



Report on Internal Controls and Compliance Activities and Accomplishments

Risk Management Committee

June 2014

Purpose

To provide information on the activities and accomplishments of the Internal Controls and Compliance Division (ICC), including the implementation status of recommendations made by the U.S. Department of Transportation (DOT) Office of Inspector General (OIG) and the Federal Transit Administration (FTA), as well as other planned priorities.

Background

- The Internal Controls and Compliance Division (ICC) was created in May 2012 to:
 - Assist management, Airports Authority-wide, in proactively identifying internal control weaknesses and developing and implementing corrective actions;
 - Assist management, Airports Authority-wide, in preparing for audits and reviews;
 - Assist management in remediating identified audit concerns or recommendations;
 - Develop processes to monitor internal controls over new or existing business processes to ensure that controls are modified or added, as appropriate; and
 - Assist management in understanding and implementing controls to ensure adherence to compliance requirements.
- The ICC includes three full-time staff directed by the Deputy Vice President of Corporate Risk and Strategy, who reports to the President and Chief Executive Officer.
 - The team has been fully staffed since December 2013.



Current Priorities

The ICC has been primarily focused on addressing internal control weaknesses noted by the U.S. Department of Transportation (DOT) Office of Inspector General (OIG) and the Federal Transit Administration (FTA):

- OIG released an audit report in November 2012, which included 12 recommendations in areas of procurement, ethics, human resources, and Board governance and transparency.
- OIG released an audit report in January 2014 on financial management controls for the Dulles Metrorail Project, for which the FTA requested the Airports Authority address six requirements.
- FTA conducted a Follow-up Procurement System Review (PSR) in July 2013, for which specific corrective actions, including on-going reviews by the ICC, were requested.

November 2012 OIG Report Accomplishments

- To date, OIG has closed eight of the twelve recommendations, including:
 - Provide quarterly acquisition reports to the Board of Directors and DOT;
 - Clarify and enforce current contracting policies and procedures;
 - Fully implement formal ethics policies and procedures for Board members and employees;
 - Ensure the review process for financial interest forms emphasizes verification and documentation;
 - Establish priorities for implementing the new Board and MWAA employee ethics codes, including developing procedures to oversee and enforce the new codes;
 - Implement and enforce human resources policies and practices;
 - Revise the travel policy to further define what constitutes a “reasonable lodging expense” for Airports Authority-related travel; and
 - Further enhance the accountability and transparency of the Board of Directors.
- Significant progress has been made on the open procurement recommendations, and the Airports Authority is working closely with the Federal Accountability Officer and OIG to bring the remaining recommendations to closure.



January 2014 OIG Report

- Following the OIG audit of the Dulles Metrorail Project in June 2013, the Airports Authority undertook a number of actions to enhance financial management controls, including:
 - Hired a dedicated Rail Finance team comprised of Controller, Grant Accountant, and Lead Accountant positions; and
 - Engaged the ICC to compile, centralize, and review historical grant draws.
- Following release of the OIG's report in January 2014, the FTA requested the Airports Authority address six requirements. The first two requirements were satisfactorily closed by providing FTA:
 - A comprehensive correction action plan that addressed all requirements; and
 - Documentation of the costs that OIG identified as unsupported and unallowable.
- The Airports Authority is in the process of revising certain policies and procedures and conducting training to address the FTA's remaining requirements.



Procurement System Review

- As a result of the Airports Authority revising select policies and procedures, conducting additional training, and submitting the results of ICC's procurement compliance reviews, the FTA, in February 2014, closed all findings included in its July 2013 Follow-up PSR Report.
- The Airports Authority was requested to undertake three additional actions:
 - Perform training to specifically address re-occurring findings;
 - Notify FTA when the new Procurement Manager for the Dulles Corridor Metrorail Project is hired; and
 - Have ICC conduct another implementation review of all elements covered by FTA's PSR and report its findings to FTA by July 30, 2014.
- The first two items have been satisfactorily completed, and the ICC's implementation review is in progress and on target for delivery by July 30.

Additional Priorities

- Perform compliance reviews for newly adopted policies:
 - Hiring and Compensation
 - Ethics
 - Financial Disclosure
 - Travel and Business Expense
 - Procurement
- Manage, analyze, and report on the status of all audit findings to ensure timely remediation and prioritization of resources
- Assess current control environment against best practice standards, using the Committee of Sponsoring Organizations of the Treadway Commission (COSO)'s *Internal Control Integrated Framework*

Conclusion

- The Internal Controls and Compliance Division is working with management across the Airports Authority to ensure full implementation of the recommendations made by the OIG and the FTA.
- To date, the majority of the Airports Authority's corrective actions have been deemed satisfactory by the OIG and FTA, and work progresses on remaining items in a collaborative manner.
- Additional priorities include conducting compliance reviews over recently adopted policies, centrally managing control deficiencies to ensure timely remediation, and facilitating an integrated risk assessment process to identify opportunities to enhance internal control across the organization.



Ronald Reagan Washington National Airport



Dulles Corridor Metrorail Project



Dulles Toll Road



Washington Dulles International Airport



METROPOLITAN WASHINGTON
AIRPORTS AUTHORITY

**INFORMATION PAPER FOR THE
RISK MANAGEMENT COMMITTEE**

**REPORT ON INTERNAL CONTROLS AND COMPLIANCE ACTIVITIES AND
ACCOMPLISHMENTS**

JUNE 2014

PURPOSE

To provide information on the activities and accomplishments of the Internal Controls and Compliance Division (ICC) of the Airports Authority, including the implementation status of recommendations made by the U.S. Department of Transportation (DOT) Office of the Inspector General (OIG) and the Federal Transit Administration (FTA), and other planned priorities.

BACKGROUND

The ICC was created in May 2012 to assist management, Airports Authority-wide, in proactively identifying internal control weaknesses and developing and implementing corrective actions; assist management, Airports Authority-wide, in preparing for audits and reviews; assist management in remediating identified audit concerns or recommendations; develop processes to monitor internal controls over new or existing business processes to ensure that controls are modified or added, as appropriate; and assist management in understanding and implementing controls to ensure adherence to compliance requirements.

The ICC includes three full-time staff directed by the Deputy Vice President of Corporate Risk and Strategy, who reports to the President and Chief Executive Officer. The team has been fully staffed since December 2013.

DISCUSSION

Current Priorities

The ICC has been primarily focused on addressing internal control weaknesses noted by the OIG and FTA.

On November 1, 2012, the OIG released an audit report entitled, “MWAA’s Weak Policies and Procedures Have Led to Questionable Procurement Practices, Mismanagement, and a Lack of Overall Accountability” (November 2012 DOT OIG Report), which included 12 recommendations for remediating deficiencies cited in areas

of procurement, ethics, human resources, and Board governance and transparency. On January 16, 2014, the OIG released an audit report entitled, “MWAA’s Financial Management Controls Are Not Sufficient to Ensure Eligibility of Expenses on FTA’s Dulles Rail Project Grant” (January 2014 DOT OIG Report), for which the FTA requested that the Airports Authority address six requirements. In addition, the FTA conducted a 2013 Follow-up Procurement System Review (2013 FTA PSR), for which specific corrective actions, including on-going reviews by the ICC, were requested.

November 2012 DOT OIG Report

Working with management across the Airports Authority, the ICC has been able to successfully gain concurrence by the OIG on the closure of eight of its twelve recommendations, including the following:

- Provide quarterly acquisition reports to the Board of Directors and to DOT;
- Clarify and enforce current contracting policies and procedures;
- Fully implement formal ethics policies and procedures for Board members and MWAA employees;
- Ensure that the review process for financial interest forms emphasizes verification and documentation;
- Establish priorities for implementing the new Board and MWAA employee ethics codes, including developing procedures to oversee and enforce the new codes;
- Implement and enforce human resources policies and practices;
- Revise the travel policy to further define what constitutes a “reasonable lodging expense” for Airports Authority-related travel and to require that travelers do not exceed the defined amount; and
- Further enhance the accountability and transparency of the Board of Directors.

In addition, significant progress has been made in the areas of procurement policies and procedures, organizational structure, and training. The Airports Authority continues to work closely with the Federal Accountability Officer and the OIG to close the remaining four recommendations.

January 2014 DOT OIG Report

Following the OIG audit of the Dulles Metrorail Project (Project) in June 2013, the Airports Authority undertook a number of actions to enhance financial management controls for the Project, including hiring a dedicated Rail Finance team comprised of Controller, Grant Accountant, and Lead Accountant positions. The ICC was also engaged to compile, centralize, and review historical grant draws.

The January 16, 2014 OIG report addressed concerns with financial controls over the Airports Authority's management of the Project, and the FTA requested that the Airports Authority address six specific requirements.

To date, the Airports Authority has satisfactorily addressed the first two requirements by submitting to FTA a comprehensive correction action plan that addresses all items required and documentation of the costs that OIG identified as unsupported and unallowable. The Airports Authority is in the process of revising certain policies and procedures and conducting training on them to address the FTA's remaining four requirements by September 30, 2014.

2013 FTA PSR Follow-up

The objectives of the Procurement System Review (PSR) are to encourage and facilitate improved grantee procurement operations, promote the use of best practices, and assess the grantee's compliance with Federal requirements, specifically FTA's Third Party Contracting Requirements and the Pre-Award, Post-Delivery Rule applicable to Buy America requirements.

On February 12, 2014, the FTA communicated that the findings under its July 2013 PSR Follow-up were closed as a result of the Airports Authority revising select policies and procedures, conducting additional training, and submitting the results of ICC's procurement compliance reviews. However, the FTA requested that the Airports Authority undertake three additional actions:

- Perform training to specifically address re-occurring findings;
- Notify FTA when the new Procurement Manager for the Dulles Corridor Metrorail Project is hired; and
- Have ICC conduct another implementation review of all elements covered by FTA's PSR and report its findings to FTA by July 30, 2014.

The first two items have been satisfactorily communicated to FTA, and the ICC's implementation review is in progress and on target for completion by July 30.

Additional Priorities

As remediation activities are completed by the Airports Authority and confirmed by the OIG and FTA, the ICC will begin working on strategic priorities, including compliance reviews for newly adopted policies in areas of human resources, ethics, financial disclosure, travel and business expense, and procurement. The ICC will also develop formal processes to manage, analyze, and report on the status of all audit findings to ensure timely remediation and prioritization of resources. Additionally, the ICC will assess the Airports Authority's current control environment against best practice

standards using the Committee of Sponsoring Organizations of the Treadway Commission (COSO)'s *Internal Control Integrated Framework*.

CONCLUSION

The Internal Controls and Compliance Division is working with management across the Airports Authority to ensure full implementation of the recommendations made by the OIG and the FTA. To date, the majority of the Airports Authority's corrective actions have been deemed satisfactory by the OIG and FTA, and work progresses on the remaining open items in a collaborative manner. Additional priorities include conducting compliance reviews over recently adopted policies, centrally managing control deficiencies to ensure timely remediation, and facilitating an integrated risk assessment process to identify opportunities to enhance internal control across the organization.

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