United States Government Accountability Office

Report to Congressional Requesters

September 2018

# WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

# Assessing Fiscal Risks and Improving Workforce Management Would Help Achieve Strategic Goals

GAO-18-643

# GAO Highlights

Highlights of GAO-18-643, a report to congressional requesters

September 2018

# WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

## Assessing Fiscal Risks and Improving Workforce Management Would Help Achieve Strategic Goals

## Why GAO Did This Study

WMATA transports more than 1 million rail and bus passengers each weekday in the nation's capital and surrounding areas. However, recent safety incidents and declines in ridership and revenues have focused public attention on how WMATA manages its workforce and associated costs.

GAO was asked to review WMATA's workforce management. This report examines, among other things, (1) how WMATA's workforce costs have changed from fiscal years 2006 through 2017 and factors contributing to those changes, and (2) how WMATA has designed and implemented its employee performance management systems. GAO reviewed WMATA's annual financial statements and budgets from fiscal years 2006 through 2017, and compared WMATA's workforce cost and performance management efforts to leading practices and internal control and actuarial principles. GAO also reviewed a non-generalizable sample of employee performance evaluations selected to include occupations with the highest number of evaluations.

## What GAO Recommends

GAO is making five recommendations to WMATA, including that it develop a comprehensive assessment of risks posed by its pension plans, comprehensive policies and procedures for its employee performance management systems, and controls to ensure supervisors complete required performance evaluations, among other actions.

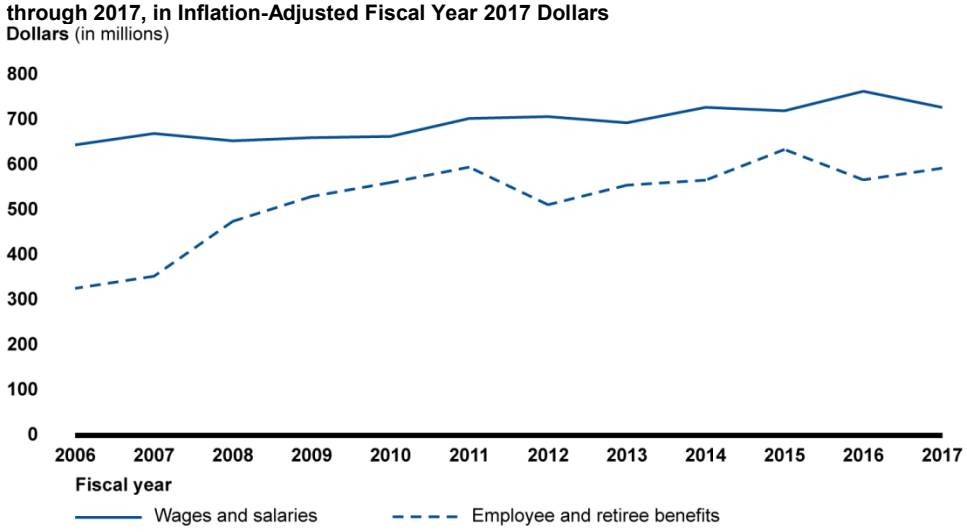
WMATA agreed with four recommendations and neither agreed nor disagreed with the fifth.

View GAO-18-643. For more information, contact Mark Goldstein at (202) 512-2834 or GoldsteinM@gao.gov or Frank Todisco at (202) 512-2700 or TodiscoF@gao.gov.

## What GAO Found

The Washington Metropolitan Area Transit Authority's (WMATA) workforce costs—including wages, salaries, and benefits for employees and retirees—increased on average by about 3 percent annually from fiscal years 2006 through 2017. This increase was largely driven by the cost of employee and retiree benefits. Specifically, the amount WMATA was required to contribute to its pension plans increased by an annual average of about 19 percent during this period. Due to their relative size, proportion of retirees compared to active members, and investment decisions, these pension plans pose significant risk to WMATA's financial operations, yet WMATA has not fully assessed the risks. Without comprehensive information on the risks facing its pension plans, WMATA may not be prepared for economic scenarios that could increase its required contributions to an extent that might jeopardize its ability to provide some transit service.

**Workforce Costs for the Washington Metropolitan Area Transit Authority, Fiscal Years 2006 through 2017, in Inflation-Adjusted Fiscal Year 2017 Dollars**




Source: GAO analysis of WMATA comprehensive annual financial reports. | GAO-18-643

WMATA has implemented two employee performance management systems that cover all employees, but these systems lack some key elements of an effectively designed and implemented performance management system. For example, WMATA's performance management systems are not designed to make meaningful distinctions in performance, a key element of an effective system. This design is due in part to WMATA's lack of comprehensive policies and procedures for its performance management systems. In addition, WMATA lacks sufficient controls to ensure that supervisors complete required performance evaluations accurately and on-time. For example, in 10 of 50 performance evaluations we reviewed, we found scoring errors where employees were assigned a performance rating inconsistent with the supporting review. Without comprehensive policies and procedures or sufficient controls over its performance management systems, WMATA lacks tools and information to move employees toward achieving WMATA's strategic goals.

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## Abbreviations

| | |
|---|---|
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| FTA | Federal Transit Administration |
| WMATA | Washington Metropolitan Area Transit Authority |

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U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
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September 10, 2018

Congressional Requesters

The Washington Metropolitan Area Transit Authority (WMATA) transports more than 1 million rail and bus passengers each weekday, making it critical to the mobility and productivity of the nation's capital and surrounding areas. Safety lapses such as a January 2015 smoke incident at the L'Enfant Plaza Metro Station that resulted in the death of one person and injured 91 others, and multiple electrical fires and derailments since then, have focused public attention on the management and performance of WMATA's workforce. For example, in 2015, the Federal Transit Administration (FTA) identified deficiencies in WMATA's staffing, training, and procedures for its rail traffic controllers that FTA found could compromise the safety of the Metrorail system. In 2017, WMATA reported that it had fired 21 rail inspectors and supervisors—about one third of its inspection staff—for allegedly falsifying inspection reports. Further, Metrorail has experienced significant losses in ridership and revenues due in part to persistent reliability problems and planned outages during its year-long SafeTrack rail rehabilitation program, completed in June 2017. That year, WMATA announced plans to reduce its workforce by eliminating 6 percent of its 13,000 positions to help bridge a $290 million gap in its 2018 operating budget.[1]

You asked that we review WMATA's management of its workforce, including its workforce costs, planning, and performance. This report assesses: (1) how WMATA's workforce costs have changed from fiscal year 2006 through 2017 and factors contributing to those changes; (2) how WMATA identifies and addresses its current and future workforce needs; and (3) how WMATA has designed, implemented, and monitored its employee performance management systems.

To assess how WMATA's workforce costs[2] have changed, we used data from WMATA's annual budgets and audited financial statements from fiscal years 2006 through 2017 on the amounts expensed by WMATA on

[1]According to WMATA, these 13,000 employee positions include both filled and vacant positions.

[2]In this report, we use the term "workforce costs" to refer to WMATA's expenses on wages and salaries, and employee and retiree benefits. For more information on our analysis of WMATA's workforce costs, see appendix I.

wages and salaries, employee and retiree benefits, and contracted services, and on the amounts WMATA contributed to its pension plans and retiree health benefits.[3] We selected 2006 to account for any potential effects of the 2007-2009 financial crisis on pension or other costs and because WMATA began contributing to its largest pension plan again in 2006 after a 6-year period of not contributing to this plan.

We reviewed data WMATA provided on operating and capital overtime costs and the most recent actuarial reports for each of WMATA's five pension plans. To assess the reliability of WMATA's budget data and other data WMATA provided, we interviewed WMATA officials on practices used to assemble these data. We found these data to be sufficiently reliable for our purposes. We also analyzed characteristics of WMATA's five pension plans in consultation with our Chief Actuary and in relation to actuarial principles and recent literature.[4] To identify factors contributing to changes in workforce costs, we interviewed WMATA officials and reviewed information from WMATA's annual budgets and annual financial statements on the total number of authorized staff, changes in overtime costs, changes in pension-related costs, and other factors that could influence workforce cost changes since fiscal year 2006.

To evaluate how WMATA identifies and addresses its workforce needs, we compared WMATA's workforce planning and workforce development efforts to leading practices we previously identified and to internal control standards of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which WMATA follows.[5] We reviewed WMATA's 2017-2019 individual department business plans and 2013–2025 strategic plan, and interviewed WMATA officials, to assess how WMATA

[3]WMATA's fiscal year begins July 1st and ends June 30th.

[4]See, for example, *Report of the Blue Ribbon Panel on Public Pension Plan Funding,* An Independent Panel Commission by the Society of Actuaries, (Schaumburg, Illinois: Feb. 2014); and Actuarial Standards Board, *Actuarial Standard of Practice No. 51: Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*, Doc. No. 188 (September 2017).

[5]GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, GAO-04-39 (Washington, D.C.: Dec. 11, 2003); and Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework* (New York: American Institute of Certified Public Accountants, 2013).

identifies its short- and long-term workforce needs.[6] We also obtained and reviewed WMATA information on the positions WMATA eliminated in fiscal years 2017 and 2018, including the number that were vacant or occupied. Lastly, we compared WMATA's workforce planning approach to those at five U.S. transit agencies selected based on similarity in size, age, unions, and stakeholder recommendations.

To evaluate WMATA's performance management systems, we interviewed WMATA officials and reviewed documentation on WMATA's two employee performance management systems—"PERFORMetro" and "Performance Conversations." PEFORMetro applies to staff represented by (1) the Office and Professional Employees International Union Local 2 (administrative and clerical personnel), (2) the Fraternal Order of Police (Metro Transit Police), (3) International Brotherhood of Teamsters Local 639 (Metro Special Police), and (4) staff not represented by a union (management and administrative personnel). Performance Conversations applies to staff represented by the Amalgamated Transit Union Local 689 or International Brotherhood of Teamsters Local 922 (bus and rail operations personnel). We compared these performance management systems to WMATA's strategic goals in its 2013-2025 strategic plan, key performance management practices we have previously identified, and to the COSO internal control standards.[7]

We also assessed whether WMATA had management controls in place to ensure timely, complete and accurate submissions of performance evaluations by initially reviewing a selection of 60 PERFORMetro evaluations from the most recently-completed evaluation cycle at the time of our review.[8] We selected 20 files from each of the three employee groups included in the PERFORMetro system (employees not represented by a union, employees represented by the Office and Professional Employees International Union Local 2, and law enforcement officers represented by the Fraternal Order of Police or

[6]Washington Metropolitan Area Transit Authority, *Momentum The Next Generation of Metro: Strategic Plan 2013-2025*.

[7]GAO, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success,* GAO-03-488 (Washington, D.C.: March 14, 2003).

[8]Some PERFORMetro employees were evaluated over the period of the 2016 calendar year and others were evaluated on a one-year period based on the date of their work anniversary. As such, the forms we reviewed included periods of performance beginning in February 2015 and ending in July 2017.

Teamsters Local 639). Due to inconsistencies in the Teamsters Local 639 evaluation forms, we excluded 10 of the 60 evaluations from our selection, leaving 50 evaluations. The performance evaluation forms we reviewed are not generalizable to all performance evaluations submitted to WMATA's human resources department or completed by WMATA supervisors, but they provide illustrative examples of some completed performance evaluations. We could not review any Performance Conversation forms because WMATA does not routinely collect or retain these forms and WMATA did not have any Performance Conversation forms available for us to review. Finally, we interviewed officials from the FTA, WMATA, and union leadership from four of the five unions representing WMATA employees.[9] A more detailed summary of our scope and methodology appears in appendix I.

We conducted our work from July 2017 to September 2018 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Background

WMATA operates the nation's second largest heavy rail transit system (Metrorail) and fifth largest bus system (Metrobus), accounting for about 1.1 million passenger trips per weekday.[10] Metrorail runs 6 train lines connecting the District of Columbia to various locations in Maryland and Virginia. A portion of the latest addition, the Silver Line, was opened in 2014. WMATA was created in 1967 through an interstate compact—matching legislation passed by the District of Columbia, the state of Maryland, and the Commonwealth of Virginia, and then ratified by Congress—to plan, develop, finance, and operate a regional

[9]Specifically, we met with officials from the Amalgamated Transit Union Local 689, the Fraternal Order of Police, the Office and Professional Employees International Union Local 2, and Teamsters Local 922. WMATA's fifth union, Teamsters Local 639, which represents Special Police, did not respond to our requests for information on the topics covered in this report.

[10]American Public Transportation Association, *Public Transportation Ridership Report, Fourth Quarter 2017*, March 13, 2018.

transportation system in the National Capital area.[11] A board of eight voting directors and eight alternate directors governs WMATA. The directors are appointed by the District of Columbia, Virginia, Maryland, and the federal government, with each appointing two voting and two alternate directors.[12]

## Operating Revenues

WMATA's operating revenues from rider fares, parking fees, and paid advertisements, do not cover its annual costs, so it relies on year-to-year funding commitments from Maryland, Virginia, and the District of Columbia, and various forms of federal funding to cover gaps in its capital and operating budgets. WMATA's operating budget covers personnel costs and contracted services; in fiscal year 2017 about 75 percent of its $1.8 billion operating budget went to personnel costs. WMATA's capital budget, which covers short-term maintenance and long-term capital projects, totaled $1.2 billion in fiscal year 2017. In 2018, Maryland, Virginia, and the District of Columbia each passed legislation to provide additional recurring annual funding to WMATA generally for capital purposes, totaling $500 million annually across the 3 jurisdictions.[13]

## Service Levels and Ridership

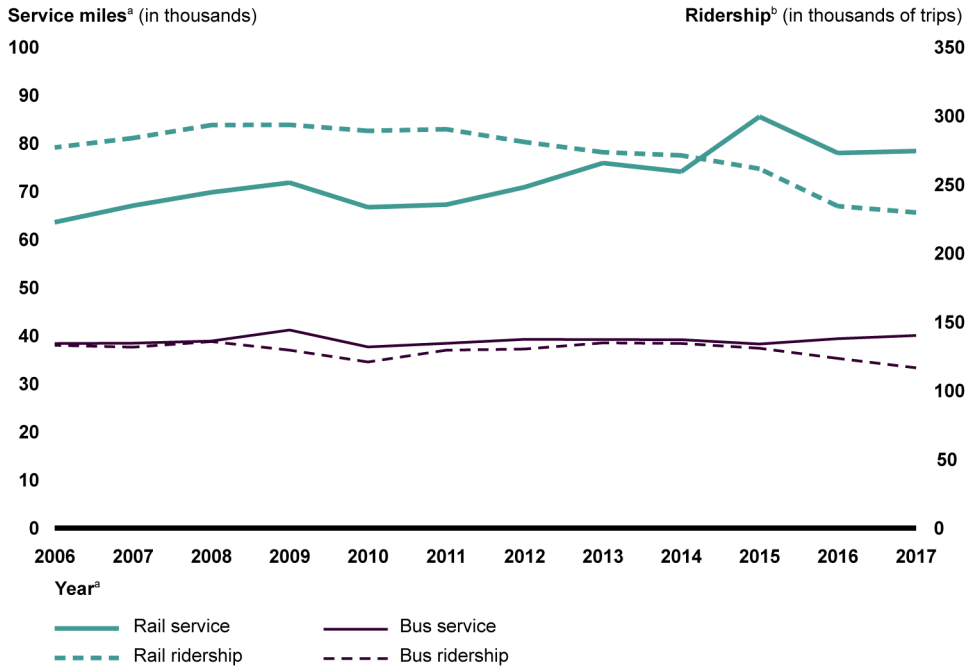
In recent years, WMATA added new rail service while also experiencing declines in ridership. From fiscal years 2006 through 2017, WMATA increased Metrorail service about 23 percent as measured in total railcar revenue service miles, or the miles traveled when the vehicle is in revenue service; WMATA increased Metrobus service slightly, by about 4 percent. Over this same time, ridership declined—by about 17 percent on Metrorail and 12 percent on Metrobus. (See fig. 1).

[11]Interstate compacts are legal agreements between two or more states that are designed to resolve problems or concerns that transcend state lines. Such compacts enable states to act jointly and collectively to devise solutions for matters that are beyond the authority of an individual state but which are not within the immediate purview of the federal government.

[12]Specifically, Virginia's directors are appointed by the Northern Virginia Transportation Commission; Maryland's directors are appointed by the Washington Suburban Transit Commission, the District of Columbia's directors are appointed by the Council of the District of Columbia, and the federal directors are appointed by the Secretary of the U.S. Department of Transportation.

[13]The Maryland legislation provides $167 million annually and the District of Columbia legislation provides $178.5 million annually. The Virginia legislation does not specify the total amount of annual funding, but specifies the sources of that funding which WMATA estimates will provide about $154 million annually.

**Figure 1: Washington Metropolitan Area Transit Authority Metrorail and Metrobus Ridership and Service Levels, Fiscal Years 2006-2017**




Source: GAO analysis of American Public Transportation Association data, National Transit Database data, and WMATA estimates for 2017 service data. | GAO-18-643

[a]Rail and bus service miles are measured in "revenue service miles," or the operation of a train or bus during the period when passengers can board and ride on the vehicle.

[b]Rail and bus ridership are measured in unlinked passenger trips, which counts a person each time they board a vehicle.

WMATA attributes this ridership decline to multiple factors, including growth in telecommuting, the expansion of alternative transportation options, and a decline in service quality and reliability. In addition, between June 2016 and June 2017, WMATA completed SafeTrack, a large-scale accelerated maintenance program that suspended service on portions of Metrorail, resulting in delays and additional ridership declines.[14]

[14]We reported on WMATA's planning and implementation of SafeTrack in 2017. See GAO, *Washington Metropolitan Area Transit Authority: Improved Planning of Future Rehabilitation Projects Could Prevent Limitations Identified with SafeTrack*, GAO-17-348 (Washington, D.C.: March 14, 2017).

## Workforce and Employee Groups

WMATA's workforce is composed of bus and rail operations staff, as well as managers, administrators, law enforcement, and others. In September 2017, after reducing its workforce by eliminating 6 percent of its 13,000 positions, WMATA reported that it had 12,217 employee positions across 6 different employee groups, of which 11,341 were filled. Most WMATA employees—83 percent—are represented by one of WMATA's five unions, depending on the employees' positions. The Amalgamated Transit Union Local 689 is the largest union, representing 67 percent of WMATA employees (see table 1). Each union negotiates its own terms on wages, salaries, hours, working conditions, and pensions or retirement, and generally documents these terms in its collective bargaining agreement.

**Table 1: Washington Metropolitan Area Transit Authority (WMATA) Filled Positions by Employee Group, September 2017**

| Employee Group | Examples of Employees Covered | Filled positions |
|---|---|---|
| Non-represented employees | Managers, professional, and administrative staff | 1,961 |
| Amalgamated Transit Union Local 689 | Bus and rail operators, and maintenance and construction staff | 7,569 |
| Office and Professional Employees International Union Local 2 | Administrative and clerical staff | 994 |
| International Brotherhood of Teamsters Local 922 | Bus operators and bus mechanics in Prince George's County, Maryland | 357 |
| Fraternal Order of Police | Metro Transit Police | 341 |
| International Brotherhood of Teamsters Law Enforcement Division Local 639 | Metro Special Police | 119 |
| **Total** | | **11,341** |

Source: WMATA data on September 2017 filled positions. | GAO-18-643

## Employee and Retiree Benefits

WMATA provides a defined benefit pension for almost all of its represented employees and for non-represented employees hired before January 1, 1999.[15] In these pension plans, the benefit a retiree receives is generally based on the retiree's age and/or years of service and compensation, which may include overtime wages for represented employees. WMATA's annual contributions to its pension plans are invested in portfolios that include stocks, bonds, and real estate to fund

[15]Employers sponsor two broad categories of pension plans: (1) defined benefit plans in which employers generally maintain a fund to provide a specified level of monthly retirement income based on a formula specified in the plan, or (2) defined contribution plans in which retirement assets are based on employer and employee contributions and the performance of investments in individual employee accounts.

future pension benefits. The Local 689 pension plan is WMATA's largest, and covered 80 percent of all WMATA pension plan members in fiscal year 2017.[16] Each of the five pension plans is governed by a separate group of trustees responsible for administering the plan.[17] The trustees are composed of a mix of members selected by WMATA and by the respective union or employee group. For example, the trustees for the Local 689 plan include three appointed by WMATA and three by Local 689.[18]

WMATA makes payments for four defined benefit retiree health plans. These plans generally cover Local 689 employees, Local 2 employees, Metro Transit Police, and Metro Special Police, in addition to non-represented employees.[19] According to WMATA officials, WMATA's four retiree health plans are "pay-as-you-go," meaning WMATA pays for benefits as they become due each year, and funds necessary for future benefits are not accumulated.[20]

[16]Pension plan members generally include active employees covered by the plan, retirees receiving benefits, former employees with vested rights to a pension who have not yet begun receiving payments, and surviving beneficiaries of deceased plan members who are entitled to a benefit.

[17]WMATA participates in five pension plans: (1) WMATA Retirement Plan, for Local 639 and non-represented employees; (2) WMATA Transit Employees' Retirement Plan, for Local 689; (3) WMATA Transit Police Retirement Plan, for Fraternal Order of Police; (4) WMATA Local 922 Retirement Plan; and (5) WMATA Local 2 Retirement Plan. Each plan is governed by a board and/or trustees, but for the purposes of this report we refer to both as trustees.

[18]The Local 689 pension plan is administered by a group of trustees called the "Retirement Allowance Committee."

[19]WMATA retiree health benefits generally include health, prescription drug, and life insurance benefits to retirees, and in some cases, their dependents. According to WMATA's most recent annual financial report, WMATA also contributes to a "defined contribution" healthcare plan for Local 922 retirees (hired before January 1, 2012) that provides healthcare, prescription drug, and life insurance benefits to retirees and their dependents.

[20]Effective April 12, 2018, WMATA established a trust to accumulate and invest assets to fund its retiree health benefits.

## Increases in WMATA's Workforce Costs since Fiscal Year 2006 Are Largely Driven by the Cost of Benefits, with Pensions Posing Particular Risk

WMATA's total workforce costs—composed of wages, salaries, and benefits for current and retired employees—increased modestly in inflation-adjusted dollars (on average by about 3 percent annually) from fiscal years 2006 through 2017. This modest increase reflected small increases in wage and salary costs and substantial increases in employee and retiree benefit costs. In particular, WMATA's required annual contributions to its pension plans increased by an annual average of almost 19 percent and were WMATA's fastest growing workforce cost component from fiscal years 2006 through 2017. The possibility of further increases in the costs of WMATA's pension plans poses significant risk to the agency's financial operations, yet WMATA has not fully assessed these risks.

### Since 2006, WMATA Wages and Salaries Increased Modestly While Contract Costs More Than Doubled

WMATA's total workforce costs increased by about 3 percent annually on average between fiscal years 2006 and 2017 in inflation-adjusted fiscal year 2017 dollars, with wages and salaries increasing an average 1.1 percent per year, from $645 million in 2006 to $728 million in 2017. These costs grew at a slower rate than the costs of contracted services (7.3 percent annually on average) and employee and retiree benefits (5.6 percent annually on average), as discussed below (see table 2).

**Table 2: Operating Workforce and Contracted Services Costs for the Washington Metropolitan Area Transit Authority, Fiscal Years 2006 through 2017 (Dollars in Millions, in Inflation-Adjusted Fiscal Year 2017 Dollars)**

| | 2006 | 2017 | Percentage change | Average Annual percentage change[a] |
|---|---|---|---|---|
| Employee Wages and Salaries[b] | $645.1 | $728.2 | 12.9% | 1.1% |
| Employee and Retiree Benefits[c] | $326.6 | $593.3 | 81.7% | 5.6% |
| **Total Operating Workforce Costs** | **$971.6** | **$1,321.6** | **36.0%** | **2.8%** |
| Contracted Services[d] | $122.8 | $267.1 | 117.6% | 7.3% |

Source: GAO analysis of WMATA audited annual financial statements expense data, fiscal years 2006-2017. | GAO-18-643

[a]Average annual percentage change calculates the average annualized increase over the 12-year period, which includes the effect of compounding.

[b]Employee wages and salaries reflects the "labor" expense line item of the audited annual financial statements. This line item includes shift differentials, overtime premiums, minimum guarantees, and other non-fringe benefit labor costs.

[c]Employee and retiree benefits reflects the "fringe benefits" expense line item of the audited annual financial statements. This line item includes benefits such as pension plans, health and dental insurance, vacation, and sick leave. Employee wages and salaries and employee and retiree benefits may not add to total operating workforce costs due to rounding.

[d]Contracted services reflects the "services" expense line item in the audited annual financial statements. This line item includes expenses such as professional and technical services, temporary help, and contract maintenance.

The total number of employees WMATA budgeted for each year (authorized positions) grew slightly faster than wages and salaries—about 2 percent per year on average—increasing from 10,451 in 2006 to 13,032 in 2017, with similar growth in the number of occupied positions.[21] Wages and salaries increased at a slower rate than WMATA's workforce in part because, according to WMATA officials, non-union employees did not receive a salary increase for several of these years. In contrast, employees represented by one of WMATA's five unions generally received annual wage and salary increases, as laid out in their collective bargaining agreements. WMATA officials also estimated that since 2008, between about 10 and 14 percent of its annual wage and salary costs were composed of operating overtime.[22] WMATA officials stated that operating overtime is used to fill gaps in schedules or staffing in positions that have high vacancy rates, such as Metro Transit Police.

While wage and salary costs increased modestly, the cost of WMATA's contracted services more than doubled from fiscal years 2006 through 2017. During this time contracted services costs increased more than 7 percent per year on average, from $123 million in fiscal year 2006 to $267 million in fiscal year 2017. WMATA officials reported large increases during this period in repair and maintenance, custodial services, professional and technical services such as attorneys and management consultants, and WMATA's MetroAccess contract that provides paratransit door-to-door service for riders unable to use bus or rail. WMATA officials attributed these increases to several factors. First, they stated that paratransit service ridership and the contractor cost per trip have increased. The officials estimated that providing paratransit service currently costs WMATA about $50 per passenger trip. Second, WMATA officials said adding five new Silver Line stations resulted in increases in

[21]Authorized positions are the maximum number WMATA is permitted to employ each year; occupied positions are the positions that are actually filled. WMATA's occupied employee count grew 1.9 percent per year on average from 10,326 in fiscal year 2011 to 11,538 in fiscal year 2017. As discussed above, WMATA increased rail service from fiscal years 2006 through 2017, by 1.9 percent per year on average.

[22]WMATA employees earn operating overtime when working on operations, such as driving a bus during scheduled hours. WMATA did not have operating overtime expenditure data for fiscal years 2006 or 2007. WMATA officials estimated that WMATA spent almost $54 million in overtime costs on capital projects in fiscal year 2017. These expenditures are not included in WMATA's overall costs for wages and salaries because they are accounted for separately in WMATA's capital budget. WMATA officials attributed some of these capital overtime costs to SafeTrack and stated that spending on capital overtime reflects the nature of the work WMATA has recently prioritized, including preventative and urgent maintenance, and capital improvements identified by FTA.

contract costs because some of the services already provided by contractors, including custodial services and some track work, were extended to the new stations. Third, WMATA officials said they have been using more contractors in recent years to control costs and improve efficiency. For example, they stated they may use contracts to address problems such as a backlog of track inspections because they can procure contractors to complete the work more quickly than they could with current WMATA staff who would have to be pulled away from other duties or new WMATA staff who would have to be hired and trained.

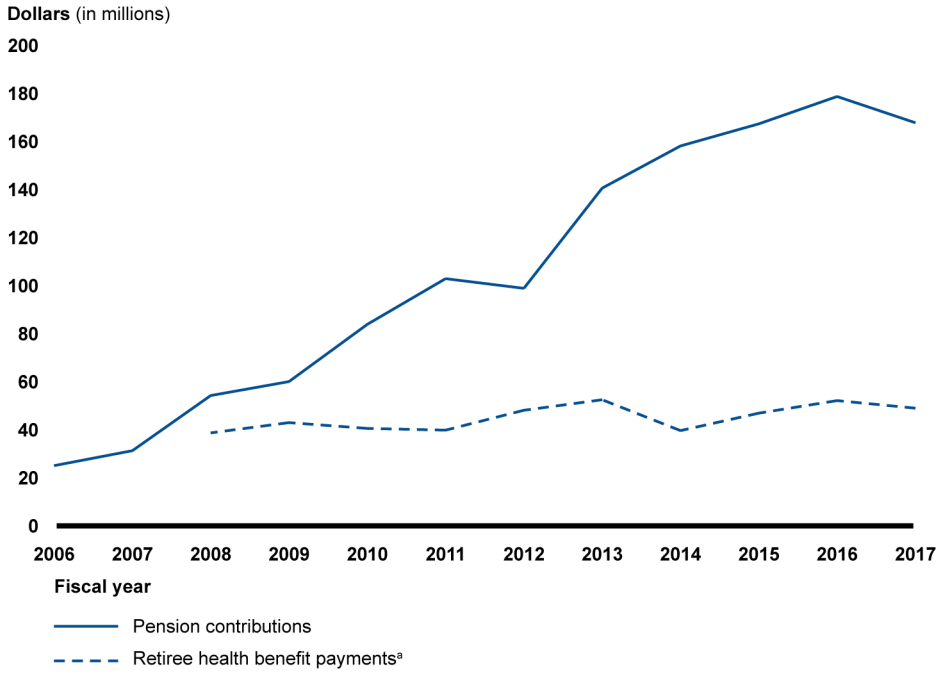
## WMATA's Employee and Retiree Benefit Costs Increased Substantially since 2006, but WMATA Has Not Fully Assessed Risks Posed by Its Pension Plans

From fiscal years 2006 through 2017, WMATA's annual costs for its employee and retiree benefits increased substantially in inflation-adjusted fiscal year 2017 dollars. Employee and retiree benefit costs—which include benefits for current employees, such as health care and vacation, and benefits for retired employees such as pensions and health care—increased at an average annual rate of 5.6 percent, from $327 million to $593 million (see table 2 above). These cost increases are reflective of substantial increases in the amount WMATA contributed to its pension plans.[23] These costs increased by an average of 18.9 percent annually, from $25 million in fiscal year 2006 to $168 million in fiscal year 2017.[24] WMATA payments for retiree health benefits increased less dramatically, on average 2.7 percent per year from fiscal years 2008 through 2017($39 million to $49 million). (See fig. 2). WMATA officials attributed increases in employee and retiree benefit contributions to multiple factors including market losses to pension assets incurred after the 2007–2009 financial crisis and an increase in the cost of providing healthcare benefits.

[23]To assess WMATA's pension costs, we reviewed pension expense—which reports WMATA's expense for its pension plans during a year, as measured in accordance with pension accounting standards for financial reporting purposes—and pension contributions, which reports the amount WMATA paid into its pension plans during a year. Both pension expense and pension contributions increased substantially from fiscal years 2006 through 2017. However, due to changes made in pension accounting reporting standards effective in 2014, pension expense was reported differently before and after 2014. Accordingly, we present data on changes in WMATA's pension contributions in this report for purposes of measuring the growth rate in WMATA's pension costs during this period.

[24]WMATA is required, per various documents such as collective bargaining agreements and/or retirement plans, to contribute a certain amount to its pension plans. This amount is generally based on actuarial estimates of the amounts needed to be contributed to the plan, such that over time—based on assumptions regarding such factors as longevity, retirement ages, pay increases, and rates of investment return—plan assets will be sufficient to provide for plan benefit obligations.

**Figure 2: Washington Metropolitan Area Transit Authority's (WMATA) Pension Contributions and Retiree Health Benefit Payments, Fiscal Years 2006 through 2017 (Dollars in Millions, in Inflation-Adjusted Fiscal Year 2017 Dollars)**




Source: GAO analysis of WMATA comprehensive annual financial reports. | GAO-18-643

[a]This table excludes fiscal years 2006 and 2007 retiree health benefit payments because WMATA did not report this data in these years.

Despite paying more for its retiree pension and health plans since 2006, in fiscal year 2017 WMATA had large unfunded retiree health and pension liabilities. Unfunded liabilities are the estimated value of the amount of additional assets, beyond any existing plan assets, that would be required to fully fund accrued liabilities of a plan.[25] The assets of WMATA's pensions largely consist of investments in stocks, bonds, and real estate. Unfunded liabilities are similar to other kinds of debt because they constitute a promise to make a future payment or provide a benefit.[26]

[25]A pension liability generally includes two portions: (1) the "present value" of all projected future benefits for current retirees and former employees not yet retired who have a vested right to a future pension, plus (2) the present value of a portion of the projected future benefits for current employees, based on their service to date (with each additional year of service adding to the liability), such that the full cost of benefits is expected to be accrued when employees reach retirement. A retiree healthcare liability is based on similar principles.

[26]Financial economic theory informs the premise that a promise to make a future payment of benefits is similar to a promise to pay off any other kind of debt (such as a bond).

According to WMATA's fiscal year 2017 Comprehensive Annual Financial Report, WMATA's pension plans were underfunded by $1.1 billion for fiscal year 2017, of which $814 million was attributed to WMATA's largest pension plan—Local 689.[27] In contrast, WMATA's four retiree health plans were pay-as-you-go during fiscal years 2006 through 2017, meaning WMATA's annual plan contributions were benefit payments for retirees each year in that period. Since WMATA did not make contributions to prefund retiree health benefits, funds necessary for future benefits were not accumulated as assets. As a result, the entire accrued liability was an unfunded liability, and WMATA's four retiree health plans were unfunded by over $1.8 billion in fiscal year 2017.[28]

WMATA officials said they have made several changes to reduce unfunded pension and retiree health liabilities through negotiations with WMATA's unions. For example, in 2014, Local 689 employees began contributing a portion of their compensation (1 percent) to the Local 689 pension plan. This amount increased to 3 percent in 2015. Local 689 employee contributions reported for fiscal year 2017 were about $22 million, which was about 17 percent of the $127.5 million reported for WMATA's contribution to their pension plan for that year.[29] In addition, according to WMATA's fiscal year 2017 Comprehensive Annual Financial Report, non-represented and Local 2 employees hired on or after January 1, 1999 are not eligible for the defined benefit pension plan. WMATA also reported that Local 689 and Local 2 employees hired on or after January 1, 2010, Metro Special Police hired after February 25, 2016, and non-represented employees hired after January 1, 2017 are not eligible for

[27]These amounts reported for fiscal year 2017 were based on measurement dates that varied by pension plan. According to WMATA's fiscal year 2017 Comprehensive Annual Financial Report, for fiscal year 2017, the measurement date was June 30, 2016 for the non-represented/Local 639, Local 689 and Local 2 plans and December 31, 2016, for the Local 922 and Transit Police plans.

[28]Liability measurements can vary significantly with the choice of "discount rate" used to determine the "present value" of projected future benefit payments. WMATA's liabilities for pension benefits are based on significantly different discount rates than its liabilities for retiree healthcare benefits, based on the fact that the pension plans have funded assets while the retiree medical plans did not, over the period we studied. For more information, see GAO, *Pension Plan Valuation: Views on Using Multiple Measures to Offer a More Complete Financial Picture,* GAO-14-264 (Washington, D.C.: Sept. 30, 2014).

[29]These amounts are based on the June 30, 2016 measurement date for the Local 689 plan, as reported in WMATA's fiscal year 2017 Comprehensive Annual Financial Report.

retiree health benefits. Most recently, WMATA created a trust to fund WMATA's retiree health benefits and invested $3 million in the trust.[30]

WMATA's pension plans, due to their relative size and maturity and investment decisions, pose a particular risk to WMATA's financial operations:

- Relative size and maturity: The size of WMATA's pension plans and the overall maturity of the plans' participants pose a combined financial risk to WMATA. WMATA's pension plans assets and liabilities are large relative to its business operations. For example, in fiscal year 2017, WMATA's pension assets ($3.6 billion) were about 5 times more, and its pension liabilities ($4.7 billion) about 6.5 times more than its annual wages and salaries ($728 million). Because of their relative size, changes in the value of these assets or liabilities—for example, as a result of underperforming investments or revisions to actuarial assumptions—could significantly affect WMATA's operations. In addition, WMATA's pension plans are considered "mature" by actuarial measures, meaning, for example, that they have a high proportion of retirees compared to active members.[31] A 2017 WMATA Board of Directors Pension Subcommittee report indicated that if WMATA's assumed rate of return across all five plans decreased from 7.66 percent to 7 percent, WMATA's required annual pension contribution would increase $42 million, a 26 percent

[30]As noted above, effective April 12, 2018, WMATA established a trust to accumulate and invest assets to fund its retiree health benefits. According to the Trust, WMATA determines the amount it contributes to the Trust.

[31]Plan maturity is a general concept that can be measured in various specific ways, such as the ratio of retired members to active members, the proportion of the plan's accrued liability attributable to retired members, or the average "duration" of plan liabilities, or the weighted-average number of years over which benefits will be paid out. One large benefits consulting firm categorizes pension plans based on duration as either: "young" (duration range 20-22 years), "average" (duration range 15-19 years), "mature," with a high proportion of retirees (duration range 10-14 years), or "retiree" (duration range 7-9 years). We calculated that WMATA's combined liabilities had a duration of approximately 11 years.

increase, from 22 percent of wages and salaries ($160.7 million) to about 28 percent of wages and salaries ($203 million).[32]

- Investment decisions: WMATA's pension plans assume higher rates of return than state and local pension plans generally do, according to a recent National Association of State Retirement Administrators report.[33] For the 2017 plan year, WMATA's largest pension plan had an assumed rate of return of 7.85 percent per year, and the weighted average assumed rate of return for WMATA's five plans combined was 7.66 percent. The average assumed rate of return among the largest state and local government plans was 7.52 percent in 2017, and dropped to a planned 7.36 percent for fiscal year 2018. If WMATA's pension plan assets return significantly less than assumed, WMATA's unfunded liabilities will be higher than anticipated, potentially resulting in a spike in required contributions, as occurred in the years following the 2007-2009 financial crisis (see fig. 2 above).[34]

  WMATA's pension plans are largely invested in the stock market, which also poses risk. For example, according to a November 2017 report to WMATA's Board of Directors Pension Subcommittee, 69 percent of WMATA's plan assets across all five pension plans were invested in the stock market, and only 18 percent in fixed income or

[32]The 7.66 percent is a weighted average of the assumed rates of return for the five different plans for the 2017 plan year. These assumed rates of investment return are also sometimes referred to as valuation interest rates or as discount rates. These assumed returns go into the calculation of pension liability values as well as the amount of WMATA's required contributions to its pension plans. Annual required contributions generally include payments towards "normal cost" (the actuarial present value of the cost of an additional year of employees' service) and toward paying off the unfunded liability. Higher assumed returns translate into lower required contributions (see GAO-14-264).

[33]National Association of State Retirement Administrators, *NASRA Issue Brief: Public Pension Plan Investment Return Assumptions* (February 2018).

[34]The risk comes not just from the possibility of experiencing negative investment returns, but more broadly from average investment returns falling short of assumed returns over time. For example, we recently reported on a large pension plan that had used an investment return assumption ranging from 7.5 percent to 8.0 percent over the period 2000-2014, but whose average investment return over this period was only 4.9 percent, resulting in the plan being less than 50 percent funded compared to a hypothetical estimate of about 90 percent funded if the plan's investment return assumptions had been achieved. See GAO, *Central States Pension Fund: Investment Policy Decisions and Challenges Facing the Plan*, GAO-18-106 (Washington, D.C.: June 4, 2018).

cash.[35] Investing in assets such as stocks may increase expected investment returns, but it also increases risk because stock returns are more volatile than investments in high quality bonds that provide a more stable rate of return.[36] In addition, with its mature plans, WMATA faces a shorter time horizon before benefits for its retirees and older workers will become due, leaving less time to recover from investment shortfalls. According to literature on challenges facing U.S. pension plans, plans should take on less risk as they become more mature. This is because investment losses—and corresponding required increases in contributions—can potentially be a high percentage of wage and salary costs, with less time to make adjustments.[37] As described above, WMATA's pension plans are considered mature, yet they still have a high percentage allocated to risky assets.

Although WMATA recently hired a consultant to complete a high-level review of its pensions, it has not fully assessed the risks of its five pension plans to the agency's financial operations. In 2016 and 2017 WMATA hired a consultant to provide an overview of its five pension plans, including reviewing the plans' funding strategies and performance. However, the stated purpose of these reports did not include an assessment of risk, and the reports included only limited analysis of the various risks facing WMATA from the plans, for example forecasting WMATA's pension contributions over the next 10 years, but only under one scenario.[38] In addition, WMATA provided us with analyses conducted by an actuary for each of its five pension plans, which included some limited risk analysis for three of the five pension plans, and no risk

[35]The asset allocation for the plans on a combined basis was reported in a November 2, 2017 document of the WMATA Board's Pension Subcommittee of its Finance Committee, which indicated an asset allocation of 52 percent to domestic equity and 17 percent to international equity.

[36]While the market value of bonds can fluctuate with changes in interest rates, bond investments can also be tailored to match the duration of a portion of plan liabilities.

[37]Boyd, Donald J. and Peter J. Kiernan, The Nelson A. Rockefeller Institute of Government, *Strengthening the Security of Public Sector Defined Benefit Plans*, January 2014; and Blue Ribbon Panel on Public Pension Plan Funding, *Report of the Blue Ribbon Panel on Public Pension Plan Funding* (Society of Actuaries, Feb. 2014).

[38]In addition, the 2016 report did include a brief discussion of key risk factors. The report cited the consultant's estimate, based on its capital market assumptions, that the Local 689 plan assets would earn an average annual return of 6.8 percent over the next 30 years, in contrast to the plan's assumed return of 7.85 percent.

analysis for the other two plans, including the Local 689 plan—WMATA's largest. Neither WMATA nor the trustees for the Local 689 plan have fully assessed the risks of that plan.[39] WMATA's Office of Internal Compliance has developed a process to periodically assess risks across the agency, known as an Enterprise Risk Management Program, and reported that pension risks could be assessed within this framework. However, WMATA has not yet assessed the fiscal risks from its pension plans within this program. WMATA officials said they are in the process of identifying risks to include in this program for 2019.

The internal control standards WMATA follows state that organizations should identify, analyze, and respond to risks related to achieving their objectives.[40] Further, a Society of Actuaries Blue Ribbon Panel reported that it is important for stakeholders—such as trustees, funding entities, plan members, union officials, and, in WMATA's case, its Board of Directors—to have comprehensive information about the current and expected future financial position of pension plans and the extent of risks facing pension plans.[41] According to the Blue Ribbon Panel, this information should include, among other things, "stress testing," which projects a plan's financial outcomes under adverse scenarios.

WMATA officials told us that WMATA has not fully assessed pension risks because WMATA's management does not have control over decisions related to the risks its pension plans take. For example, WMATA officials told us that given that both asset-allocation and investment-return assumptions are the purview of plan trustees who are required to act independently, WMATA has left the decision to determine if risk analysis is necessary to the individual plans' trustees. WMATA officials stated that even if they were to identify risks, there are not many actions WMATA management could take to change them because trustees have ultimate control over the plans' investment decisions. However, the investment risks taken by the pension plans' trustees ultimately affect the amount that WMATA is required to contribute, and

[39]As previously stated, the Local 689 pension plan is administered by a group of trustees called the "Retirement Allowance Committee" whose members are appointed by WMATA and the union.

[40]COSO, *Internal Control – Integrated Framework* (New York: American Institute of Certified Public Accountants, 2013).

[41]Blue Ribbon Panel on Public Pension Plan Funding, *Report of the Blue Ribbon Panel on Public Pension Plan Funding* (Society of Actuaries, Feb. 2014).

assessing those risks could help WMATA better anticipate its required future pension contributions.

Without a comprehensive assessment of these risks, WMATA and its stakeholders—such as its Board of Directors—are limited in their ability to prepare for economic scenarios that could ultimately increase the amount WMATA is required to contribute to its pension plans. In addition, if disappointing market returns were the result of a broader economic downturn, WMATA's revenues—such as those from local jurisdictions—could decline at the same time as higher pension contributions were required. For example, as noted earlier, if WMATA's pension plans' assets of $3.6 billion return significantly less than assumed, WMATA could experience a spike in required contributions, as it did in the years following the 2007–2009 financial crisis. Such a spike would further constrain WMATA's operating budget, and potentially jeopardize its ability to pay for pension contributions or provide transit service. Moreover, without a comprehensive assessment of these risks under various scenarios, WMATA may lack useful information to develop risk mitigation efforts and to inform its collective bargaining negotiations about pay and benefits. Such information would also be useful to WMATA to inform its Board of Directors, and the jurisdictions that fund WMATA, about the impact that adverse economic scenarios could have on WMATA's ability to provide future service at anticipated funding levels.

## WMATA Lacks a Strategic Process to Identify and Address Future Workforce Needs

WMATA identifies the staffing levels it needs each year through its annual budgeting process, but does not have a strategic process to identify and address its long-term workforce needs to meet the agency's goals. For example, in preparing the annual budget request for the Board of Directors, WMATA officials identify the number of staff needed in individual departments the following fiscal year. However, WMATA does not have a process for identifying and addressing agency-wide workforce needs beyond one year or in relation to agency-wide goals, contrary to leading practices. In addition, WMATA has some workforce development programs, including some that are piloted or planned, but these programs are not based on an agency-wide assessment of the skills the agency needs to meet its strategic goals. Instead, WMATA's workforce development programs are directed to short-term needs such as filling vacancies.

## WMATA Identifies Short-Term Staffing Levels for Its Annual Budget but Has Not Set a Direction for its Long-Term Workforce Needs

WMATA officials identify staffing levels needed by individual departments annually, in preparation for WMATA's annual budget. The annual budget, once approved by WMATA's Board of Directors, sets a ceiling for the number of positions WMATA can employ in the next fiscal year. For example, in fiscal year 2016, WMATA was authorized to fill up to 13,032 positions in fiscal year 2017. WMATA officials told us that each department, such as Rail Services or Bus Services, estimates the number of positions they will need to meet their mission the following fiscal year. According to WMATA officials, this estimation is based in large part on the number of positions allotted to them in the previous fiscal year. WMATA officials said the budget office assembles this department-level data into WMATA's agency-wide budget request for the board of directors.

WMATA's recent restructuring of its workforce was also guided by the annual budget process. Beginning in June 2016 in preparation for the fiscal year 2018 budget proposal, WMATA eliminated 800 positions, most of which were vacant.[42] To identify these positions, WMATA's General Manager directed department heads to help identify any positions that were redundant or obsolete. WMATA officials reported that 637 of the 800 positions eliminated were already vacant, and of the 163 occupied positions most were reassigned to other existing positions. Ultimately, WMATA terminated 62 employees during this time for an estimated savings of $7.3 million (about $116,000 per employee in salary and benefits).

Although WMATA estimates departmental staffing needs annually, WMATA officials said the agency does not have a process for identifying the agency's long-term workforce needs. Instead, officials said that each department typically completes a 3-year business plan through which it may identify the number of employees needed over that period. However, none of the 8 department business plans that we reviewed for calendar years 2017 through 2019 identified the number of employees needed. Further, WMATA's Chief Operating Office business plan identified the lack of long-term workforce planning as a risk to the office's ability to meet its core organizational goals. WMATA's four organizational goals are

[42]WMATA officials said that none of the eliminated positions was essential or safety-critical.

creating a safety culture and system, delivering quality service, improving regional mobility, and ensuring financial stability and investing in people.[43]

According to leading human capital practices we have previously identified, agencies should have a strategic workforce planning process that identifies the workforce, including full-time, part-time, and contracts, needed to meet the agency's strategic goals now and in the future.[44] Strategic workforce planning helps an agency align its human capital program with its current and emerging mission and ensures that it will have the workforce it needs to accomplish its goals. According to these leading practices, the first step of strategic workforce planning is for top management to set a strategic direction for the agency's workforce planning efforts, and to involve employees and other stakeholders in the development and communication of these efforts.[45]

WMATA does not have a strategic workforce planning process that would address its workforce needs beyond the next fiscal year because it has not prioritized that effort. WMATA officials told us they were interested in creating a strategic workforce plan, and had made previous plans to do so. Specifically, WMATA's 2013–2025 Strategic Plan reported that the agency was creating a "Strategic Human Capital Plan" that would have developed long-term workforce planning strategies. However, WMATA officials told us that the Strategic Human Capital Plan was never completed due to other, competing priorities such as filling vacant positions and addressing other workforce issues in the upcoming budget.

Without a strategic workforce planning process to establish a long-term direction for its workforce, WMATA does not have a clear plan for how it will acquire, develop, and retain the workforce needed to achieve its strategic goals of creating a safety culture, delivering quality service, improving regional mobility, and financial stability. Further, without such a process, WMATA lacks reasonable assurance that its short-term annual

[43]Washington Metropolitan Area Transit Authority, *Momentum The Next Generation of Metro: Strategic Plan 2013-2025*.

[44]GAO-04-39.

[45]GAO-04-39. In addition, FTA encourages transit agencies to conduct workforce planning. For example, FTA sponsored a National Academy of Sciences resource manual on strategic workforce planning – see The National Academies Press, *Knowledge Management Resource to Support Strategic Workforce Development for Transit Agencies*, Transit Cooperative Research Program Research Report 194 (2018).

budget requests for staff, including the recent restructuring, will move the agency toward these strategic goals.

## WMATA's Workforce Development Programs Are Not Based on an Agency-wide Assessment of Gaps in Critical Skills and Competencies

WMATA officials told us they have some established workforce development programs, and others piloted or planned. For example, WMATA currently has three specialized recruitment programs to identify qualified veterans, Latinos, and persons with disabilities for WMATA positions. WMATA also provides targeted training for employees such as "principles of supervision" for all new supervisors. WMATA officials told us the agency is also developing a "People Strategy," which will include multiple workforce development programs for certain entry-level workers and managers to improve their skills and help them to advance in the agency. One component of the People Strategy will be to establish a program to identify and train "high-potential" staff for leadership positions.

Although WMATA has some limited workforce development programs, these programs are not based on an agency-wide assessment of skill and competency gaps. According to the COSO internal control standards and leading practices we have previously identified, once an organization's leadership sets a strategic direction for workforce planning efforts, it needs to conduct a "workforce gap analysis"—a data-driven assessment of the critical skills and competencies the agency will need to achieve its current and future goals.[46] Agencies can use different approaches for this analysis. One example is using information on retirements and attrition to identify future gaps in staffing or skills. Another is "scenario planning" in which an agency identifies how its activities might change in scope and volume in the next 5 years, and then identifies gaps in skills and competencies needed to fill the likely scenarios, rather than planning to meet the needs of a single view of the future. An agency can then develop strategies that are tailored to address any gaps between the skills and competencies they need and the ones they already have.

WMATA officials reported that they identify workforce gaps by tracking vacancy rates (percentage of budgeted positions that are vacant) and consulting department leaders about employees departing or retiring. However, WMATA officials said they do not monitor trends in agency-wide retirements and had not projected the number of employees eligible

[46]Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework* (New York: American Institute of Certified Public Accountants, 2013) and GAO-04-39.

to retire in the future—essential components of a data-driven workforce gap analysis. In comparison, officials from four of the five similar transit agencies we interviewed project the percentage of staff who are eligible to retire in the future, ranging from 3 to 10 years.

WMATA officials said the agency has not conducted an agency-wide assessment of its skill and competency needs because it has been more reactive than proactive in response to attrition and retirements and relied on promoting staff to higher-level positions to fill vacancies. For example, until 2017, WMATA had a Superintendent Succession Planning Program, which was designed to prepare bus and rail employees for management roles. WMATA officials reported that this program was initiated in 2009 but is currently on hold as the agency develops its People Strategy. WMATA officials said they plan to implement a different succession planning program, which will offer financial incentives for some managers to transfer knowledge to staff before they retire, as part of the People Strategy. However, without conducting a data-driven assessment of the critical skills and competencies WMATA needs to fill any gaps and achieve its strategic goals, WMATA lacks complete information on where the gaps in its workforce lie, and if its workforce development programs are addressing those gaps or ultimately moving the agency closer to its strategic goals.

## WMATA Lacks Some Key Elements of an Effective Performance Management System and Sufficient Controls to Ensure Accurate and Timely Performance Reviews

WMATA has implemented two performance management systems to cover its various employee groups, but these systems lack some key elements of an effective performance management system. [47] Specifically, WMATA has linked employee performance to pay for some employees; however, WMATA's performance management systems do not (1) consistently align employee and agency goals or assign responsibilities, (2) make meaningful distinctions in performance, or (3) consistently use competencies to identify the behaviors individual employees need to contribute to strategic goals. In addition, WMATA does not have sufficient controls to ensure that performance reviews are complete, accurate, and submitted within established timeframes and does not use performance management information to track progress towards strategic goals.

[47] GAO-03-488.

## WMATA's Performance Management Systems Cover All Employees but Design Lacks Some Key Elements

WMATA has implemented two performance management systems that cover all employees: PERFORMetro for non-represented staff and staff represented by Local 2, Fraternal Order of Police, or Local 639; and Performance Conversations for staff represented by Local 689 or Teamsters Local 922. The features of the PERFORMetro and Performance Conversations systems vary somewhat in terms of the frequency of performance reviews, the use of objectives to assess performance, and other characteristics (see table 3).

**Table 3: Features of Washington Metropolitan Area Transit Authority's (WMATA) Performance Management Systems**

| Features | PERFORMetro | Performance Conversations |
|---|---|---|
| Included Employees | Non-represented staff and staff represented by Local 2, Fraternal Order of Police, or Local 639. This group includes managers, administrative staff, and law enforcement officers. | Staff represented by Local 689 or Local 922. This group includes rail and bus operations staff. |
| Frequency of Performance Review | Beginning, middle, and end of each annual review period | Once annually |
| Performance Objectives | Employees are evaluated on 6 to10 individual objectives, 3 of which are mandatory and relate to 3 of WMATA's 4 strategic goals. At the end of the review period, supervisors determine if an employee "did not meet", "met", or "exceeded" each objective. | Supervisors discuss employees' performance as it relates to WMATA's 4 strategic goals. |
| Competencies | Non-management employees are uniformly evaluated on the extent they consistently exhibit behaviors related to safety, serving customers, accountability, and teamwork. | Not included |
| Ratings | Supervisors award an overall rating of "role model," "solid performer," or "improvement required" in the end-of-year review based on the extent to which an employee met the objectives and demonstrated competencies. | Not included |
| Effect on Pay | Solid Performer ratings needed for pay increases or advancement. | No effect on pay; according to WMATA officials, WMATA and the unions would negotiate any change that affects pay |

Source: GAO analysis of WMATA information. | GAO-18-643

Note: PERFORMetro and Performance Conversations were implemented in 2013 and 2016, respectively.

WMATA links pay increases to positive performance for some employees under PERFORMetro, a key element of effective performance

management.[48] For example, Metro Special Police must earn a solid performer or better rating to be eligible for salary increases. We have previously noted that high-performing organizations seek to create pay systems that clearly link to employee contributions.[49] WMATA does not link pay to performance for employees who fall under Performance Conversations. Pay increases for these employees—who are represented by two of the largest unions at WMATA—are determined by years of service as described in the collective bargaining agreements. WMATA officials said they had considered linking some pay to performance in the past, but had not pursued this since they believe any changes to how pay is awarded would have to be negotiated between WMATA and each respective bargaining unit.

Although WMATA has linked individual performance to pay for some employees, the design of WMATA's performance management systems lacks three additional key elements of an effective performance management system as identified in our prior work and internal control standards followed by WMATA.[50] Those key elements are:

- aligning employee and agency goals and identifying responsibilities
- making meaningful distinctions in performance, and
- using tailored competencies to define needed skills and behaviors.

*Aligning employee and agency goals and identifying responsibilities:* PERFORMetro is not designed to align individual employee performance with all of its strategic goals. While Performance Conversation forms guide supervisors to discuss the employees' performance in relation to each of WMATA's four strategic goals, supervisors under PERFORMetro are required to evaluate employees on individual performance objectives that are aligned with three of these goals. Supervisors under PERFORMetro are not required to evaluate employees on a performance objective aligned with WMATA's fourth strategic goal—improving regional

[48]While the performance evaluation form uses the term "solid performer," some collective bargaining agreement documents use the term "satisfactory." For the purposes of this report, we use the PERFORMetro term "solid performer" synonymously with the term "satisfactory."

[49]GAO-03-488.

[50]GAO-03-488 and COSO, *Internal Control – Integrated Framework* (New York: American Institute of Certified Public Accountants, 2013).

mobility. WMATA officials told us it is up to individual supervisors to determine whether to evaluate an employee on the fourth strategic goal. Of the 50 performance reviews we assessed, we observed one that aligned an employee's performance objectives with the organizational goal of improving regional mobility.[51] According to leading performance management practices we previously identified, aligning individual performance objectives with organizational goals helps individuals see the connection between their daily activities and the organization's goals.[52] Without a mechanism in place to do this for PERFORMetro staff, WMATA may not know how these employees are contributing to increasing regional mobility, and employees may not know how they are performing relative to this goal.

In addition, WMATA has not consistently identified how its performance management systems support its overarching strategic goals or assigned responsibilities for implementing these systems. While WMATA issued a staff memo in April 2016 that identified a goal for Performance Conversations—to ensure that employees understand how their performance supports Metro's strategic goals—WMATA has not done so for PERFORMetro. In addition, none of the performance management documents we reviewed clearly assigned authority or defined responsibilities for implementing either PERFORMetro or Performance Conversations. According to the COSO internal control standards, setting program goals is a key part of the management process, and program-level goals should cascade from agency-level goals. Additionally, these standards include establishing policies and procedures that effectively document a program's design, delegation of authorities, and assignments of responsibilities.[53]

*Making meaningful distinctions:* WMATA's performance management systems are not designed to make meaningful distinctions in performance. According to leading performance management practices, the organization's leadership should make meaningful distinctions between acceptable and outstanding performance of individuals.[54]

[51]For more information on the methodology we used for selecting performance reviews, see appendix I.

[52]GAO-03-488.

[53] COSO, *Internal Control – Integrated Framework* (New York: American Institute of Certified Public Accountants, 2013).

[54]GAO-03-488.

However, both of WMATA's performance management systems lack clear definitions for supervisors and employees to use in assessing performance. For example, WMATA leaves it up to employees and their supervisors to identify and define many of the objectives on which employees under PERFORMetro are evaluated. WMATA officials said this provides supervisors some flexibility to account for the responsibilities of employees in different positions. However, the result is that two employees performing the same functions may be evaluated on different objectives, making it difficult to distinguish their performance. Further, under PERFORMetro supervisors are required to rate employees on each objective as "met," "did not meet," and "exceeded," but WMATA does not provide definitions for these categories for each objective. As a result, two employees rated under PERFORMetro could receive different ratings for comparable performance. In addition, for employees under the Performance Conversations system, WMATA does not require supervisors to rate employee performance. Rather, officials told us that WMATA implemented Performance Conversations as a way to encourage more positive, performance-based interactions between employees and management that expanded beyond discipline. WMATA has a discipline-based program for most employees under Performance Conversations (Local 689 bus and rail operations employees and Local 922 bus operators) that establishes standards of conduct these employees must adhere to, and identifies penalties if they do not. This discipline-based program lays out the penalties for violations of employee standards of conduct such as speeding or failing to stop at a red signal. The penalties for conduct violations range from written warnings, to suspensions, to termination.

*Using competencies tailored to each position:* WMATA's performance management systems do not consistently use competencies to identify the behaviors individual employees are expected to contribute to strategic goals. Although WMATA has established competencies as part of its PERFORMetro system, these competencies are defined in a uniform manner that does not reflect the varied job responsibilities of its employees. Inclusion of such competencies tailored to each position's responsibilities is a leading practice for an effective performance management system. Competencies, which define the skills and supporting behaviors that individuals are expected to exhibit to carry out their work effectively can provide a fuller picture of an individual's performance.[55] WMATA defines four competencies for all employees

[55]GAO-03-488.

under PERFORMetro—"focuses on safety," "serves customers," "accountability," and "teamwork."[56] However, these competencies are defined in the same way for all employees under PERFORMetro and are not based on the job responsibilities of each position. For example, WMATA assesses the performance of individuals performing different job functions—such as administrative staff and police officers—by the same competencies and without consideration for how skills and behaviors vary by job function. As such, some portions of the competency descriptions are not applicable to all employees. For example, all PERFORMetro employees are evaluated on the extent that they wear required personal protective equipment and/or clothing, but this may not apply to someone in accounting or human resources. WMATA officials said they are aware of this, and that supervisors choose which portions of the competency descriptions to apply to their employees. Finally, WMATA officials said they do not include competencies for employees under Performance Conversations because Performance Conversations are intended to promote performance discussions, not to evaluate employee performance. However, without competencies tailored to employees' positions, supervisors are limited in their ability to assess employee performance.

WMATA's performance management systems lack key elements of an effective performance management system in part because the agency has not established comprehensive policies and procedures, as called for by COSO, for its performance management systems. Instead, the agency relies on piecemeal documents—such as staff memos and training—and individual supervisors to define and carry out performance management. By establishing comprehensive policies and procedures that document key elements, such as defined objectives and rating categories, WMATA would be better positioned to assess staff performance and ensure performance management is consistently implemented across supervisors. Additionally, WMATA would be better positioned to use its performance management systems to move employees toward achieving its strategic goals.

[56]WMATA evaluates supervisors on an additional competency—"leads and develops others."

## Better Controls Could Improve the Completeness, Accuracy, and Timeliness of WMATA's Employee Performance Reviews

We found that, in implementing its most recent performance evaluation cycle, WMATA's reviews of employee performance were often incomplete, inaccurate, or untimely. First, officials said that they do not routinely collect or retain the forms for its Performance Conversations and that accordingly, WMATA does not know the extent to which these reviews were completed. Second, in our review of a non-generalizable sample of 50 PERFORMetro performance evaluations for fiscal year 2016, we found that WMATA supervisors frequently submitted evaluations that were incomplete, inaccurate, or not submitted within established timeframes. Specifically:

- 25 of the 50 selected files we reviewed were missing either the employee's or supervisor's signature required on the initial expectations setting portion of the form; 3 of those 25 files were also missing a required signature on the final review portion of the evaluation form, which provides assurance that the performance evaluation was completed;
- 10 of the 50 selected files we reviewed were scored incorrectly and thus assigned a performance rating inconsistent with the supporting review. WMATA determines an employee's final rating based on scores tabulated by supervisors for an employee meeting his or her objectives and demonstrating competencies. Specifically, employees receive separate ratings for objectives and competencies, which are then combined together to yield a final overall rating of "role model," "solid performer," or "improvement required". We found tabulation errors in 10 of the files where, for example, a "solid performer" was given a "role model" rating.[57] Without accurate information about employee performance, WMATA may not be able to recognize employees' achievements or address potential performance challenges.
- 22 of the 50 selected files we reviewed were not submitted on time according to timeframes established in a 2016 WMATA staff notice and a 2017 agreement between WMATA and one of its unions.[58] This

[57]More specifically, of these 10 employees, 1 received a "Role Model" rating when he or she should have received a "Solid Performer" rating; 7 received a "Solid Performer" rating when they should have received a "Role Model" rating; and 2 received a "Solid Performer" rating when they should have received an "Improvement Needed" rating.

[58]We determined timeliness by comparing the date each performance review was signed to the date the performance review was required to be completed. Of the 22 untimely reviews, 13 were signed within 45 days after the due date; 5 were signed between 46 and 120 days after the due date; and 4 were signed more than 120 days after the due date.

includes 9 files of employees not represented by a union, 5 law enforcement staff files, and 8 Local 2 staff files.[59] Local 2 officials told us they filed a grievance following delayed performance reviews for its members. Pursuant to the grievance, Local 2 officials signed an agreement with WMATA that if a supervisor does not submit a scheduled performance evaluation within 30 calendar days of a Local 2 employee's anniversary date, that employee will receive an automatic solid performer rating and any associated pay or step increase.

COSO internal control standards state that management should establish control activities, such as policies and procedures, to achieve its goals. Examples of control activities include management reviews and controls over information processing, among other things.[60] A specific type of control activity is a "transaction control," which helps management ensure that all transactions (in this case, performance reviews) are completely captured, accurate, and timely. Transaction controls may include authorizations or approvals by a higher level of management, or verifications to compare transactions to a policy and then follow-up if the transaction is not consistent with the policy. In the case of WMATA's performance reviews, this could include comparing a list of employees who should have received a performance review per WMATA policy to a list of the reviews that were submitted to the human resources office.

We found that WMATA does not have sufficient controls in place to ensure that supervisors accurately complete performance reviews and submit them to the human resources department within established timeframes. WMATA human resources officials said that for the 2016 review cycle, they emailed a report to supervisors listing year-end performance reviews that were due within 90 days, but did not subsequently ensure that they were completed correctly and on time. Officials said that once supervisors emailed these reviews to the human resources department, human resources staff manually recorded these reviews into WMATA's personnel information system. WMATA officials told us that human resources staff examined the performance reviews for completion and accuracy. Despite this process, WMATA officials could

[59]Completed, non-represented employee reviews were due to human resources by January 17, 2017. Local 2 and law enforcement reviews were to be completed and submitted to the human resources department no later than 30 days after the employee's work anniversary.

[60]COSO, *Internal Control – Integrated Framework* (New York: American Institute of Certified Public Accountants, 2013).

not provide us reliable information on the number of 2016 performance reviews that were completed, and as previously mentioned, said they did not routinely collect or retain Performance Conversations forms. WMATA officials said they have plans to upgrade their current performance management information technology system, but descriptions of the upgrade that WMATA provided to us do not identify how the upgrade will address the issues we identified. Without controls to ensure that supervisors submit complete, accurate, and timely performance reviews, WMATA lacks information on the performance of its workforce, and employees lack information needed to improve performance.

## WMATA Does Not Have a Process to Use Employee Performance Information to Monitor Progress toward Strategic Goals

WMATA officials told us that they do not have a process to use information from their performance management systems to identify performance gaps, or pinpoint improvement opportunities. We have previously identified that routinely using performance information to track individual contributions to organizational priorities, and then requiring follow-up actions to address gaps, are key performance management practices.[61] This approach allows an agency to use its employee performance information to monitor progress towards its strategic goals. Officials from two transit agencies we spoke to told us they use information from their performance management systems to track performance gaps related to strategic goals. For example, Chicago Transit Authority officials told us that they evaluate employees on competencies related to the organization's strategic goals of safety, customer service, and teamwork, and then aggregate performance review information to assess the organization's performance on these goals. WMATA does not make use of employee performance information in part because it has not developed a process to do so. Without a documented process to use employee performance management information to monitor progress on its strategic goals, WMATA may miss opportunities to identify and follow-up on performance gaps and to make full use of the information collected through its performance management systems.

# Conclusions

WMATA transports more than 1 million passengers each weekday, making it central to the mobility and productivity of the nation's capital. Recent safety incidents and declines in ridership place additional pressure on WMATA to effectively manage its most expensive resource—

[61] GAO-03-488.

its workforce. If increases in WMATA's workforce pension costs continue to outpace increases in WMATA's other workforce costs, WMATA will be under greater pressure to manage its costs and balance competing priorities. A comprehensive assessment of the fiscal risks these pension investments could pose to WMATA could help it prepare for various economic scenarios and ensure that it can continue to provide benefits to its employees without having to compromise future service to riders to pay for these benefits.

Effective workforce planning could also help WMATA by ensuring that WMATA has the people and skills it needs to achieve its goals of safety, customer service, financial stability, and regional mobility now and in the future. Establishing a strategic workforce planning process that involves employees and other stakeholders, and that uses data on WMATA's workforce to assess competency and skill gaps would provide WMATA with critical information that could help it address any identified gaps and ultimately move it closer to its strategic goals. With effective employee performance management, WMATA also would be better positioned to achieve its goals by explicitly aligning them with the daily tasks of its employees. By establishing comprehensive policies and procedures for its performance management systems that align employee performance objectives with WMATA's strategic goals and define performance objectives, rating categories, and competencies, WMATA will be better able to steer employees towards behaviors that support the agency's goals and away from behaviors that do not. Further, establishing controls for supervisors to submit complete, accurate, and timely performance reviews would help ensure that staff receive information needed to improve their performance. Finally, a documented process to make use of the performance information WMATA collects could help it track progress in meeting its organizational goals and identify and address performance gaps. In light of WMATA's uncertain financial future, improvements in WMATA's workforce planning and performance management could better position WMATA to navigate that future.

## Recommendations

We are making the following five recommendations to WMATA:

1. WMATA's General Manager should conduct a comprehensive assessment of the financial risks to which WMATA is exposed from its pension plans and communicate the results to its pension plan trustees and other stakeholders, such as its Board of Directors. This assessment should include information about WMATA's current and

potential future required payments and unfunded liabilities, including under potentially adverse economic scenarios. (Recommendation 1)

2. WMATA's General Manager should develop a strategic workforce planning process that (1) sets a strategic direction for WMATA's workforce planning and involves employees and other stakeholders in developing and communicating the process, and (2) includes a data-driven assessment of the critical skill and competencies WMATA needs to fill any gaps. (Recommendation 2)
3. WMATA's General Manager should establish comprehensive policies and procedures for both of its performance management systems that document the goals of the systems and individuals' responsibilities for implementing these systems; align employee performance objectives with all of WMATA's strategic goals; and define performance objectives, rating categories, and competencies tailored to individual positions' responsibilities. (Recommendation 3)
4. WMATA's General Manager should establish controls to ensure supervisors fully and accurately complete employee performance reviews and submit them to human resources within established timeframes. (Recommendation 4)
5. WMATA's General Manager should develop a documented process to use employee performance management information to monitor progress toward WMATA's strategic goals. (Recommendation 5)

## Agency Comments and Our Evaluation

We provided a draft of this report to WMATA and DOT for review and comment. WMATA provided written comments, which we have reprinted in appendix II, and technical comments, which we incorporated as appropriate throughout our report.

Regarding our first recommendation that WMATA conduct a comprehensive assessment of the financial risks to which it is exposed from its pension plans, WMATA concurred but stated that the agency has already completed such an assessment and does not believe that any additional assessment would add value. As stated in our report, WMATA hired a consultant in 2016 and 2017 to provide an overview of its five pension plans, including reviewing the plans' funding strategies and performance. However, the stated purpose of these reports did not include an assessment of risk, and the reports included only limited analysis of the various risks WMATA is facing from the plans, and only considered a single scenario for estimating WMATA's future pension obligations. As such we concluded that these reports did not constitute a comprehensive assessment of risks facing WMATA from its pension

plans. Given the plans' large size relative to WMATA's business operations, high proportion of retirees compared to active members, high percentage allocation to risky assets, and high assumed rates of return, WMATA's pension plans pose significant risk to its financial operations. Without a comprehensive risk assessment, WMATA and its Board of Directors are limited in their ability to prepare for economic scenarios that could compromise WMATA's ability to provide future service. Thus, we continue to believe that our recommendation is valid and that WMATA should fully implement it.

Regarding our second recommendation that WMATA develop a strategic workforce planning process, WMATA concurred and described actions it has underway to address the recommendation.

Regarding our third recommendation that WMATA develop comprehensive policies and procedures for both of its performance management systems, WMATA concurred and stated that it is in the process of hiring a consultant to evaluate and redesign WMATA's performance management systems for fiscal year 2020. WMATA also noted that the agency published a performance management handbook and guide in July 2018 that, among other things, provides definitions and indicators for behaviors assessed in performance evaluations. As part of our recommendation follow up process, we will obtain and review the handbook to determine whether it fully addresses our recommendation.

Regarding our fourth recommendation that WMATA establish controls to ensure that supervisors complete and submit employee performance reviews to human resources within established timeframes, WMATA concurred and described actions it plans to take in response.

Regarding our fifth recommendation that WMATA develop a documented process to use employee performance management information to monitor progress towards WMATA's strategic goals, WMATA neither agreed nor disagreed. WMATA stated that it already ties individual employee performance to the agency's strategic goals, but is open to considering improvements through the third-party consultant it plans to hire to review its performance management systems. In our report we note that WMATA's PERFORMetro performance management system is not designed to align individual employee performance with all of its strategic goals. Specifically, supervisors under PERFORMetro are required to evaluate employees on individual performance objectives that are aligned with three of WMATA's strategic goals, but not with WMATA's fourth strategic goal—improving regional mobility. Further, WMATA

officials told us that they do not have a process to use information from their performance management systems to identify performance gaps, or pinpoint improvement opportunities. Thus, we continue to believe that our recommendation is valid and WMATA should fully implement it.

We are sending copies of this report to the General Manager of WMATA, the Secretary of Transportation, and the appropriate congressional committees. We provided a draft of this report to WMATA and DOT for review and comment.

If you or your staff have any questions about this report, please contact Mark Goldstein at (202) 512-2834 or goldsteinm@gao.gov or Frank Todisco at (202) 512-2700 or todiscof@gao.gov. Mr. Todisco meets the qualification standards of the American Academy of Actuaries to address the actuarial issues contained in this report. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors are listed in Appendix III.

Mark Goldstein
Director
Physical Infrastructure

Frank Todisco
Chief Actuary
Applied Research and Methods

*List of Requesters*

The Honorable Steny H. Hoyer
House Minority Whip
House of Representatives

The Honorable Benjamin L. Cardin
Ranking Member
Subcommittee on Transportation and Infrastructure
Committee on Environment and Public Works
United States Senate

The Honorable Gerald E. Connolly
Ranking Member
Subcommittee on Government Operations
Committee on Oversight and Government Reform
House of Representatives

The Honorable Eleanor Holmes Norton
Ranking Member
Subcommittee on Highways and Transit
Committee on Transportation and Infrastructure
House of Representatives

The Honorable Tim Kaine
United States Senate

The Honorable Chris Van Hollen
United States Senate

The Honorable Mark R. Warner
United States Senate

The Honorable Don Beyer
House of Representatives

The Honorable Anthony Brown
House of Representatives

The Honorable John K. Delaney
House of Representatives

The Honorable Jamie Raskin
House of Representatives

The Honorable John Sarbanes
House of Representatives

# Appendix I: Objectives, Scope and Methodology

This report assesses (1) how the Washington Metropolitan Area Transit Authority's (WMATA) workforce costs have changed from fiscal years 2006 through 2017 and factors contributing to those changes; (2) how WMATA identifies and addresses its current and future workforce needs; and (3) how WMATA has designed, implemented, and monitored its employee performance management systems.

To assess how WMATA's workforce costs[1] have changed since 2006, we used data from WMATA's annual budgets and annual audited financial statements from fiscal years 2006 through 2017 on the amounts expensed by WMATA on wages and salaries, employee and retiree benefits, contracted services, and other information on WMATA's pension and retiree medical plans. We selected 2006 to account for any potential effects of the 2007-2009 financial crisis on pension or other costs, and because WMATA began contributing to its largest pension plan again in 2006 after a 6-year period of not contributing to this plan. To adjust WMATA's costs for inflation, we used quarterly data on the GDP price index, which we obtained from the Bureau of Economic Analysis. Inflation adjustment factors are calculated to align with the definition of WMATA's fiscal year, which begins on July 1 and ends on June 30 of the following calendar year. Our calculations adjust nominal values for inflation to find real values are expressed in fiscal year 2017 dollars, where fiscal year refers to WMATA's fiscal year. We also reviewed data WMATA provided on operating and capital overtime costs, and the most recent actuarial reports for each of WMATA's five pension plans for more information on WMATA's pension obligations. Additionally, we analyzed characteristics of WMATA's five pension plans in consultation with GAO's Chief Actuary and in relation to actuarial principles and recent literature.[2] Further, we consulted with GAO's Chief Actuary for assistance in interpreting information about WMATA's pension and retiree medical plans.

To assess WMATA's pension costs, we reviewed pension expense—which reports WMATA's expense for its pension plans during a year, as measured in accordance with pension accounting standards for financial

[1]In this report, we use the term "workforce costs" to refer to WMATA's expenses on wages and salaries, and employee and retiree benefits.

[2]See, for example, An Independent Panel Commission by the Society of Actuaries, *Report of the Blue Ribbon Panel on Public Pension Plan Funding,* (Schaumburg, Illinois: Feb. 2014); and Actuarial Standards Board, *Actuarial Standard of Practice No. 51: Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*, Doc. No. 188 (Sept. 2017).

reporting purposes—and pension contributions, which reports the amount WMATA paid into its pension plans during a year. Both pension expense and pension contributions increased substantially from fiscal years 2006 through 2017. While pension expense is the pension component of WMATA's employee and retiree benefit cost data described above, changes in pension accounting reporting standards in 2014 resulted in pension expense being reported differently before and after 2014. As such, we relied on pension contributions as our primary measure of growth of WMATA's annual pension costs. To assess the reliability of WMATA's budget data, and other data WMATA provided, we interviewed WMATA officials on practices used to assemble these data. We found these data to be sufficiently reliable for our purposes. To identify factors contributing to changes in workforce costs, we interviewed WMATA officials and reviewed WMATA's annual budgets, annual financial statements, and actuarial statements for information on the total number of authorized represented and non-represented staff, changes in operating overtime costs, changes in pension-related costs, and other factors that could influence workforce cost changes since fiscal year 2006.

To evaluate how WMATA identifies and addresses its workforce needs, we compared WMATA's workforce planning and workforce development efforts to leading practices we previously identified and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control standards, which WMATA follows.[3] We previously developed these leading strategic workforce planning practices based on a review of documents from (1) organizations with government-wide responsibilities for or expertise in workforce planning models and tools, such as the Office of Personnel Management and the National Academy of Public Administration, and (2) federal agencies recommended as having promising workforce planning programs. Additionally, to identify these practices we reviewed our prior reports and testimonies on human capital issues and met with officials from the aforementioned organizations concerning existing workforce planning models and lessons learned from workforce planning experiences.[4]

[3]GAO, *Key Principles for Effective Strategic Workforce Planning* GAO-04-39 (Washington, D.C.: Dec. 11, 2003); and Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework* (New York: American Institute of Certified Public Accountants, 2013).

[4]GAO-04-39.

In addition to comparing WMATA's workforce planning efforts to leading practices and COSO standards, we reviewed WMATA's 2017–2019 individual department business plans and 2013–2025 strategic plan to describe how WMATA identifies its short- and long-term workforce needs.[5] Furthermore, we obtained and reviewed WMATA information on the positions WMATA eliminated in fiscal years 2017 and 2018, including the number of positions that were vacant or occupied. Lastly, we compared WMATA's workforce planning approach to those at a non-generalizable sample of five similar U.S. transit and rail agencies, selected based on similarity in size, age, unions representing agency staff, and stakeholder recommendations. Agency size was measured according to unlinked passenger trips and passenger miles data in the American Public Transportation Association's 2016 Public Transportation Fact Book, the most recent issue available at the time of selection. System age and union status were determined by a review of publicly available information about each transit system such as academic papers and transit agency websites. With input from industry, federal, WMATA, and union stakeholders, we selected the following peer agencies: (1) Chicago Transit Authority, (2) Los Angeles County Metropolitan Transportation Authority, (3) San Francisco Bay Area Rapid Transit District, (4) Southeastern Pennsylvania Transportation Authority, and (5) Metropolitan Transportation Authority, Metro-North Commuter Railroad.

To evaluate how WMATA designed, implemented, and monitored its performance management systems, we reviewed documentation on WMATA's two employee performance management systems—"PERFORMetro" for non-represented, Office and Professional Employees International Union Local 2, Fraternal Order of Police, and International Brotherhood of Teamsters Local 639 employees; and "Performance Conversation" for Amalgamated Transit Union Local 689 and International Brotherhood of Teamsters Local 922 employees. We compared these systems to leading performance management practices we have previously identified and to the COSO internal control standards.[6] We previously identified these key practices for modern, effective, and credible performance management systems by synthesizing information

[5]Washington Metropolitan Area Transit Authority, *Momentum The Next Generation of Metro: Strategic Plan 2013*-2025.

[6]GAO, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: March 14, 2003); and COSO, *Internal Control – Integrated Framework* (New York: American Institute of Certified Public Accountants, 2013).

contained in its previous performance management work. These practices were also provided for comments to officials from the Office of Personnel Management, the Senior Executives Association and the Center for Human Resources Management at the National Academy of Public Administration.[7] In addition to comparing WMATA's performance management systems to key practices and COSO internal control standards, we also reviewed WMATA's 2013–2025 strategic plan, which outlines WMATA's four strategic goals: (1) build and maintain a premier safety culture and system, (2) meet or exceed expectations by consistently delivering quality service, (3) improve regional mobility and connect communities, and (4) ensure financial stability and invest in our people and assets.

To assess how WMATA implemented its performance management systems, including what management controls it had in place to track the completion of required annual employee performance reviews, we interviewed WMATA human resources officials and assessed the data they collected on the number of 2016 PERFORMetro year-end reviews that were required and submitted by supervisors.[8] WMATA officials could not tell us how many PERFORMetro reviews or Performance Conversation forms were required over the period we requested. WMATA officials said that they had data on the number of 2016 PERFORMetro reviews submitted to human resources, but did not collect any data on Performance Conversation forms. As such, we requested the list of submitted 2016 PERFORMetro reviews. WMATA human resources management sent an email to all supervisors asking them to send the reviews they had conducted in the 2016 performance period if they had not already done so. While this information met our purposes for performing a non-generalizable review of selected completed performance reviews, data on the number of employees who were required to have a performance review under PERFORMetro in the 2016 performance period and the number of those employees who received a review were not reliable for reporting purposes. WMATA officials agreed with our assessment that these data were not reliable for reporting purposes.

[7]GAO-03-488.

[8]WMATA officials told us that they did not collect any information on Performance Conversations. As such, we were not able to assess any related data.

From the list of PERFORMetro reviews we received, we selected an initial non-generalizable sample of 60 files to assess based on employee group (non-represented, Local 2, and Metro Transit Police) and job title.[9] We selected 20 files from each of the three employee groups—10 files each from the two job titles within each employee group with the highest number of identified reviews. We selected the 60 files by assigning random numbers to each file within the six selected job titles and selecting the first 10 files in the sorted, randomized list. We adjusted our random selection as needed to ensure our selection included performance reviews completed by multiple supervisors. Our final selection included the following performance review files:

- Non-represented employees (20 files total)
  - Rail Operations Supervisor (10 files)
  - Transit Field Operations Supervisor (10 files)
- Local 2 employees (20 files total)
  - Training and Safety Instructor (10 files)
  - Central Control Supervisor (10 files)
- METRO Transit Police Department (20 files total)
  - METRO Police S (10 files)
  - Special Police Series (10 files)

While conducting our file review, we found that the Special Police Series evaluation forms were significantly different than the other files and did not align with the data collection instrument we had designed. As a result, we did not include these 10 files, leaving us with 50 files included in our final analysis. Lastly, as discussed in our report, we did not review any Performance Conversation files as WMATA officials told us that they do not track the completion of these forms and therefore did not have any data on the number of Performance Conversation year-end reviews that were completed in fiscal year 2017, the first year Performance Conversations were implemented. Finally, we interviewed officials from

[9]The Metro Transit Police employee group included employees represented by Fraternal Order of Police and Teamsters Local 639 (Metro Special Police).

the FTA and union leadership from four of the five unions representing WMATA employees.[10]

We conducted our work from July 2017 to September 2018 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[10]Specifically, we met with officials from the Amalgamated Transit Union Local 689, the Fraternal Order of Police, the Office and Professional Employees International Union Local 2, and Teamsters Local 922. WMATA's fifth union, Teamsters Local 639, which represents Special Police, did not respond to our requests for information on the topics covered in this report.

# Appendix II: Comments from the Washington Metropolitan Area Transit Authority

August 28, 2018

Mark Goldstein
Director, Physical Infrastructure Issues
U.S. Government Accountability Office
441 G St, N.W.
Washington, DC 20548

Frank Todisco
Chief Actuary
U.S. Government Accountability Office
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RE: GAO-18-463

Dear Mr. Goldstein and Mr. Todisco,

Thank you for providing the Washington Metropolitan Area Transit Authority (WMATA) an opportunity to respond to the Government Accountability Office (GAO) report entitled "Assessing Fiscal Risks and Improving Workforce Management Would Help Achieve Strategic Goals" [GAO-18-643]. We want to commend the GAO for its professionalism during this review.

In general, WMATA concurs with the findings and conclusions presented in the report and has already taken actions to address a number of issues raised in the recommendations. With respect to our growing pension liabilities, management is doing all that it can to relieve the pension burden, and will work with our Board and jurisdictions on a long-term resolution. In addition, improvements regarding our workforce planning and employee performance programs that were underway prior to the review will continue as planned.

**Workforce Costs**

Metro represents a $40 billion asset that has generated returns on regional and national investments through enhanced mobility, traffic congestion relief, improved air quality, and economic development. The Authority recently achieved a historic milestone when the funding jurisdictions approved dedicated funding to support our capital improvement program, which will ensure that we have the funding needed to preserve our system's assets and to invest in safety and reliability. However, Metro remains at a critical juncture, facing significant structural operating funding challenges.

**Washington Metropolitan Area Transit Authority**

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*A District of Columbia, Maryland and Virginia Transit Partnership*

Over time, Metro's unique business model for operating bus and rail services has become financially unsustainable. While rider fares and other commercial sources of revenues, such as advertising, fund more than 45 percent of Metro's operating costs – one of the highest cost recovery rates in the country – Metro's operating expense is rising at nearly twice the rate of Metro's revenues. Operating costs include materials and energy, but the largest cost drivers, comprising more than two-thirds of total operating expenses, are wages and benefits.

Addressing workforce cost issues is critical, as additional labor costs are borne by Metro's riders or the regional taxpayers. In April 2017, my plan, Keeping Metro Safe, Reliable, and Affordable (KMSRA) proposed numerous changes to address many operating budget challenges. The plan includes a commitment to cap jurisdictional contributions for the operating subsidy at three percent annual growth. Another key component of the plan which, unfortunately, has not been acted upon yet, are amendments to the National Capital Arbitration Standards Act. The plan also proposes efforts to improve efficiency. For example, we are committed to eliminating inefficient business practices and outdated functions, to improving productivity through strengthened management of absenteeism, overtime, and workers' compensation, and to seeking more flexibility to reduce and avoid costs with competitive bidding of targeted services, where permitted. Another critical component in the plan to stabilize workforce costs is to preserve defined benefit pensions for current active employees and retirees and adopt defined contribution pension plans for all new employees.

Metro has already taken numerous actions over the last decade in response to these workforce cost pressures. In addition to instituting a reduction in force, there has also been a multi-year wage freeze and reduction in benefits among managers and non-represented employees. In March 2017, WMATA established an OPEB (other post-employment benefits) Trust that was funded with savings achieved through successful controls on absenteeism, overtime and workers' compensation.

WMATA has also been working with our represented employees' unions to reach new collective bargaining agreements that increase health care premiums, coinsurance and deductibles, and reduce coverage. For example, in addition to non-represented staff, several of our unions have already moved to defined contribution retirement plans for new employees (including Local 639 and Local 2, our second largest union). Further, the recently negotiated agreement with Local 2 also yielded increased employee healthcare contributions (increasing from 18 to 25 percent, which is in line with non-represented employees).

The recent arbitration decision award for Local 689, Metro's largest union, put these employees a step closer to more equal footing with WMATA's other unions with respect to healthcare cost sharing by increasing employee healthcare overage

contributions from 17 to 20 percent, as well as increasing deductibles and prescription copays. Unfortunately, the decision did not address the core issue of pension changes for future Local 689 WMATA employees, a provision that Metro sought. Metro also sought, but did not receive, the ability to cap the amount of overtime hours that can be used toward pension calculations, a common practice at other transit agencies. The Local 689 arbitration award was silent on the overtime cap, leaving WMATA as the only large transit agency in the country with no overtime limit toward pension calculations.

**Recommendation 1:** ***Conduct a comprehensive assessment of the financial risks to which WMATA is exposed from its pension plans and communicate the results to its pension plan trustees and other stakeholders, such as the WMATA Board of Directors.***

> We agree with this recommendation. An assessment has already been completed and provided to you. We do not believe that an additional assessment of the risk would add value at this time.

**Employee Performance Management**

Metro leadership has identified the goal of being an employer of choice. As noted in your report, WMATA already has several workforce initiatives underway. For example, WMATA's Office of Human Resources (HR) is currently developing a "People Strategy" to address several strategic challenges, including: entry-level pipeline; management pipeline & skills development; senior leadership pipeline/succession; and cultural change.

WMATA also recently launched a Human Capital Dashboard, a first step in conducting a "workforce gap analysis." The Dashboard is an interactive tool with easy-to-use human capital metrics and insights intended to: make both basic and critical workforce metrics accessible to those who need the information; increase efficiency by consolidating workforce metrics and insights in one overview; instill data-driven decision making by offering a clear interface to help users easily understand and evaluate data; and streamline production of various reports. The Dashboard will be launched in multiple phases, with the first phase including metrics on employee headcount, workforce demographics, vacancy rates, and turnover, with future phases to include information on employees and positions eligible for retirement.

Finally, WMATA is already working to identify consultants to provide recommendations that will improve WMATA's employee performance management program.

Workforce Issues, GAO
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**Recommendation 2:** ***Develop a strategic workforce planning process that (1) sets a direction for WMATA's workforce planning and involves employees and other stakeholders in developing and communicating the process, and (2) includes a data-driven assessment of the critical skills and competencies WMATA needs to fill any gaps.***

WMATA agrees with this recommendation and is currently in the process of finalizing a scope of work for a consultant to assist with Authority-wide strategic workforce planning, which will include the development of a strategic human capital plan and talent strategy, as well as the development of a workforce planning model. Consultants are expected to be on board by the second quarter of fiscal year (FY) 2019, with work continuing through FY 2021.

**Recommendation 3:** ***Establish comprehensive policies and procedures for both of its performance management systems that document the goals of the systems and individuals' responsibilities for implementing these systems; align employee performance objectives with all of WMATA's strategic goals; and define performance objectives, rating categories, and competencies tailored to individual positions' responsibilities.***

WMATA agrees with this recommendation and is also in the process of obtaining consultant support to evaluate and redesign, as needed, WMATA's current performance management program for all employee groups from soup to nuts, including a look at the use of technologies. The goal is for a new program to be piloted in July 2019, the beginning of WMATA's FY 2020. As staff indicated during the development of this report, there are a couple of important aspects to note.

In the meantime, we would also note that WMATA's performance management program is not static and we have already made improvements and changes to the program since this report was developed. In fact, for employees under the PERFORMetro system, Metro is implementing a modified Performance Management Form for employees for FY 2019 (effective July 1, 2018). Changes to the form have been made to strengthen and streamline the program with the goals of: aligning the timing of performance planning with business planning; reinforcing cascading business plans into individual performance objectives; improving the differentiation of higher and lower levels of performance; balancing the measurement of what is accomplished and how it is achieved; reducing the burden of form completion through increased use of automation; and increasing emphasis on employee development. WMATA's HR team has been conducting a series of presentations and webinars on the new program. In addition, a new

Performance Management handbook was published in July to assist in performance planning for the FY 2019/FY 2020 performance period, along with a guide that provides definitions and specific sets of indicators for the behaviors that are assessed in the performance evaluation.

**Recommendation 4:** ***Establish controls to ensure supervisors fully and accurately complete employee performance reviews and submit them to human resources within established timeframes.***

WMATA agrees with this recommendation and believes that the aforementioned performance management consultant support will provide guidance on best practices for a performance management program, including policies and procedures and improved technologies, as noted above.

**Recommendation 5:** ***Develop a documented process to use employee performance management information to monitor progress towards WMATA's strategic goals.***

WMATA already ties individual employee performance to the Authority's strategic goals under the current system, but is open to and will consider process improvements as part of the third party support we are obtaining, noted above.

The issues that you have focused on in this report are among our top priorities, particularly the challenge of WMATA's unfunded pension and OPEB liabilities. We appreciate the opportunity to work with you and to provide an overview of all the initiatives underway to address the report's recommendations. We look forward to working with our partners and stakeholders to address these challenges in the years ahead.

Sincerely,

Paul J. Wiedefeld
General Manager and
Chief Executive Officer

# Appendix III: GAO Contacts and Staff Acknowledgements

## GAO Contacts

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## Staff Acknowledgments

In addition to the contacts named above, Matt Barranca (Assistant Director), Sarah Farkas (Analyst in Charge); Namita Bhatia Sabharwal; Lacey Coppage; Tom Gilbert; Josh Ormond; Steve Rabinowitz; Michelle Weathers; Hannah Weigle; and Elizabeth Wood made key contributions to this report.

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