely manner, as FTA grant regulations require.

**MWAA does not consistently identify eligible expenses for Federal reimbursement.** FTA requires recipients to establish separate accounts within their accounting systems to identify and track costs associated with a project.<sup>11</sup> MWAA uses project codes in an effort to meet this requirement and to provide a key control for ensuring that ineligible costs are not submitted for reimbursement. However, MWAA established multiple project codes that were used interchangeably for both eligible and ineligible expenses. For example, although

<sup>11</sup> FTA’s Master Grant Agreement § 7.a.

expenses for Phase 2 are not eligible for reimbursement with FTA grant funds, MWAA applied a Phase 1 project code to claim payroll expenses for an employee dedicated to Phase 2. In November 2012, MWAA officials said they had begun correcting the use of a project code for both eligible and ineligible expenses but stated that it would take another year to correct this process.

**MWAA's review procedures for invoices, travel reimbursements, and purchase card transactions do not include requirements for determining whether costs are eligible under FTA's grant requirements.** FTA requires its grantees to follow regulations governing Federal grant awards that limit grant expenditures to allowable costs.<sup>12</sup> However, MWAA's review procedures do not reference these requirements or require reviewers to consider the requirements when reviewing invoices, travel reimbursements, and purchase card transactions. This lack of guidance on FTA and Federal grant requirements may have contributed to unallowable costs being charged to the grant.

**MWAA's staff does not consistently follow invoice review procedures.** Proper invoice processing is important to verify that costs claimed under a grant are eligible for Federal reimbursement. However, MWAA does not follow its procedures for invoice processing, which require multiple levels of review to approve costs claimed. For example, MWAA requires its Deputy Director of Finance<sup>13</sup> to verify that accurate project codes are assigned to invoices. However, the Deputy Director did not always perform these reviews. Specifically, the Deputy Director did not review 14 of 39 transactions we identified as having unallowable costs. For these 14 transactions with unallowable costs, MWAA received \$52,000 in Federal grant funds.

**MWAA does not have a process to identify and track which contracts are charged to FTA grants.** FTA policy requires grantees to maintain procurement history records for each contract charged to FTA grants.<sup>14</sup> However, when we requested a list of all MWAA contracts charged to FTA grants, MWAA provided an incomplete list of 54 contracts. Within our audit sample, we identified 22 additional contracts, valued at \$46 million, which MWAA omitted from its list.<sup>15</sup> Grantees that award contracts involving Federal funds must include required Federal clauses and follow Federal requirements regarding competition, cost or price analysis, and independent cost estimates. These requirements do not always apply to MWAA contracts that are not federally funded. Therefore, it is important that MWAA is able to identify which of its contracts are federally funded to

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<sup>12</sup> FTA Circular 5010.1D § VI.5.a.

<sup>13</sup> In January 2010, MWAA hired a new Deputy Director of Finance; therefore, during the period of our review, MWAA had two Deputy Directors of Finance.

<sup>14</sup> FTA Circular 4220.1F § III.3.d(1).

<sup>15</sup> The 22 contracts within our sample represent 41 percent of the total number of contracts that MWAA identified for the entire project. The actual number of omitted contracts may be higher.

ensure that it complies with Federal requirements. For example, we reviewed 8<sup>16</sup> of the 22 federally funded contracts that MWAA omitted from its list and found that these 8 contracts did not meet Federal requirements.

In addition, FTA relies on MWAA's list of contracts to choose contracts for FTA Procurement System Reviews, which are intended to encourage improvement of grantee procurement operations, foster use of industry best practices, and assess compliance with Federal procurement requirements. Because MWAA cannot provide a complete list of federally funded contracts, FTA's reviews of MWAA's procurement operations are at risk of not being comprehensive or complete.

**MWAA's accounting system is missing a control to track reversals of unallowable costs claimed from FTA.** FTA's grant agreement states that FTA will only reimburse MWAA for allowable costs.<sup>17</sup> According to MWAA officials, when the Authority discovers unallowable costs claimed, it deducts the unallowable amount from future claims. For example, FTA reimbursed MWAA \$20,000 for a December 2010 transaction related to Phase 2 of the Dulles rail project, which MWAA had improperly charged to Phase 1. After we identified this unallowable charge, MWAA deducted the \$20,000 from its November 2012 claim. We requested that MWAA provide a list of all reversed transactions since March 2009. However, MWAA officials said that it would take 1,700 hours to compile a list of all reversals because it would require a labor-intensive review of every claim. Because MWAA does not have a control process for tracking reversals, MWAA cannot ensure that reversals for Phase 1 of the Dulles rail project are accurate and timely.

### **MWAA Claimed Both Unsupported and Unallowable Costs for Federal Reimbursement on the Dulles Rail Project**

MWAA's inadequate financial management controls have resulted in both unsupported and unallowable costs being claimed for reimbursement from FTA grant funds. Because FTA does not verify whether grant recipients have adequate support for claimed costs, FTA reimbursed MWAA for the following unsupported and unallowable costs.

#### *Unsupported Costs*

FTA and Federal grant conditions require that grant recipients maintain support for federally funded project costs (see table 2). However, MWAA did not have sufficient documentation to support some of the expenses we reviewed that were

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<sup>16</sup> We obtained these eight contracts for other audit purposes.

<sup>17</sup> FTA Master Grant Agreement § 9.c(9).

charged to the Dulles Rail project. As a result, MWAA could not demonstrate that it spent the funds on allowable or reasonable costs associated with the grant.

**Table 2. FTA and Federal Grant Requirements for Adequate Support of Federally Funded Project Costs**

<b>FTA Master Grant Agreement</b> (agreement that outlines the terms and conditions governing federally funded projects)	A grant recipient is required to support all project costs with documentation that describes in detail the nature and appropriateness of the charges, including adequate records to support the costs incurred.  Accounting documents related in whole or in part to the project are required be clearly identified, readily accessible, and available to FTA upon request.
<b>Federal Cost Principles</b> (regulations governing Federal grant awards)	Grant recipients are required to adequately document costs to support that costs are allowable.

Source: FTA Master Grant Agreement; 2 CFR § 225, Appendix A (2012), formerly OMB Circular A-87.

We reviewed a statistical sample of 282 Dulles rail project transactions from 2009 through 2011, for which MWAA was reimbursed \$85 million, and determined that MWAA received approximately \$36 million for unsupported transactions. Specifically, MWAA received:

- **\$35 million for transactions lacking documentation to show that costs were eligible for FTA reimbursement.** When reviewing contractor invoices, MWAA categorizes the charges by whether or not they are eligible for Federal reimbursement; however, the Authority lacks support or explanations for how it makes these determinations of eligibility. For example, for one invoice, MWAA claimed \$13.7 million but did not provide support to explain how it determined 99.8 percent of the invoice was eligible for grant funding and the remaining 0.2 percent was ineligible.
- **\$1.3 million for transactions lacking sufficient information to determine the nature and appropriateness of costs incurred.** MWAA provided us with invoices that contained single amounts for general charge categories—such as “labor,” “materials,” “subcontracted services,” or “miscellaneous”—with no further details about what these charges included. In these cases, we found that the single amounts that MWAA included on the invoices were insufficient to demonstrate whether the costs were reasonable.

Based on these findings, we project that MWAA received \$139 million in Federal grant funds for unsupported transactions out of the \$384 million reimbursed

during the period we reviewed.<sup>18</sup> Without required supporting documentation, MWAA cannot prove that its claims are eligible for Federal reimbursement under the FTA grant. Consequently, FTA may have already made improper payments to MWAA for funds previously disbursed and risks making improper payments to MWAA for the \$289 million in Federal grant funds that remain available for disbursement on the project.<sup>19</sup>

### *Unallowable Costs*

MWAA also claimed Dulles rail project costs that, while adequately documented, are unallowable or ineligible for Federal reimbursement. Both Federal cost principles and FTA's Full Funding Grant Agreement with MWAA specify the types of costs that are allowable and unallowable under Federal grant awards. However, based on our review of 282 Dulles rail project transactions, we determined that MWAA received \$119,000 in FTA grant funding for unallowable costs, including:

- **\$54,000 for expenses outside the scope of Phase 1 of the Dulles rail project**, such as services related to the issuance of Dulles Toll Road revenue bonds and an engineering review for Phase 2 of the Dulles rail project. However, Phase 2 costs and other costs outside the scope of Phase 1 are not eligible for reimbursement under the FTA grant.
- **\$16,000 for payments to lobbyists and advocacy organizations**, which are specifically prohibited under Federal cost principles.<sup>20</sup>
- **\$3,000 received as a result of duplicate billing**. In two instances, MWAA charged the same invoice to the grant twice.

Based on these findings, we project that MWAA received \$350,000 in Federal grant funds for unallowable transactions.<sup>21</sup> However, this amount may be greater because the \$36 million in unsupported costs we identified could potentially include additional unallowable costs that we were unable to assess due to inadequate documentation. As of June 14, 2013, MWAA had taken steps to reverse \$55,000 (46 percent) of the \$119,000 in unallowable charges identified

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<sup>18</sup> Our estimate has an actual lower limit of \$36 million and a 90-percent upper confidence limit of \$248 million.

<sup>19</sup> Improper payments occur when: (1) funds go to the wrong recipient, (2) the right recipient receives the incorrect amount of funds (including overpayments and underpayments), (3) documentation is not available to support a payment, (4) or the recipient uses funds in an improper manner. Although not all improper payments are fraud, and not all improper payments represent a loss to the Government, all improper payments degrade the integrity of Government programs and compromise citizens' trust in Government.

<sup>20</sup> MWAA made the lobbyist payments to former MWAA board members, as mentioned in our prior audit report, *MWAA's Weak Policies and Procedures Have Led To Questionable Procurement Practices, Mismanagement, and a Lack Of Overall Accountability* (OIG Report Number AV-2013-006), Nov. 1, 2012.

<sup>21</sup> Our estimate has an actual lower limit of \$119,000 and a 90-percent upper confidence limit of \$585,000.

during our review. However, the Authority had not yet reversed the remaining unallowable costs we identified. For instance, MWAA had not reversed \$7,000 in office facilities rent expenses on Phase 2 that it inappropriately allocated to Phase 1. We also identified six reversals of unallowable costs for which MWAA reversed less than the actual amount FTA had reimbursed.<sup>22</sup> In total, MWAA still owes FTA more than \$2,000 for these six reversals.

## **CONCLUSION**

With responsibility for managing a multibillion-dollar public transit project and almost a billion dollars in Federal funds, MWAA plays a vital role in the Washington, DC, metropolitan area's transportation system and economy. The unallowable and unsupported costs we identified raise questions about MWAA's ability to adequately manage the Federal funds invested in the Dulles rail project. Given that \$289 million in Federal funds remain available for disbursement, FTA must continue to review MWAA's use of Federal grants and ensure that MWAA improves its financial management controls. Improvements to MWAA's financial management controls are critical for effectively managing this Federal investment and ensuring that scarce taxpayer dollars are appropriately expended.

## **RECOMMENDATIONS**

We recommend that the Federal Transit Administrator:

1. Conduct a Financial Management Oversight Review of MWAA, to include a review of financial reporting, general accounting, and allowable costs related to procurement and payroll.
2. Recover payments from MWAA for unsupported and unallowable costs identified in this report and in FTA's Financial Management Oversight reviews.

We recommend that the Federal Transit Administrator ensure that MWAA:

3. Implement a revised claim preparation process so that requests for reimbursement are based on complete, accurate accounting data that adequately identify the use of all grant funds. This process should provide instructions to staff on the appropriate use of project codes and include periodic reviews to ensure that staff appropriately charge the project codes.

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<sup>22</sup> This occurred because Federal reimbursement percentages vary over the life of the grant, and MWAA had processed the reversals using the Federal reimbursement percentage in place during the month that the reversal was made instead of using the percentage in place when the claims were originally submitted.

4. Revise its policies for travel reimbursement, purchase cards transactions, and rail project invoices to include FTA requirements; and provide training to MWAA staff on these policy revisions.
5. Implement a process, using the accounting system, to (a) track reversals made to reimbursement claims, (b) reconcile reversals and related claims to determine if the amounts reversed are equal to the actual amounts FTA reimbursed MWAA for the claims, and (c) recover any overpayments.
6. Revise previously submitted claims for reimbursement to eliminate inadequately supported and unallowable costs.
7. Implement a process to maintain sufficient required accounting documents, including:
  - a. A checklist for required supporting documentation—such as checks, payrolls, invoices, contracts, and other documents related to the project—for use prior to submitting claims;
  - b. Procedures to store documents in a manner that will be readily accessible; and
  - c. A process to maintain an accurate list of federally funded contracts and to ensure these contracts include FTA requirements.

## **AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

We provided FTA with our draft report on October 21, 2013. We received FTA's formal management response on December 23, 2013, which is included in its entirety as an appendix to this report. FTA concurred with all seven of our recommendations and provided appropriate planned actions and timeframes for completion. Accordingly, we consider these recommendations resolved but open pending completion of FTA's planned actions.

In its response, FTA stated that we did not provide requested data and documentation used as the basis for our findings. However, on October 21, 2013, we provided FTA with lists of the transactions reviewed, lists of the unsupported and unallowable costs we identified, and explanations for why we concluded the transactions were unsupported or unallowable. In addition, we offered on numerous occasions to brief FTA on the data we provided. In response to our offers, FTA declined to meet and did not request any additional data. Because FTA has requested further information in its response, we provided FTA with additional documents we received from MWAA. However, we believe it is most

efficient for FTA to obtain the documentation directly from MWAA. As FTA stated in its response, it is MWAA's responsibility, as sponsor of the Dulles rail project, to maintain all cost-related documentation. We appreciate FTA's commitment to oversight of Federal funds for the Dulles rail project.

## **ACTIONS REQUIRED**

FTA's planned actions and timeframes for all seven recommendations are responsive. We consider all seven recommendations as resolved but open pending completion of the planned actions.

We appreciate the courtesies and cooperation of Federal Transit Administration, Department of Transportation, and Metropolitan Washington Airports Authority representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5225 or Ken Prather, Program Director, at (202) 366-1820.

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cc: DOT Audit Liaison, M-1  
FTA Audit Liaison, FTA-TBP-10

## **EXHIBIT A. SCOPE AND METHODOLOGY**

We conducted this performance audit from November 2012 through October 2013 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 conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objective. The objective of our audit was to determine whether MWAA has controls in place to ensure FTA funds for Dulles rail project Phase 1 were spent on eligible expenditures.

To conduct our work, we obtained a list of MWAA's reimbursement claims (submitted between 2009 through 2011) from FTA's grant payment system. From this list of disbursements, we selected a statistical sample of 6, valued at approximately \$104.5 million, from a universe of 37 disbursements, valued at \$384 million. MWAA was unable to provide sufficient documentation for 1 of the 6 disbursements by our cut-off date of June 14, 2013, so we only reviewed all transactions from 5 of the 6 disbursements—a total of 282 transactions, such as payroll expenses, travel reimbursements, and contract expenses. Although we could not independently verify the reliability of all information on the FTA disbursements, we compared the data with DOT's accounting data and other supporting documentation to determine consistency and reasonableness. Based on this work, we determined that the data were sufficiently reliable for our analysis.

To assess whether the transactions were adequately supported and eligible for reimbursement, we requested documentation from MWAA, such as invoices, cancelled checks, electronic payment confirmation, and purchase card statements. MWAA did not provide the documentation in a timely manner (see table 3). To complete the audit in a reasonable timeframe, we limited our review to the documents that MWAA provided by our cut-off date of June 14, 2013.

**Table 3. Timeline of OIG Requests for MWAA Documentation**

<b>Date</b>	<b>Event</b>
March 2012	We first requested that MWAA provide documentation for the six FTA disbursements in our sample.
April 2012 - August 2012	MWAA sporadically provided documentation. As a result, we were unable to begin to fully assess the documentation until 3 months after our initial request.
October 2012 - February 2013	MWAA made several commitments to provide the documentation we requested. However, MWAA was only able to provide about half of the requested documentation by these deadlines.
June 2013	We informed MWAA representatives that we would cut off testing and focus our review on documentation we received by June 14, 2013.

In addition, we reviewed the Full Funding Grant Agreement and the ARRA Grant Agreement between FTA and MWAA, which granted a total of \$975 million in Federal funds for Phase 1 of the Dulles rail project. We also reviewed FTA policies—such as FTA Circulars 4220, 5010, 7008, and 9300—and reviewed MWAA’s procedures for submitting claims for Federal reimbursement. To assess MWAA’s grant administration practices, we interviewed MWAA employees—such as the Project Director, Deputy Director of Finance, and Grants Administrator—and FTA staff.

## EXHIBIT B. DETAILS ON FTA GRANT DISBURSEMENTS TO MWAA FOR PHASE 1 OF THE DULLES RAIL PROJECT

	Grant Number	Disbursement Date	Disbursement Amount
1	VA-03-0113	5/6/09	\$10,878,410
2	VA-03-0113	5/6/09	\$3,607,569
3	VA-03-0113	8/14/09	\$6,563,722
4	VA-36-0001	12/17/09	*\$19,098,421
5	VA-03-0113	1/22/10	\$15,633,272
6	VA-03-0113	3/10/11	\$48,745,140

\*MWAA did not provide sufficient documentation for this disbursement by our cut-off date of June 14, 2013, so we did not perform a full review of this disbursement.

Source: Federal Transit Administration.

**EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT**

<b><u>Name</u></b>	<b><u>Title</u></b>
Ken Prather	Program Director
Rachel Alderman	Project Manager
Jerri Bailey	Senior Analyst
Aaron Malinoff	Analyst
Patti Lehman	Auditor
Christina Lee	Writer-Editor
Megha Joshipura	Statistician

## APPENDIX. AGENCY COMMENTS



U.S. Department of  
Transportation  
**Federal Transit  
Administration**

# Memorandum

Subject: INFORMATION: Management Response to Office of Inspector General Draft Report on MWAA's Financial Management Controls of FTA's Dulles Rail Project Grants

Date: December 23, 2013

From: Peter Rogoff   
Administrator

Reply to: Lauren Tuzikow  
Attn. of: (202) 366-2059

To: Lou E. Dixon  
Principal Assistant Inspector General for Audits and Evaluation

The Federal Transit Administration (FTA), as a responsible steward of the public trust, is strongly committed to vigorous oversight of Federal funds on major capital projects, such as the Dulles Silver Line. FTA will work with the Metropolitan Washington Airports Authority (MWAA) to ensure that appropriate financial management controls are in place as MWAA continues to manage federal grants and potential loans for the Silver Line rail project.

FTA continues to work diligently with MWAA to ensure that internal controls are developed and implemented, and we share the Office of the Inspector General's (OIG) concerns that MWAA must develop corrective actions for the deficiencies found in this and prior audits. Based on the findings of an FTA financial management oversight (FMO) review, MWAA is now implementing a consolidated and comprehensive financial management system. This system will be in place for Phase 2 of the Dulles Silver Line project, which seeks loan financing through the Transportation Infrastructure Finance and Innovation Act (TIFIA). FTA has worked with MWAA over the last six years to ensure that, as a first-time federal grantee, it implements all the necessary accounting and reporting systems in place to properly monitor procurements, develop quarterly reports, comply with Buy America rules, and meet all other federal requirements. In the last year, we have seen increased executive-level attention to these critical management oversight issues and MWAA has hired needed staff to assist in these areas.

We recognize that while some progress toward greater accountability has been made, more work remains to be done in the area of internal controls. Although the OIG states in its draft report that MWAA lacks sufficient documentation to support \$36 million in claimed reimbursable expenses, this cannot be determined as factual until FTA has all the necessary cost data and related documentation in hand for review. FTA has requested that the OIG provide us with the data and documentation used as the basis for this finding so that we may assess whether sufficient documentation was submitted. The full set of documentation from MWAA (such as invoices) that the OIG relied on for its finding has not yet been provided to FTA.

### Appendix. Agency Comments

In making determinations about eligible costs, FTA relies in part on the Master Agreement signed with each project sponsor. The Master Agreement describes standard terms and conditions governing the administration of any project supported with federal assistance. It includes eight eligibility criteria that grantees must meet in order to receive federal funds—including a provision that costs submitted without sufficient documentation are ineligible. In assessing whether a payment is documented sufficiently, FTA considers whether the documentation is reasonable and persuasive. FTA's staffing levels have never allowed for an actual review of all invoices underlying each funding request submitted by grantees at the time of reimbursement, including funding requests submitted by MWAA. It is the project sponsor's responsibility to maintain all cost-related documentation so that FTA can determine its sufficiency as part of periodic audits and reviews. (FTA is in the process of examining risk-based approaches to determining how best to review eligible costs as they are incurred for Phase 2 of the Dulles project.)

Once we have received all of the supporting documentation from the OIG and conducted our own analysis, and after we have provided an opportunity for MWAA, as the project sponsor, to respond to any questioned costs, we will make a determination as to whether any costs were ineligible or any payments were improper. Until such time as that determination is made, we cannot verify the accuracy of the OIG's findings. We are, however, placing MWAA on "restricted draw down," which means that FTA will monitor all invoices submitted for reimbursement by MWAA, and that FTA will withhold sufficient funding to ensure that we are not at risk of over-compensating MWAA for any ineligible expenses submitted.

FTA is pleased to note that the 11.7-mile Phase I of the Dulles Silver Line is currently scheduled to open ahead of schedule and is on-track to be completed within budget. As of August 31, 2013, the project was over 90 percent complete, and is currently expected to open well ahead of the December 1, 2014 date agreed upon in FTA's Full Funding Grant Agreement with MWAA.

## **Recommendations and Responses**

**Recommendation 1:** Conduct a Financial Management Oversight (FMO) Review of MWAA, to include a review of financial reporting, general accounting, and allowable costs related to procurement and payroll.

**Response:** Concur. This review will be most-effective if it is used to confirm the progress MWAA has made in responding to the findings identified by FTA's earlier reviews, as well as by this report. FTA will immediately require MWAA to develop a corrective action plan by March 31, 2014. FTA will then monitor implementation of the corrective actions identified in the plan. Once MWAA has implemented the corrective action plan for six months, FTA will then conduct a formal FMO Review that takes the corrective actions into account. The review will be completed by January 31, 2015.

**Recommendation 2:** Recover payments from MWAA for unsupported and unallowable costs identified in this report and in FTA's FMO reviews.

## **Appendix. Agency Comments**

**Response:** Concur. FTA will collect from MWAA any FTA funds deemed ineligible for reimbursement, if and when we uncover any ineligible costs during our upcoming review of the documentation for the payments identified in this report. Any such funds for which MWAA cannot provide adequate documentation will be collected in accordance with applicable federal debt collection rules and our oversight management process. FTA will notify MWAA by March 31, 2014 that they need to provide documentation of the costs that the OIG has identified as unsupported and unallowable. FTA will conclude its review of this information and request repayment of any unsupported and ineligible costs by September 30, 2014.

**Recommendation 3:** FTA should ensure that MWAA implements a revised claim preparation process so that requests for reimbursement are based on complete, accurate accounting data that adequately identify the use of all grant funds. This process should provide instructions to staff on the appropriate use of project codes and include periodic reviews to ensure that staff appropriately charges the project codes.

**Response:** Concur. FTA will oversee all efforts by MWAA to develop and implement these processes. We will require that MWAA develop and enact the necessary processes and procedures and provide related staff training by September 30, 2014.

**Recommendation 4:** FTA should ensure that MWAA revises its policies for travel reimbursement, purchase card transactions, and rail project invoices to include FTA requirements; and provide training to MWAA staff on these policy revisions.

**Response:** Concur. FTA will oversee all efforts by MWAA to develop and implement these processes. We will require that MWAA develop and enact the necessary processes and procedures and provide related staff training by September 30, 2014.

**Recommendation 5:** FTA should ensure that MWAA implements a process, using its new accounting system, to (a) track reversals made to reimbursement claims, (b) reconcile reversals and related claims to determine if the amounts reversed are equal to the actual amounts FTA reimbursed MWAA for the claims, and (c) recover any overpayments.

**Response:** Concur. FTA will instruct MWAA to make the necessary changes to ensure they are able to track and reconcile reversals to reimbursement claims. FTA will notify MWAA to develop and enact the necessary processes and procedures for recommendations (a) and (b) and provide related staff training by September 30, 2014. In addition, FTA will recover any and all overpayments *if and when* FTA determines that payments were made in error.

**Recommendation 6:** FTA should ensure that MWAA revises previously submitted claims for reimbursement to eliminate inadequately supported and unallowable costs.

**Response:** Concur. As in the case of Recommendation 2, FTA will ensure that MWAA reimburses FTA for any ineligible payments identified, whether through a direct repayment or through a refund adjustment made during a future MWAA drawdown of funds. This too, will be accomplished by September 30, 2014.

## Appendix. Agency Comments

**Recommendation 7:** FTA should ensure that MWAA implements a process to maintain sufficient required accounting documents, including:

- a. A checklist for required supporting documentation--such as checks, payrolls, invoices, contracts, and other documents related to the project--for use prior to submitting claims;
- b. Procedures to store documents in a manner that will be readily accessible; and
- c. A process to maintain an accurate list of federally funded contracts and to ensure these contracts include FTA requirements.

**Response:** Concur. FTA will oversee MWAA's efforts to implement these processes. FTA will require that MWAA enact the necessary processes and procedures and provide related staff training by September 30, 2014.

We appreciate this opportunity to offer additional perspective on the OIG draft report. Please contact Lauren Tuzikow at (202) 366-2059 with any questions or requests for additional assistance.