



November 30, 2012

Mr. John D. Porcari
Deputy Secretary
Department of Transportation
1200 New Jersey Avenue, SE
Washington, DC 20590

Dear Deputy Secretary Porcari:

In response to your November 9, 2012 letter, we want to formally submit the Metropolitan Washington Airports Authority's action plan to address the recommendations made in the Office of Inspector General (OIG) November 1, 2012 report entitled "MWAA's Weak Policies and Procedures Have Led to Questionable Procurement Practices, Mismanagement, and a Lack of Overall Accountability".

Following the issuance of the DOT Inspector General's interim report last May, the Airports Authority undertook a number of actions in the areas of governance, transparency, ethics, procurement and travel. Many of these actions are responsive to recommendations presented in the Inspector General's final report. Other recommendations in the final report are new and will require additional action on our part. We would note that as we address the OIG recommendations we have worked and will continue to work closely with Ms. Kimberly Moore, the Federal Accountability Officer, who has provided significant guidance and assistance. We are determined to implement the twelve recommendations of the Inspector General as quickly as possible. We also are determined to do whatever is necessary to restore your confidence in the Airports Authority and in our ability to operate the important public transportation assets that have been entrusted to us.

The November 1, 2012 OIG report recommendations address concerns with integrity and accountability in the Airports Authority's management and governance. On November 14, 2012, the Airports Authority responded to similar concerns previously raised by Secretary LaHood, Governor McDonnell, Governor O'Malley and Mayor Gray. A copy of this November correspondence is enclosed for your information since it addresses many issues relevant to the OIG report recommendations and our response action plan.

The leadership of the Airports Authority welcomes the OIG recommendations and intends to fully address and implement them as expeditiously as feasible. Summarized below is our action plan for implementing the specific OIG recommendations, including a "status" of the actions we have taken to date and others we are in the process of taking, and the timeframe for completing the implementation. Also, we have enclosed an executive summary matrix that

management is using to track our weekly progress on the action plan. The compliance dates we have committed to are achievable, but we assure you we will diligently act on the plan with the goal of achieving results prior to our targeted completion dates. Our response to the OIG recommendations is as follows.

1. ***Provide quarterly acquisition reports to the Board of Directors and to DOT.***

Status:

In December 2012, an acquisition forecast report will be presented to the Board and DOT for planned procurement activity during first quarter 2013. In February 2013, the first comprehensive Quarterly Acquisition Report will be prepared documenting procurement activity for the fourth quarter of 2012, including contracts awarded and contract selections approved by the Board, and planned procurements for the upcoming quarter (April, May, and June 2013). The report will also identify contracting officer authority and limitations. The comprehensive Quarterly Acquisition Report will thereafter be produced on a quarterly basis to include contracts awarded for the most recently closed fiscal quarter and planned procurements for the upcoming fiscal quarter.

2. ***Implement a plan with milestones to revise contracting policies and procedures to reflect Federal and other best practices.***

Status:

Work has already begun to incorporate the six specific changes recommended into the Contracting Manual. A revised and amended Contracting Manual will be presented to the Board for discussion in December 2012 and, following a public comment period, for formal action in the first quarter 2013. Development of the Annual Procurement Acquisition Forecast will be completed in January 2013.

3. ***Clarify and enforce current contracting policies and procedures***

Status:

Work is underway on the preparation of an amendment to the Manual that will clarify, and address the enforcement of these policies, including permitted circumstances for exceptions to full and open competition. This amendment will be presented to the Board for approval during the first quarter of 2013. In the interim, effective August 2012, the CEO suspended the use of less than full and open competition for legal, financial and audit professional services unless specifically authorized by the CEO.

In addition, the Procurement Department is implementing additional internal review processes to ensure: effective compliance with the permitted use of sole source contracting; appropriate Board authorizations of sole source contract awards; appropriate documentation for the use of task order contracts; contract amendments consistent with contract scope; and enhanced oversight of technical review panel composition. These new processes will also be in place during the first quarter 2013.

Through reorganization, the Airports Authority's procurement function has been transferred to the Office of Finance. Recruitment is underway for a new director. Also, an Internal Controls and Compliance Division has been established in the Office of

Finance under the direction of the Chief Financial Officer. This division will be responsible for monitoring and testing operational compliance with established policies and processes, including procurement.

4. *Assess the Authority's procurement workforce and implement appropriate procurement certification program, including Acquisition and Ethics Training*

Status:

An external consultant is being retained to conduct the workforce assessment which will be completed by June 30, 2013. In the interim, two additional contracting officer positions have been approved in the 2013 budget and will be competitively recruited for in January 2013. Development of the procurement certification program is underway and it will be defined and refresher training conducted by June 30, 2013. Ethics training for contracting staff (in addition to the training already provided on the new ethics code for Airports Authority employees) will also occur in the first quarter of 2013. The curriculum for annual refresher training for procurement staff and contracting officers and contracting technical representatives will be developed by June 30, 2013.

5. *Establish policies and procedures for procurement integrity*

Status:

Amendments to the Contracting Manual are in preparation that will create these policies; the amendments will be presented to the Board in the first quarter of 2013. This recommendation may also require amendments to the Authority's Codes of Ethics for Board members and employees. If it is determined that such amendments are needed, they also will be presented to the Board during the first quarter of 2013.

6. *Fully Implement Formal Ethics Policies and procedures for Board Members and MWAA Employees*

Status:

In September, the Authority adopted two new codes of ethics, one applicable to the Board of Directors, the other to Authority employees. With minor exceptions, the two codes contain parallel provisions.

As to conflicts of interests, the codes' conflicts provisions, particularly those in the Board code, have been significantly strengthened. For example:

- a. The definition of "conflict of interests" has been expanded to encompass not just "businesses doing or seeking to do business with the Authority," but any business or real property that "may realize a reasonably foreseeable benefit or detriment as a result of an Authority action or decision";
- b. Various thresholds defining the level of financial interest in a business or property that may give rise to a conflict of interests have been lowered to parallel levels in Federal conflicts rules; and
- c. A "recusal" procedure that is to be followed by Board members with a conflict of interests has been defined, which includes public announcement of

the recusal, execution of a recusal agreement, and certain steps to withdraw from participating in the "conflicted" matter at a Board or committee meeting.

In addition to strengthening the "conflict of interests" area, the new ethics codes have clarified and strengthened other important areas. For instance:

- a. The codes' provisions relating to the solicitation and acceptance of gifts have been significantly rewritten and tightened;
- b. The codes' approach to financial disclosures has been substantially altered and revised to parallel the approach taken in the Federal "disclosure" area. Under the new codes, disclosures will not be limited to those "businesses doing or seeking to do business" with the Authority in which a Board member or employee has a financial interest, but will extend to any business in which a financial interest is held. In addition, the disclosures will now include information relating to gifts received, employment positions occupied, and outside positions held during the prior year;
- c. The Board code has been revised to specifically address the use of one's position to benefit relatives or friends, and the use of confidential information. In addition, the Airports Authority has initiated a disclosure process whereby all current employees will identify relatives who are employed at the Airports Authority and relatives who are members of the Board. This disclosure process will be completed in the first quarter of 2013. The Airports Authority employment application form is also being revised to require applicants to disclose friends, relatives and Board relationships and a process for reviewing and utilizing this information is being developed. The revised process will be completed in the first quarter 2013;
- d. The Board code also has been revised to provide, for the first time, provisions directed at the enforcement of the code's substantive rules. The code establishes an Ethics Review Committee of the Board and a procedure for the review of and action on allegations of member conduct in violation of the code; and
- e. Both codes provide for the appointment of an Ethics Officer for the Authority and define the responsibilities of the officer. The appointment of an Ethics Officer (an attorney in the Office of General Counsel) was approved by the Board in October. Her responsibilities include:
 - i. ensuring the timely filing of annual financial disclosure statements by Board members and all employees required to file, reviewing such filings to ensure completeness, and using information in the filings to alert members and employees of potential conflicts of interests;
 - ii. discussing potential conflicts of interests with Board members and employees, and providing for the execution of recusal agreements when appropriate;
 - iii. reviewing the second jobs of Authority employees for potential conflicts of interests and approving them when no conflict is presented;

- iv. reviewing Board member and employee inquiries regarding “widely attended gatherings” and approving the acceptance of invitations to such events when the codes’ standards are met;
- v. advising members and employees generally as to the codes’ applicability to situations they describe;
- vi. acting as staff to the Board’s Ethics Review Committee, undertaking a preliminary investigation of alleged code violations by a Board member, and making recommendations based on the investigation to the committee; and
- vii. arranging for the provision of ethics training on an annual basis for Board members and employees, as well as new members and employees soon after their arrival at the Authority.

In addition, the Ethics Officer is developing internal forms and protocols to be used in implementing and overseeing compliance with the new ethics codes, including annual conflict of interests certifications by contracting officers and their representatives. These forms and protocols will be completed in January 2013.

7. *Emphasize Verification and Documentation in Financial Interest Forms Review Process*

Status

The newly created Ethics Officer position, revised disclosure forms and a process for ensuring the filing of complete forms, outlined in response to recommendation #6 above, have been developed to ensure documentation, appropriate counsel and compliance. In addition, the Internal Controls and Compliance function within the Office of Finance will provide additional independent validation of the process.

8. *Fully Implement a formal, Robust Ethics Training Program*

Status:

With respect to ethics training, the new codes require ethics training for new Board members and employees within 30 days of their arrival at the Authority and thereafter on an annual basis. Since the adoption of the new Ethic codes, ethics training programs have been developed and implementation is underway. To date, two training sessions have been conducted for Board members. Thirty-six sessions have been conducted for employees resulting in 1,368 of our 1,425 employees having been trained. All employees of the Airports Authority will be trained by the end of December 2012. Annual ethics training will hereafter be provided to employees and Board members. It is envisioned that every three years this training will be delivered in a “live” meeting format, like the training now being conducted, and that, in the intervening two years, an on-line training program will be provided. Procurement integrity training for procurement staff will occur in the first quarter of 2013.

9. *Establish Priorities for Implementing Ethics Code*

Status:

As noted in response to recommendation #6 above, both codes provide for the appointment of an Ethics Officer for the Authority and define the responsibilities of the officer. The Ethics Officer is developing internal forms and protocols to be used in implementing and overseeing compliance with the new ethics codes, including annual conflict of interests certifications by contracting officers and their representatives. These forms and protocols will be completed in January 2013. In addition, the Internal Controls and Compliance function within the Office of Finance will provide additional independent validation of the procedures implemented.

10. *Implement and Enforce Human Resources Policies and Practices*

Status

- a. Recruitment is underway for a new Vice President for the Office of Human Resources to replace the prior Vice President who has retired. In the interim, the President and CEO has assumed day-to-day management of the Office.
- b. In regards to policies addressing competitive hiring and compensation policy and procedure, policy revisions are underway (i) to clarify that, with possible narrow exceptions, all newly created positions, vacant positions, and "promotional opportunity" open positions will be competitively filled, (ii) to eliminate job descriptions with "unclassified duties," and (iii) to require that all positions have a specific job description with an associated salary range. These revisions will be completed by June 30, 2013. In addition, a number of actions in line with these policies have already been taken.
- c. In regards to the student employment program, management guidance for the program was developed and distributed to all Authority offices in July. The guidance requires student candidates and current student employees to meet and maintain program eligibility requirements, and requires that all students complete background investigations before being hired. Validation of eligibility for student employment is currently underway for students currently employed.
- d. In regards to background checks on new employees, steps have been taken to improve communication and coordination between the Office of Human Resources and the Office of Public Safety, including providing certain Public Safety employees access to personnel files. In addition, to improve Authority background investigations, in October, the Board of Directors authorized staff to begin the Authority's process to adopt a new regulation that will enable the Authority's Police Department to obtain criminal history record information for new employees from the FBI, through the Virginia state police. It is anticipated that this regulation will be adopted by the Board in December 2012.
- e. In regards to justifications to override no-hire recommendations based upon background investigations, new Authority policy will provide that decisions regarding the suitability of individuals based on background investigations will be made by the Vice President for the Office of Public Safety, and that

appeals from such decisions may be made to the President and CEO. The policy will be finalized in December 2012.

- f. Revised formal policies for hiring bonuses and cash awards are under development and will be finalized in the first quarter of 2013. These policies will establish a set of new, more stringent criteria for cash awards and appropriate authorizations for use of hiring bonuses.
- g. Regarding the timely verification of employee eligibility for compensation and benefits, procedures providing for such verification will be adopted and implemented during the first quarter of 2013. In addition, these procedures will ensure that benefits will not be authorized or provided following the termination of an employee's employment for reasons other than retirement.

11. ***Revise Travel Policy to Define "Reasonable Lodging Expense"***

Status:

A recommended policy change has been developed in consultation with the Federal Accountability Officer and will be recommended to the Board for approval in December 2012. As proposed, acceptable lodging will be limited to either the designated conference hotel room offered at discounted rates or lodging of a standard room at an economy or business class hotel.

12. ***Enhance the Accountability and Transparency of the Board of Directors***

Status:

In November 2012, the Board revised its policy regarding meetings of the Board's Audit Committee. The revised policy was developed in consultation with the Federal Accountability Officer. All Audit Committee meetings will be held in open session with the exception of four specific circumstances: when considering audits involving safety or security matters, proprietary and privacy information, matters related to actual or potential litigation, and information that the professional standards governing financial statement auditors require to be addressed in closed session. This policy revision will be added to the Authority's bylaws in January 2013.

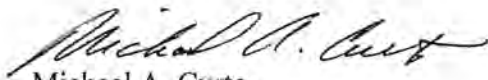
A formal Business Expense Policy is being prepared and will be reviewed with the Federal Accountability Officer and established as policy during the first quarter 2013.

The recommendation to establish a mechanism for external review of denials for information under the Freedom of Information Policy is under consideration by the Airports Authority at this time, and the Airports Authority will work with the Federal Accountability Officer to develop a response during the first quarter of 2013.

Mr. John D. Porcari
Deputy Secretary of Transportation
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We hope our action plan conveys the full commitment of the Airports Authority Board of Directors and senior management to thoroughly address and implement all of the recommendations in the Inspector General's November 2012 final report. We are committed to regaining your confidence.

Sincerely,


Michael A. Curto
Chairman


John E. Potter
President and Chief Executive Officer

Enclosures

cc: Calvin L. Scovel III, Inspector General
Kimberly Moore



METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

RESOLUTION AND REMEDIATION OF DOT OIG AUDIT REPORT DATED NOVEMBER 1, 2012

Prepared by: The Office of Finance
Internal Controls & Compliance Division
Status Through: November 30, 2012



Remediation Dashboard

OIG Interim Report Recommendation	Target Completion	Status
1. Provide Quarterly Acquisition Reports to the Board of Directors and DOT	1Q 2013	On Track ●
2. Implement a Plan with Milestones to Revise Contracting Policies & Procedures to Reflect Federal and Other Best Practices	1Q 2013	On Track ●
3. Clarify and Enforce Current Contracting Policies and Procedures	1Q 2013	On Track ●
4. Define and Assess the Size and Skills of the Acquisition Workforce and Implement an Appropriate Acquisition Certification Program, Including Acquisition and Ethics Training	2Q 2013	On Track ●
5. Establish Policies and Procedures for Procurement Integrity	1Q 2013	On Track ●
6. Fully Implement Formal Ethics Policies and Procedures for Board Members and MWAA Employees	1Q 2013	On Track ●
7. Ensure the Review Process for Financial Interest Forms Emphasizes Verification and Documentation	1Q 2013	On Track ●
8. Fully Implement a Formal, Robust Ethics Training Program	1Q 2013	On Track ●
9. Establish Priorities for Implementing the New Board and MWAA Employee Ethics Code	1Q 2013	On Track ●
10. Implement and Enforce Human Resources Policies and Practices	2Q 2013	On Track ●
11. Revise Travel Policy to Further Define what Constitutes "Reasonable Lodging Expense" for Authority-related Travel	4Q 2012	On Track ●
12. Further Enhance Accountability and Transparency of the Board of Directors	1Q 2013	On Track ●

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY



Board of Directors

November 14, 2012

Michael A. Curto *
Chairman

Honorable Thomas M. Davis III °
Vice Chairman

Earl Adams, Jr. *

Richard S. Carter *

Lynn Chapman °

Frank M. Conner III °

Honorable H.R. Crawford +

Shirley Robinson Hall +

Barbara Lang +

Elaine McConnell °

Caren Merrick °

Michael L. O'Reilly °

Warner H. Session +

Todd A. Stottlemeyer °

Appointee of:

* United States

+ District of Columbia

× Maryland

° Virginia

The Honorable Ray LaHood
Office of the Secretary
U.S. Department of Transportation
1200 New Jersey Avenue, SE
Washington, DC 20590

The Honorable Robert F McDonnell
Office of the Governor
Patrick Henry Building, 3rd Floor
111 East Broad Street
Richmond, VA 23219

The Honorable Vincent C. Gray
Executive Office of the Mayor
1350 Pennsylvania Avenue, NW
Washington, DC 20004

The Honorable Martin O'Malley
Office of the Governor
100 State Circle
Annapolis, MD 21401

Dear Secretary LaHood, Mayor Gray, Governor McDonnell and Governor O'Malley:

On behalf of the Airports Authority's Board of Directors, I want to update you on actions that have been taken and those that are underway in response to the issues expressed in your joint letter of August 4, 2012, and to the reports issued by the Department of Transportation Inspector General. The leadership of the Airports Authority understands the concerns you have expressed, takes them seriously, and intends to fully address and resolve them.

Following the issuance of the DOT Inspector General's interim report letter last May, the Airports Authority undertook a number of actions in the areas of governance, transparency, ethics, procurement and travel. Many of these actions are responsive to the issues presented in your August 4 letter. The Inspector General's final report, issued on November 1, contains a series of 12 recommendations that the Airports Authority intends to fully implement. Some of those recommendations call for actions we have already taken in response to the May interim letter; others call for additional action on our part. We are determined to implement the recommendations of the Inspector General as quickly as possible. We also are determined to do whatever is necessary to restore your confidence in the Airports Authority and in our ability to operate the important public transportation assets that have been entrusted to us.

Over the past 25 years, the Airports Authority has successfully financed and developed significant improvements to Ronald Reagan National and Dulles International Airports, expanding the availability and quality of air service in the greater Washington region and significantly contributing to the regional economy. I believe that sound judgment, effective management and organizational integrity were required for this success, and that these values continue to guide the Authority's work today. It is clear, however, that past actions and decisions, as described in the Inspector General's interim and final reports, have cast doubt upon the transparency, fairness and integrity of the Authority's administration of valuable regional assets, and have served to overshadow the quality service that Authority employees provide each day to the region's travelers. It is equally clear that the Authority must act, meaningfully and convincingly, to remedy the organizational deficiencies suggested by those actions and decisions in order to regain your trust, as well as that of the public.

In your August 4 letter, you identified eight areas in which you expected the Authority to institute "reforms . . . immediately in the most appropriate and lawful manner." I want to report on the actions we have taken in each of these areas, and to identify the additional actions we intend to take in the near future. I would note that, in taking these actions, we have worked – and will continue to work – closely with Ms. Kimberly Moore, the Federal Accountability Officer appointed by Secretary LaHood, who has provided significant guidance and assistance.

Each of the reform areas identified in your letter is stated below and, following its identification, a "status" is provided of the actions we have taken, and others we are in the process of taking, to respond to your issues of concern and to the recommendations made in the Inspector General's final report (referred to below as "IG Recommendations").

- A. *"Swiftly overhaul financial, procurement, and human resources policies and adopt policies in line with Federal standards for transparency and fairness in these categories."*

Status

1. In the area of Procurement, the following actions have been taken or are in process:
 - a. The use of categorical exceptions to "full and open competition" has been suspended for professional services,¹ and amendments to the Authority's Contracting Manual that minimize future use of such exceptions are scheduled to be presented to the Board of Directors in the first quarter of 2013. (See IG Recommendation 2(b))
 - b. Through reorganization, the Authority's procurement function has been transferred to the Office of Finance.

¹ A copy of the memorandum from the Authority's President and CEO imposing this suspension is enclosed as Enclosure A.

- c. Recruitment is underway for a new director of the Authority's procurement function, to replace the prior director who has retired.
- d. The Authority is in the process of taking the steps necessary to implement the following "procurement-related" recommendations of the Inspector General.² Our intent is to have much of this work completed in the first quarter of 2013, and the remainder by June 30, 2013.
 - i. To address IG Recommendation 1 regarding the preparation of quarterly procurement acquisition reports, this first of these reports will be produced and delivered to DOT in April 2013; the report will cover the first quarter of 2013, will address contracts awarded and contract selections approved by the Board during the quarter, and will identify planned procurements for the following quarter. This report will thereafter be produced on a quarterly basis.
 - ii. To address IG Recommendation 2 regarding revisions to the Authority's Contracting Manual to reflect Federal and other best practices in certain identified areas, work has begun on these revisions, and formal amendments to the Contracting Manual that address the areas identified in this recommendation will be presented to the Board of Directors during the first quarter of 2013.
 - iii. To address IG Recommendation 3 regarding the need to clarify and enforce certain identified policies and procedures currently in the Contracting Manual, work is underway on the preparation of amendments to the Manual that will clarify, and will address the enforcement of, these policies; these amendments will be presented to the Board during the first quarter of 2013.
 - iv. To address IG Recommendation 4 regarding an assessment of the Authority's procurement workforce and implementation of an appropriate procurement certification program, an external consultant is being retained to conduct this assessment and work is underway to prepare the recommended certification program. The workforce assessment will be completed and the certification program will be defined by June 30, 2013.
 - v. Finally, to address IG Recommendation 5 regarding the establishment of policies and procedures for procurement integrity, amendments to the Contracting Manual are in preparation that will formally create these policies; the amendments will be presented to the Board in the first quarter of 2013. This IG Recommendation may also require amendments to the Authority's codes of ethics for Board members and employees (discussed below); if it is determined that such amendments are needed, they also will be presented to the Board during the first quarter of next year.

² The Recommendations in the Inspector General's final report (pages 38-41) are enclosed as Enclosure B.

2. In the area of Human Resources, the following actions have been taken or are in process:
 - a. Recruitment is underway for a new Vice President for the Office of Human Resources to replace the prior Vice President who has retired. In the interim, the Authority's President and CEO has assumed day-to-day management of the Office.
 - b. To address IG Recommendation 10(a) regarding policies addressing competitive hiring and compensation policy and procedure, policy revisions are underway (i) to clarify that, with possible narrow exceptions, all newly created positions, vacant positions, and "promotional opportunity" open positions will be competitively filled, (ii) to eliminate job descriptions with "unclassified duties," and (iii) to require that all positions have a specific job description with an associated salary range. These revisions will be completed in the first quarter of 2013. In addition, a number of actions in line with these policies have already been taken.
 - c. To address IG Recommendation 10(b) regarding the student employment program, management guidance for the program has been developed and distributed to all Authority offices; the guidance ensures that student candidates and current student employees meet and maintain program eligibility requirements, and requires that all students complete background investigations before being hired.
 - d. To address IG Recommendation 10(c) regarding background checks on new employees, steps have been taken to improve communication and coordination between the Office of Human Resources and the Office of Public Safety, including providing certain Public Safety employees access to personnel files. In addition, to improve Authority background investigations, on October 17, the Board of Directors authorized staff to begin the Authority's process to adopt a new regulation that will enable the Authority's Police Department to obtain criminal history record information for new employees from the FBI, through the Virginia state police. It is anticipated that this regulation will be adopted by the Board within the next six weeks.
 - e. To address IG Recommendation 10(d) regarding justifications to override no-hire recommendations based upon background investigations, new Authority policy will provide that decisions regarding the suitability of individuals based on background investigations will be made by the Vice President for the Office of Public Safety, and that appeals from such decisions may be made by to the President and CEO.
 - f. To address IG Recommendation 10(e) regarding the establishment of policies for hiring bonuses and cash awards, policies are now being developed in this area. Once finalized, which will be during the first quarter of 2013, these policies will, among other things, require the approval of the President and CEO for any hiring bonus and will establish a set of new, more stringent criteria for cash awards.

- g. Finally, to address IG Recommendation 10(f) regarding the timely verification of employee eligibility for compensation and benefits, procedures providing for such verification will be adopted and implemented during the first quarter of 2013. In addition, these procedures will ensure that benefits will not be authorized or provided following the termination of an employee's employment for reasons other than retirement.
3. In the area Finance, the following actions have been taken or are in process:³
- a. An Internal Controls and Compliance Division has been established in the Office of Finance under the direction of the Chief Financial Officer. This division is responsible for monitoring and testing Authority-wide remediation of the Inspector General's findings, for monitoring the status of all audit findings, for periodically validating operational compliance with established Authority policies and processes, and, where lack of compliance or adequate internal controls are found, for providing the action required to bring about such compliance or sufficient controls.
- B. *"Terminate all existing contracts with former Board members and former employees that were not competitively bid."*

Status

- 1. All contracts with former Board members have been terminated.
- 2. The one contract with a former employee has been terminated.
- 3. In addition, the new code of ethics for members of the Board of Directors,⁴ which was adopted by the Board on September 19, prohibits any Board member and any member of his or her family, for a two-year period following the member's departure from the Board, from having any contractual relationship with the Authority. The new code extends this two-year contract prohibition to any business entity that is under the control of a former Board member.
- 4. The new Board ethics code also prohibits any member of the Board and any member of his or her family, as well as any business entity that is controlled by the member, from having a contract with the Authority during the member's term on the Board.

³ Other than addressing issues relating to procurement (see para. A(1)(d) above), the IG Recommendations do not directly address the Authority's "finance" function or activities of the Office of Finance.

⁴ The revised ethics code for the Board of Directors is enclosed as Enclosure C.

C. *"Terminate all existing employment relationships with former Board members."*

Status

1. The single employment contract with a former Board member has been terminated.
 2. In addition, the new code of ethics for Board members prohibits any Board member and any member of his or her family, for a two-year period following the member's departure from the Board, from being employed by the Authority.
 3. The new Board ethics code also prohibits any member of the Board and any member of his or her family from being employed by the Authority during the member's term on the Board.
- D. *"Adopt post-employment restrictions for Board members and employees that meet Federal standards."*

Status

1. In addition to adopting a new ethics code for the Board of Directors, on September 19 the Authority adopted a new code of ethics for employees.⁵ The Authority worked closely with Ms. Kimberly Moore, the appointed Federal Accountability Officer, in developing both of these new codes. These new codes places restrictions on Board members and employees following their departure from the Authority which are consistent with Federal standards. Prior Authority codes of ethics did not impose any such restrictions on Board members or employees. The provisions of these new codes and the actions being taken to implement the codes, which are described below, address IG Recommendations 6 through 9.
2. The ethics code for Board members, in addition to the two-year contract and employment prohibitions described above, bars members, for a two-year period after they leave the Board, from knowingly making any communication to or appearance before the Board or any Authority officer or employee, on behalf of a person, in connection with a matter that the member knew or should have known was pending during his or her term on the Board. This provision is consistent with Federal standards.
3. The ethics code for employees places a number of post-employment restrictions on employees.
 - a. On a *permanent* basis, the code bars employees from knowingly making any communication to or appearance before the Board of Directors or any

⁵ The revised ethics code for the Authority employees is enclosed as Enclosure D.

Authority officer or employee, on behalf of a person, in connection with a matter in which the employee "participated personally and substantially as an Authority employee."

- b. For a *two-year period* after leaving the Authority, the code prohibits employees from knowingly making a communication to or appearance before the Board or any Authority officer or employee, on behalf of a person, in connection with a matter which was "pending within an area of the Authority for which the former employee was responsible" at any time during the year before the employee's departure from the Authority.
- c. For a *one-year period* after departing the Authority, the code provides an overall "cooling off period" applicable to employees who are required to file annual financial disclosure statements; those employees are barred, for a year following the termination of their Authority employment, from knowingly making any communication to or appearance before the Board or any Authority officer or employee on behalf of any person, regardless of the nature of the particular matter.

- E. *"Strengthen your ethics code to guard against conflicts of interests and provide annual ethics training to Board members and employees."*

Status

- 1. As noted, on September 19 the Authority adopted two new codes of ethics, one applicable to the Board of Directors, the other to Authority employees. With minor exceptions, the two codes contain parallel provisions.
- 2. As to conflicts of interests, the codes' conflicts provisions – but particularly those in the Board code – have been significantly strengthened. For example:
 - a. The definition of "conflict of interests" has been expanded to encompass not just "businesses doing or seeking to do business with the Authority," but any business or real property that "may realize a reasonably foreseeable benefit or detriment as a result of an Authority action or decision";
 - b. Various thresholds defining the level of financial interest in a business or property that may give rise to a conflict of interests have been lowered to parallel levels in Federal conflicts rules; and
 - c. A "recusal" procedure that is to be followed by Board members with a conflict of interests has been defined, which includes public announcement of the recusal, execution of a recusal agreement, and certain steps to withdraw from participating in the "conflicted" matter at a Board or committee meeting.
- 3. In addition to strengthening the "conflict of interests" area, the new ethics codes have clarified and strengthened other important areas. For instance:
 - a. The codes' provisions relating to the *solicitation and acceptance of gifts* have been significantly rewritten and tightened, and particular emphasis on

- these provisions has been given during current ethics training (*see* para. 4 below);
- b. The codes' approach to *financial disclosures* has been substantially altered and revised to parallel the approach taken in the Federal "disclosure" area. Under the new codes, disclosures will not be limited to those "businesses doing or seeking to do business" with the Authority in which a Board member or employee has a financial interest, but will extend to *any business* in which a financial interest is held. In addition, the disclosures will now include information relating to gifts received, employment positions occupied, and outside positions held during the prior year.⁶ (The actions in this subpara. (b) address IG Recommendation 6(b));
 - c. The Board code has been revised to specifically address the *use of one's position* to benefit relatives or friends, and the use of *confidential information* (addressing IG Recommendation 6(a));
 - d. The Board code also has been revised to provide, for the first time, provisions directed at the *enforcement* of the code's substantive rules. The code establishes an Ethics Review Committee of the Board and a procedure for the review of and action on allegations of member conduct in violation of the code (*see* subpara. (e)(vi) below); and
 - e. Both codes provide for the appointment of an Ethics Officer for the Authority and define the responsibilities of the officer. The appointment of an Ethics Officer (an attorney in the Office of General Counsel) was approved by the Board on October 17. Her responsibilities include:
 - i. ensuring the timely filing of annual financial disclosure statements by Board members and all employees required to file, reviewing such filings to ensure completeness, and using information in the filings to alert members and employees of potential conflicts of interests (addressing IG Recommendations 6(b) and 7);
 - ii. discussing potential conflicts of interests with Board members and employees, and providing for the execution of recusal agreements when appropriate (*see* IG Recommendation 7);
 - iii. reviewing the second jobs of Authority employees for potential conflicts of interests and approving them when no conflict is presented;
 - iv. reviewing Board member and employee inquiries regarding "widely attended gatherings" and approving the acceptance of invitations to such events when the codes' standards are met;
 - v. advising members and employees generally as to the codes' applicability to situations they describe;
 - vi. acting as staff to the Board's Ethics Review Committee, undertaking a preliminary investigation of alleged code violations by a Board member, and making recommendations based on the investigation to the committee; and

⁶ A copy of a *draft* financial disclosure form for Board members is enclosed as Enclosure E.

- vii. arranging for the provision of ethics training on an annual basis for Board members and employees, as well as new members and employees soon after their arrival at the Authority.

In addition, the Ethics Officer is developing internal forms and protocols to be used in implementing and overseeing compliance with the new ethics codes (addressing part of IG Recommendations 6, 7 and 9), including annual conflict of interests certifications by contracting officers and their representatives (addressing IG Recommendation 6(c)).

- 4. With respect to ethics training, the new codes require ethics training for new Board members and employees within 30 days of their arrival at the Authority and thereafter on an annual basis. Since the adoption of the codes, and to address IG Recommendations 8(a) and 8(b), an ethics training program for Authority employees has been developed which calls for over 35 training sessions that will reach all 1,425 employees of the Authority. To date, 26 of these sessions, involving 727 employees, have been conducted. In addition, to date ten Board members have received training on the new Board ethics code, and the remaining members are scheduled for a November 16 training session. Annual ethics training will hereafter be provided to employees and Board members. It is envisioned that every three years this training will be delivered in a "live" meeting format, like the training now being conducted, and that, in the intervening two years, an on-line training program will be provided.
- F. *"Tighten travel procedures to eliminate wasteful spending. These procedures should be consistent with Federal requirements."*

Status

- 1. On September 5, the Board adopted a new travel policy which applies to both Board members and Authority employees.⁷ The Authority worked closely with the Accountability Officer in developing this policy and in working to ensure it is in line with relevant Federal requirements and industry best practices.
- 2. The new travel policy is applicable to both employees and the Board of Directors, and places a number of controls upon Board member travel that heretofore did not exist or existed in different form. For example, it:
 - a. requires prior approval of all non-recurring travel from the Board chairman;
 - b. places a daily cap of \$71.00 for meals and incidental expenses, and requires detailed receipts for all expenditures;
 - c. defines allowable expenditures that may be reimbursed;

⁷ This new travel policy is enclosed as Enclosure F.

- d. bars any reimbursement for alcohol-related expenses;
 - e. requires all air travel be via economy class, except for travel outside the continental United States which may be an upgrade to the next higher class (if this upgrade is to first class, prior approval is required);
 - f. places restrictions on lodging, limiting it to conference sponsored hotels or other reasonably priced lodging (to address IG Recommendation 11, the Authority is working with the Accountability Officer to define additional limitations on "reasonable lodging expenses");
 - g. requires all expense reimbursement requests to be approved by the Board chairman; and
 - h. requires an annual audit of travel expenses to be provided to a committee of the Board and the President and CEO.
3. In addition to the revised Travel Policy, to address IG Recommendation 12(b) regarding guidelines for entertainment business expenses, a revised business expense reimbursement policy, applicable to both Authority employees and the Board of Directors, is being prepared and is expected to be finalized by the end of the year.
- G. *"Implement a transparency program that requires open meetings, and the posting of meeting announcements, agendas, and all minutes on the internet. This program must ensure executive sessions are used for limited and proper purposes."*

Status

1. On February 15, the Board adopted revisions to its Bylaws designed to improve the transparency of Board operations and meetings.⁸ These revisions:
- a. provide for the regular posting on the Authority's website of information relating to the Board of Directors and meetings of the Board and its committees, including the following: (i) the dates, times and agendas of the next scheduled Board and committee meetings; (ii) the non-privileged information and recommendation papers prepared for the Board and committees in connection with the meetings' agenda items; (iii) the approved minutes of Board meetings; and (iv) the schedule of all Board and committee meetings for the upcoming six months;
 - b. direct the Board Secretary to ensure that the public is informed of the date, time and location of upcoming Board and committee meetings, and has access to the records of such meetings; and
 - c. clarify the circumstances in which the Board and its committees may move into executive or closed session.

⁸ The revised bylaws are enclosed as Enclosure G

Since February 15, the materials described above have been regularly posted to the Authority's website.

2. On July 18, the Board amended the Authority's Freedom of Information Policy.⁹ The amendments:
 - a. establish a Freedom of Information Officer for the Authority;
 - b. define how the public may request records from the Authority and the responsibility of Authority officers in responding to such requests;
 - c. provided an appeal from a decision by the FOI Officer to withhold records to the chairman of the Board's Legal Committee;¹⁰ and
 - d. identify a broad range of Authority documents that are to be posted on the Authority's website (documents, e.g., relating to the Board, to Authority finances, to Authority contract opportunities), all of which have been placed on the website.
3. In addition, today the Board has revised its policy regarding meetings of the Board's Audit Committee. Prior to this revision, Audit Committee meetings have been held largely in closed session. Under today's revision, meetings of the Audit Committee will be held in open session except in four specific circumstances: when considering audits involving safety or security matters, proprietary and privacy information, matters related to actual or potential litigation, and information that the professional standards governing financial statement auditors require to be addressed in closed session. This policy revision, which addresses IG Recommendation 12(a), will be added to the Authority's bylaws in early 2013.

H. *"Strengthen all oversight, construction planning and management programs to find ways to reduce design, construction and operating costs of airport facilities and the rail to Dulles project."*¹¹

Status

1. The Airports Authority is committed to undertaking capital construction projects in accordance with industry best practices and in a collaborative, efficient and cost effective manner. In developing plans for all large capital projects, the Authority will continue to hold formal consultations with relevant stakeholders and partners (e.g., the airlines, our Metrorail project funding partners, the Dulles Corridor Advisory Committee, the Metrorail project's Principals Coordinating Committee established under the project partners' 2011 Memorandum of

⁹ The revised Freedom of Information Policy is enclosed as Enclosure H.

¹⁰ IG Recommendation 12(c) calls for an external review of FOI denials. The Authority is reviewing its authority to provide such reviews.

¹¹ The IG Recommendations do not directly address the matters addressed in this "reform" area.

Agreement) to gain input on project scope, budget, and procurement methodology. In addition, during the life of construction projects, the Authority will continue to regularly share construction progress and cost reports with project partners and the public. Such information is regularly presented during Board of Directors meetings, and is posted on the Authority's website.

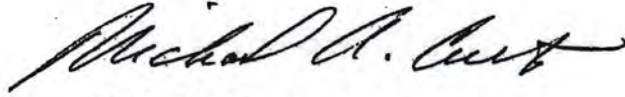
2. Financial planning for major capital projects will continue to be based on best practices. Engineering cost estimates will be independently developed and, for large, complex projects, those estimates will be independently evaluated through third party "value engineering" reviews. The Phase 2 Metrorail project budget has been developed using these methodologies.
3. Design and construction services will be competitively competed to assure best value is obtained. The Phase 2 Metrorail project is currently out to bid utilizing a two-step procurement methodology approved by the project partners and FTA that is designed to maximize competition and achieve a competition-driven fixed price. Aviation projects scheduled for 2013 will be procured using the most cost effective construction and procurement methods permitted by FAA grant assurances.
4. Finally, the Airports Authority will continue to utilize independent construction oversight and management support services to assist Authority staff in managing construction projects. These third party services have been utilized for years to assist in the management of constructions projects at both airports; they also have been successfully used during Phase 1 of the Metrorail project. The contract for program management support services for Phase 2 of the Metrorail project is currently being competed through open competition. The scope of the existing aviation oversight and management support services contract is being revised in light of reduced construction activities at the airports and in order to appropriately align the services needed with the scale of the airports' capital program.

I apologize for the length of this letter. However, I wanted to be sure that the Airports Authority's response to your August 4 letter contains and conveys the "candor and wholehearted implementation of . . . changes" that you seek. I also wanted our response to demonstrate that the Authority's Board of Directors is fully committed to working with you and our other regional partners in the months ahead to address your concerns and regain your confidence.

The Honorable Ray LaHood
November 14, 2012
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Finally, I note that, in a November 9, 2012, Deputy Secretary of Transportation John Porcari has requested that the Airports Authority provide a "point-by-point" response to each of the recommendations contained in the Inspector General's final report. We will, of course, provide this response within the period identified by the Deputy Secretary.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael A. Curto". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael A. Curto
Chairman

Enclosures