

**METROPOLITAN WASHINGTON AIRPORTS
AUTHORITY: A REVIEW OF THE DEPARTMENT
OF TRANSPORTATION INSPECTOR GENERAL'S
FINDINGS AND RECOMMENDATIONS**

(112-109)

HEARING
BEFORE THE
**COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES**
ONE HUNDRED TWELFTH CONGRESS
SECOND SESSION

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U.S. House of Representatives
Committee on Transportation and Infrastructure

John L. Mica
 Chairman

Washington, DC 20515

Nick J. Rahall, Jr.
 Ranking Member

November 13, 2012

James W. Coon II, Chief of Staff

James H. Zoia, Democrat Chief of Staff

MEMORANDUM

TO: Members, Committee on Transportation and Infrastructure

FROM: The Honorable John L. Mica, Chairman

SUBJECT: Hearing on "Metropolitan Washington Airports Authority (MWAA): A Review of the Department of Transportation Inspector General's Findings and Recommendations"

PURPOSE

On November 16, 2012, at 9:00 a.m., in room 2167 of the Rayburn House Office building, the Committee on Transportation and Infrastructure will receive testimony on the Department of Transportation Inspector General's (DOT IG) November 1, 2012 report on the policies, practices and programs of the MWAA.

BACKGROUND

The Metropolitan Washington Airports Authority (MWAA) was created through an interstate compact between the Commonwealth of Virginia and the District of Columbia, and approved by Congress in the Metropolitan Washington Airports Act of 1986 (Airports Act).¹ The MWAA is a public body which is governed by a Board of Directors and employs nearly 1,400 individuals. As originally designed by the Airports Act, MWAA was governed by a 13-member Board of Directors. However, in October 2012, Board membership increased to 17 members, including seven appointed by the Governor of Virginia, four by the Mayor of the District of Columbia, three by the Governor of Maryland, and three by the President of the United States.² Board members serve six-year terms without compensation. The Board is responsible for establishing policy and providing direction to the MWAA's President and Chief Executive Officer (CEO).

¹ P.L. 99-591

² In October 2012, the District of Columbia passed legislation to amend the interstate compact to complete the implementation of changes to the Board's composition mandated by the Consolidated and Further Continuing Appropriations Act of 2012 (P.L. 112-55, Div. C, Title I, § 191). Congress passed this Act in November 2011 to expand the MWAA Board from 13 to 17 members.

In 1987, Dulles International Airport (IAD) and Ronald Reagan Washington National Airport were transferred to the MWAA under a 50-year lease authorized by law.³ Control of the airports was transferred to the Authority, but the Federal government continues to own most of the airport property. In April 2003, the term of the lease was extended an additional 30 years. Prior to the transfer, the airports were owned and operated by the U.S. Department of Transportation (DOT), Federal Aviation Administration.⁴ In 2008, the MWAA assumed control of the daily operation and maintenance of the Dulles Toll Road, including managing a project to extend the Metrorail on the Orange line to IAD. Construction of this project began in 2009.

The Airports Act and the lease established the MWAA as an independent public body. As such, the Authority is not subject to Federal or State laws that govern procurement, ethics, civil service, and transparency. However, it must abide by the provisions and terms of the Airports Act, the lease, and the interstate compact, as well as its own internal policies and processes. The lease established the terms and conditions of the Authority's control of the Airports, and most significantly, that the property be used only for "airport purposes."

DOT Inspector General's November 2012 MWAA Report Findings

Due to their responsibility over two major federally-owned airports and a multi-billion dollar public transit project, the MWAA has recently been the subject of significant interest. At the request of Congress, the DOT Inspector General (DOT IG) reviewed the management practices and policies at the Authority, including its accountability, transparency, and governance. The final report was transmitted to Congress on November 1, 2012.⁵

The DOT IG assessed the MWAA's (1) contract award and procurement practices, including compliance with relevant laws, (2) code of ethics for employees, (3) hiring and compensation practices, and (4) accountability and transparency of its Board of Director activities. In each case, the DOT IG uncovered significant issues of concern. These issues are outlined on the following pages:

DOT IG Review of the MWAA Contract Award and Procurement Practices

The Airports Act and the lease agreement between DOT and the MWAA require the Authority to award contracts over \$200,000 competitively. However, the DOT IG concluded that the MWAA's contracting policies and practices do not encourage competition.

Between January 2009 and June 2011, the Authority awarded 190 contracts that exceeded \$200,000 – only 68 of which were awarded with full and open competition. Of these 190 contracts, five were sole source awards with a combined value of \$6 million. The MWAA also awarded these five contracts without Board approval which the Airports Act, lease agreement, and the Authority's Contracting Manual require. The remaining 117 contracts were awarded

³ Metropolitan Washington Airports Act of 1986, Title VI of P.L. 99-500

⁴ <http://www.mwaa.com/263.htm>

⁵ Report No. AV-2013-006

using categorical exceptions without providing adequate justification – amounting to \$225 million, or 40 percent of the total value of the Authority's contracts over \$200,000.⁶

DOT IG Review of the MWAA's Code of Ethics

As required by the lease agreement with DOT, the MWAA created a code of ethics. However, according to the DOT IG, the Authority's code of ethics and related processes have not been sufficient to prevent actual and perceived conflicts of interest and other violations.⁷ As a result, the MWAA has been unable to ensure compliance with ethics provisions. The DOT IG report highlights known examples of ethical violations, which include employees accepting gifts from contractors – some with major contracts with the Authority – including:

- Two tickets to the 2009 Super Bowl, associated travel, and accommodations in Tampa, FL, valued at almost \$5,000;
- Four trips to golf tournaments, including one trip to the 2009 U.S. Open Golf Tournament in Long Island, NY, and three all-expense paid trips to Hilton Head, SC;
- A trip to New York City to attend a major league baseball game;
- Nineteen other major sporting events, such as professional basketball and hockey games;
- Three concerts, including performances by famous pop artists;
- A fishing trip, including food and drinks; and
- Seventeen social events with food and beverages.

DOT IG Review of the MWAA's Hiring and Compensation Practices

Under the MWAA's standard hiring process, applicants typically undergo a competitive interview process by a panel, which makes a recommendation to the hiring official based on the candidates' qualifications. However the DOT IG discovered multiple instances where MWAA officials either circumvented or ignored the competitive interview process in order to place a candidate they preferred into a position.⁸ This led to senior officials improperly filling vacancies and awarding excessive salaries, unjustified hiring bonuses, questionable cash awards, and ineligible benefits.

In one case uncovered by the DOT IG, the CEO created an advisory position for a former Board member without specifying what the job entailed or establishing market salary and benefits. In February 2012, the former Board member was hired by the Authority one day after resigning from the Board. The compensation for this advisory position included a salary of \$180,000. Subsequently, key MWAA stakeholders questioned the appointment, and the former Board member was terminated—with a year's severance pay.⁹

⁶ Report No. AV-2013-006, Pages 8-9

⁷ Report No. AV-2013-006, Page 19

⁸ Report No. AV-2013-006, Page 25

⁹ Report No. AV-2013-006, Pages 26-27

DOT IG Review of Accountability and Transparency of the MWAA's Board of Directors

According to the DOT IG, weak ethics and travel policies, a lack of oversight, and significant gaps in transparency have greatly diminished the Board's accountability.¹⁰ While the Board has made interim changes, some issues remain to be addressed.

Highlighted in the report, one Board member's recommendation led the MWAA to initiate a \$100,000 contract with a law firm that employed the member's spouse. At the very least, this created the appearance of a conflict of interest. At the time of the audit, the Board's code of ethics did not include a provision prohibiting nepotism and the Authority hired the grandchildren of two Board members. In particular, one Board member had at least two grandchildren working at the Authority. The same Board member also insisted that the MWAA hire an immediate family member of his close friend.¹¹ Although the Authority's recently revised Board code of ethics contains a new provision preventing this type of influence, they have lost tremendous credibility.

DOT Inspector General's Initial Findings And Interim Reforms To MWAA Practices

In May 2012, the DOT IG reported its initial findings, which led to Virginia, Maryland, and District of Columbia officials mandating immediate reforms of MWAA practices. The Authority was required to terminate all contracts with former Board members and employees that were not competitively bid, strengthen its ethics code, provide recurrent training to all Board members and employees, and tighten Board travel procedures to eliminate wasteful spending. The MWAA has subsequently revised the Board's Freedom of Information policy, suspended the use of categorical exceptions for hiring, and enhanced screening to detect and prevent nepotism. The Secretary of DOT is likely to pursue an amendment to the Authority's lease to provide greater oversight.

DOT Inspector General's November 2012 MWAA Report Recommendations

The DOT IG remains concerned with MWAA practices and policies and their interim reforms. Specifically, the interim reforms have not been independently reviewed or fully implemented and further actions are needed to adequately address the weaknesses uncovered by the IG's review.

The DOT IG set forth a number of recommendations to promote integrity and accountability in the MWAA's management and governance. They include:

- Provide quarterly acquisition reports to the Board and DOT;
- Implement a plan with milestones to revise contracting policies and procedures to reflect Federal and other best practices;
- Clarify and enforce its current contracting policies and procedures;
- Define and assess the size and skills of the acquisition workforce and implement an appropriate acquisition certification program;

¹⁰ Report No. AV-2013-006, Page 33

¹¹ Report No. AV-2013-006, Page 35

- Establish policies and procedures for procurement integrity;
- Fully implement formal ethics policies and procedures for Board members and employees;
- Ensure the review process for financial interest forms emphasizes verification and documentation;
- Fully implement a robust ethics training program;
- Establish priorities for implementing the new Board and employee ethics codes, including procedures to oversee and enforce them;
- Implement and enforce human resources policies and practices;
- Further revise the travel policy; and
- Further enhance the accountability and transparency of the Board of Directors.

The DOT IG provided a draft report to the Secretary of Transportation in October 2012. In response, the Secretary indicated that the Department is exercising the full extent of its authority to help the MWAA address the serious problems raised in the report. The Secretary also formally transmitted the report to the MWAA with a clear expectation that the Authority produce a detailed response within 30 days addressing each recommendation. Pending that detailed response from the Authority, the DOT IG's 12 recommendations and 30 specific sub-recommendations remain open and unresolved.

WITNESSES

Panel I – Members' Panel:

The Honorable Gerald E. Connolly

Panel II:

The Honorable Ray LaHood
Secretary
U.S. Department of Transportation

Panel III:

The Honorable Calvin L. Scovel, III
Inspector General
U.S. Department of Transportation

The Honorable Michael A. Curto
Chairman of the Airports Authority Board
Metropolitan Washington Airport Authority

Accompanied by:

John E. Potter
President and Chief Executive Officer
Metropolitan Washington Airport Authority

**METROPOLITAN WASHINGTON AIRPORTS
AUTHORITY: A REVIEW OF THE
DEPARTMENT OF TRANSPORTATION
INSPECTOR GENERAL'S
FINDINGS AND RECOMMENDATIONS**

FRIDAY, NOVEMBER 16, 2012

HOUSE OF REPRESENTATIVES,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
WASHINGTON, DC.

The committee met, pursuant to call, at 9:05 a.m., in Room 2167, Rayburn House Office Building, Hon. John L. Mica (Chairman of the committee) presiding.

Mr. MICA. Good morning. I would like to call this hearing of the House Transportation and Infrastructure Committee to order.

This morning we are conducting an oversight and investigations hearing, and it is relating to the Metropolitan Washington Airports Authority. And, in particular, we will be discussing the results of a report by the inspector general relating to some of the Authority's weak policies, procedures that have led to questionable procurement practices, mismanagement, and a lack of overall accountability, according to the title of the report, which was issued November 1, 2012.

The order of business today will be opening statements by Members, and then we have three panels. Mr. Connolly will be part of our first panel; Mr. LaHood; the inspector general, third, and the chairman of the Airports Authority Board. So, with that, I will proceed. I have some opening comments, and then we will recognize other Members and go forward.

Well, it is sort of a sad day, I think, for Metropolitan Washington, also a sad day for advocates of improving and expanding and conducting good transportation projects and policies in the Nation's capital and surrounding area because the inspector general has produced a report—I think some of you have seen it. I just referred to the report. And this is an audit report.

This was not requested by this committee. It was requested, actually, by two Members of the House: one, Mr. Wolf, the gentleman from Virginia, Frank Wolf, who has been a strong advocate for transportation, also a leader in transportation initiatives for northern Virginia and for the country; and then Mr. Latham, who chairs an important appropriations subcommittee that oversees transportation spending and funding issues in the House of Representatives.

And it does, unfortunately—the report does, unfortunately, highlight exactly what the title has portrayed, that there are serious problems in our Nation’s capital Airports Authority.

The Federal Government does have an important role. We own, I believe, the properties, and we have the long-term leases, as outlined by a law and various agreements for operation. The Authority has more than the airports; it also is responsible for control of the daily operation, maintenance of the Dulles Toll Road and also another important project I worked on with a number of the Members here. We finally made it a reality, but that is the extension of the Metrorail to IAD. So it has an important connection both to the Congress, which created, again, its existence, and it also has multiple important responsibilities.

This is not a criticism particularly by this committee. Our staff and investigative personnel have conducted some review, and, unfortunately, their findings mirror the findings of this IG report. Let me just talk about some of the most disturbing findings.

And, again, we want to uncover what has been going on. We also want to look at how we can bring this to a halt. I know Mr. Wolf has taken some steps to put provisions into some of the, I think, appropriations legislation, and other corrective measures are certainly warranted. But this is to see what went wrong and then try to make certain that it is corrected and it doesn’t happen again. And, also, people need to be held accountable.

Under the DOT IG review, first, some of the Airports Authority contract award and procurement practices. They found that, unfortunately, even though there is a requirement for all contracts over \$200,000 to be bid competitively, that always didn’t take place. Between January 2009 and 2011, June of 2011, the Authority awarded 190 contracts that exceeded \$200,000. Only some 68 were actually awarded with full and open competition. Five were sole-source awards with a combined value of some \$6 million.

Another nearly quarter of a billion dollars of contracts—and I think there were 117 of those, the balance of the contracts—were awarded using categorical exemptions. All of this raises very strong concerns, again, for compliance with open and fair and honest competition.

Let me just talk about the next point that the DOT IG’s review of the Airports Authority, compliance with the code of ethics. And some of this has already been reported, but their findings are that there were tickets to the 2009 Super Bowl, valued at almost \$5,000; 4 golf tournament trips; a trip to New York City to attend a major baseball league game; 19 other major sporting events; 3 concerts; a fishing trip; and a host of other things that certainly are improper.

Unfortunately, the operation of the Airports Authority is now becoming a poster child for some of the corrupt practices that I think need to be brought to a halt and accounted for. And that is, again, the purpose of this hearing.

And one of the other major points that the IG reviewed is the hiring and compensation practices. They found out that the Authority officials either circumvented or ignored competitively going after candidates and having an open and honest and fair process in order to place some of the candidates they preferred into a posi-

tion. Unfortunately, they also have been accused of nepotism, both some from some of the key personnel, including, I guess, the personnel HR director has resigned, but also even board members.

And additional findings of the inspector general cited awarding excessive salaries, unjustified hiring bonuses, questionable cash awards, and ineligible benefits. So that is not my findings; that is the findings of the inspector general. We will hear from him in a minute.

Then I was reading an account this morning. There is a report which I would like to see which is still in, I am told, a draft form, but it was an anonymous employee survey. And they gathered comments in 2010 of some of the extensive mismanagement issues at the Authority.

But some of the comments that are in the report—which, again, hasn't been released, I don't believe, or finalized. This is what some of the employees said: Stop the corruption, favoritism, discrimination; hiring advancement of unqualified people, top management people; VPs having board members in their pocket for favors; VPs violating laws, practices, and lacking ethics and fairness.

Here is another comment: Nepotism and favoritism. Here is another comment: It needs a severe culture change. Here is another one: There is way too much nepotism; take my word for it and independently look into it.

And the list goes on. I will make these part of the record.

[The information follows:]

FEDERAL INVESTIGATION

Dulles Rail board ignored warnings of nepotism

By Liz Essley
Examiner Staff Writer

Nepotism at the embattled Metropolitan Washington Airports Authority was so widespread that employees were warning leaders about it nearly two years before a federal inspector general blasted the authority for its "culture of favoritism," *The Washington Examiner* has learned.

But airports leaders did little to stop the problem until a Department of Transportation inspector general publicly reprimanded the authority for its practices in a report released earlier this month.

A congressional committee is prepared on Friday to grill officials from the airports authority, which oversees Washington Dulles International and Ronald Reagan Washington National airports, as well as the \$6 billion Dulles Rail project.

On Wednesday, authority board member H.R. Crawford unapologetically told reporters that referring friends and relatives for jobs at the authority was "standard operating procedure" when he joined the organization a decade ago.

Employees complained about the cronyism and its blow to their morale in a December 2010 survey, the results of which were presented to the airports authority's board in early 2011.

"The Authority is morally bankrupt when it comes to nepotism in employment and contracts," wrote one employee in the anonymous comments, according to documents viewed by *The Washington Examiner*.

Employees said there was a problem long before agency cited

Anonymous employee comments gathered in a December 2010 survey revealed extensive management issues at the authority — among them nepotism and cronyism — long before a federal inspector general blasted the authority for the problems.

Among the comments:

- "Hire more qualified persons instead of 'branch & family'."

- "STOP the corruption of favoritism, discrimination, hiring advancement of unqualified personnel. Top management's hiring board members in their back pocket for Boeing, KBR and AIA violating laws, policies and lacking ethics and integrity."

- "Nepotism and favoritism: The Vice President of Human Resources has his own relatives and friends. Some members of the board of directors hire their own relatives and friends."

- "It is much to expect 'culture change.' The result of the speed of buy system still going on around here."

- "There is only too much nepotism at MWA's hierarchy. Do not take my word for it and independently investigate it."

- "Eliminate favoritism and nepotism in hiring and promotions. Hire and promote the best qualified candidates not friends or relatives of staff."

new hire."

- "EXTREMELY disappointed in the integrity, quality and transparency practices of the Airports Authority. I've worked for other government entities and have found this employer to not only be severely dysfunctional, but exhibit serious issues with transparency, particularly whether it is discrimination, ethics violations, employment practices or favoritism."

- "The Vice President of Human Resources hired another official to deal with the problem and practices they set for the Airports Authority. They're prevented by money at looking integrity."

The airports authority would not release the survey comments, saying the study was still a "draft."

"There is a serious ethics problem at the Airports Authority — there is favoritism in hiring, promotions, performance appraisals, bonuses, cash awards, contracting, etc.," wrote another employee. "Even this organizational study is suspected by many of being crooked. Many people are afraid to speak up. An outside investigation BY A GOVERNMENT AGENCY is needed."

Still more scathing comments came from authority workers: "STOP the corruption of: favoritism, discrimination, hiring/advancement of 'unqualified' personnel," wrote one. "Force executive level management to observe, promote and lead

by example MWAA's ethics and policies that have been established and stop the nepotism and favoritism," wrote another.

Several commenters singled out the vice president of human resources, Ari Williams, for hiring friends and relatives. Williams declared his retirement the day before the recent inspector general's report blamed him for hiring one relative — despite a failed background check — and supervising another.

As a result of the survey and the associated study — which the airports authority awarded in a no-bid, \$885,000 contract to a D.C. firm with connections to Crawford — the airports authority revised a tool that measures employee performance and "improved employee communi-

cations," a spokesman said.

But employees hired by relatives stayed on, and in summer 2011, four relatives of board members, including one of Crawford's granddaughters, were hired in a student summer employment program.

It wasn't until after an interim inspector general's report in May that the authority started revising ethics policies and the student program guidelines.

"Additional reforms are in progress and will be reported publicly on a regular basis. The Airports Authority will continue to review its practices and procedures to reflect best practices of government and industry," airports spokesman Rob Yingling said in an email.

lesley@washingtone Examiner.com

Mr. MICA. And I would also like to see that draft when it is finalized and made part of the record.

So, again, we are here on a sad day when we have to conduct this type of investigation and review and also look at, again, the positive steps that can be taken to correct this.

So with those comments, again, I welcome our witnesses and invite other Members for their opening comments. And I will yield first to Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman.

The Metropolitan Washington Airports Authority, which we call MWAA, is a so-called independent public body, but it was created by Congress, by an act of Congress called the Metropolitan Washington Airports Act of 1986. That act authorized a compact between the Commonwealth of Virginia and the District of Columbia.

MWAA has 1,400 employees and leases the land and manages—leases the land on which the 2 airports stand from the Federal Government and manages Ronald Reagan National Airport and Washington Dulles Airport. In addition to managing the airports, MWAA has been given responsibility for the Dulles Corridor Metro-rail Project, with an estimated cost of \$5.8 billion, including \$977 million in Federal funds.

This hearing is timely and important in light of the Department of Transportation inspector general's audit report released just this month and the recent news stories almost every other day about inappropriate spending by MWAA and potential and actual conflicts of interest.

The IG report concluded—and here I am quoting—“MWAA's contracting policies and practices are insufficient to ensure compliance with the Airports Act and the lease agreement between DOT and MWAA,” end quote. And he went on to say, “The code of ethics and related MWAA policies and procedures in place at the time of our audit lack the rigor needed to ensure credibility and integrity of management and employee decisions.”

Following the IG's report released in May, MWAA has taken some action to improve its ethical standards by approving a new travel policy, a new code of ethics for the board and for employees. MWAA has also revised the board's bylaws and Freedom of Information Act policies and has terminated contracts with former board members. However, I believe more action is needed.

To address the contracting policies, which have perhaps been the most troubling, yesterday I introduced H.R. 6592, for which I am seeking cosponsors, that would require MWAA to comply with the Federal Acquisition Regulations that set rules that govern all aspects of the acquisition process for virtually every Federal branch agency.

Given the continuing ownership of the airports by the Federal Government, MWAA's creation by Congress, and the significant Federal taxpayer dollars for which MWAA is responsible, there is no reason why MWAA should use a different standard from that for Federal agencies, particularly given the shortcomings reported by the IG. It certainly would make no sense for MWAA to attempt to reinvent a new set of procurement procedures and ignore the long-tested Federal Acquisition Regulations, which provide legal

guidelines for every aspect of procurement and that maximize fairness and transparency.

I am grateful to Secretary LaHood for his quick attention to the IG's findings, appointing an accountability officer to work with MWAA to strengthen its policies. In addition, Secretary LaHood co-signed a letter with the Governors of Virginia and Maryland and the mayor of the District of Columbia highlighting their concern with the lack of accountability and transparency and laying out specific necessary reforms.

My bill, along with steps that MWAA has already taken and is continuing to take, should help MWAA regain its bearings. I look forward to hearing from today's witnesses about what reforms are necessary and how to ensure that MWAA is a good steward of the valuable assets it controls.

And I thank you, Mr. Chairman.

Mr. MICA. Thank the gentlelady, and recognize the chair of the Aviation Subcommittee, the gentleman from Wisconsin, Mr. Petri.

Mr. PETRI. Thank you very much, Mr. Chairman.

As your remarks indicated, this committee has, I think, great confidence in General Scovel and the inspector general process, and this hearing and his report illustrates the importance of that to the good functioning of our Government. It is sad but true that, sometimes, if people don't think they are being watched, they do things that they shouldn't be doing. And the inspector general is the watcher, and the report is the result of that.

Now, what did he find? He found inappropriate sole-sourcing contracts, accepting elaborate gifts from contractors, nepotism and hiring irregularities, unjustified and costly bonuses, and a variety of other unethical actions on the part of the board and members of the staff of the Metropolitan Airports Authority.

This hearing illustrates the seriousness with which this committee and Congress takes not only the report but the actions that it uncovered. And we hope and look forward to hearing what remedial actions are being taken to make sure this doesn't happen again.

And, with that, I thank the chairman for recognizing me and yield back the balance of my time.

Mr. MICA. Thank you, and let me recognize Mr. Cummings next, the gentleman from Maryland.

Mr. CUMMINGS. Thank you very much, Mr. Chairman, for convening today's hearing to examine the outrageous abuses of the Metropolitan Washington Airports Authority, otherwise known as MWAA.

These abuses are many and far-ranging and run counter to the public mission of MWAA. Members of the board of directors failed to live up to the high expectations placed on them by the taxpayers of Maryland, Virginia, and the District of Columbia. I, too, have contributed a portion of my taxes to MWAA, so I come to this hearing both as a Member of Congress and as a disappointed taxpayer. Just as I argued when we found that banks receiving TARP funds were continuing lavish spending, neither I nor any of my fellow taxpayers paid taxes with the intention of funding MWAA's lavish travel, fine wines, and trips to the Super Bowl.

On many occasions, MWAA's board members violated the trust put in them by the taxpayers by pouring money into noncompetitive contracts, hiring family members, and taking gifts that would make Jack Abramoff blush. As such, as MWAA board members enjoyed their travel accounts, concerts, and golf tournaments, I am sure that the citizens of the DC metro area would particularly appreciate more functional airports, such as a Silver Line project, free of massive spending overruns.

I call upon MWAA today to continue to revise all of their internal practices, especially the code of ethics. Further, I urge MWAA to incorporate the recommendations made by the inspector general's report, as there are clearly shortfalls in the current standards of conduct. I look forward to hearing from today's panelists about what has been done and will continue to be done to correct these problems.

The sort of abuses that have occurred must stop and must stop immediately. Engaging in these practices is completely unacceptable, and in other circumstances they would be criminal. MWAA must swiftly recover from these missteps and work to regain the public's trust, while making its sole mission that of being a responsible steward of some of this region's most essential transportation and infrastructure.

With that, I am hopeful that today's testimony will yield not only explanations but include concrete steps for remedying these significant issues.

And with that, Mr. Chairman, I yield back.

Mr. MICA. Thank the gentleman.

Do other Members seek recognition?

Ms. Richardson, the gentlelady from California?

Ms. RICHARDSON. Yes, thank you, Mr. Chairman, and our ranking member for calling this hearing today to review MWAA's efforts to evade problems brought to light by the Department of Transportation's inspector general.

As customary, it is always beneficial to have the participation of our Secretary, Ray LaHood, who is well-versed with the workings of this committee and the body as a whole.

Today our purpose is to consider the inspector general's findings, which are limited to just a few years but unfortunately paints a troubling picture of what might have occurred since 1987.

After reviewing the report, it is clear that reform is needed at MWAA. According to the report, and over the years, there has been a blatant disregard for competitive bidding practices by awarding contracts to former board members, initiating work before the contract was awarded, awarding sole-source contracts without properly vetting bidders, and continually creating loopholes to bids in an effort to sidestep regulations on bids valued at over \$200,000.

Now, I will say as a Member of Congress, my legislative career has been devoted to, particularly on this committee, to make sure that all companies—small business, minority, veterans, various businesses—would have an opportunity to compete. So by reading this report, it is particularly disturbing because it gets at the heart of what many of us have worked to do to make sure that all companies, particularly American companies, have an opportunity to do

business and have gainful employment and hire others in this country.

I understand that MWAA has since amended some of these policies since the IG's report, including revisions to its contracting manual. However, I would hope that all of the inspector general's recommendations would be incorporated in their policies.

Going forward, I believe that Congress should take action to require any authority's board and employees that use taxpayer dollars to comply with either State or Federal transparency and procurement regulations before entering in a lease with DOT. A perfect example of this is the board of directors at the Dallas-Fort Worth International Airport. That board is required to follow the Texas State law and guidelines related to governance, transparency, and procurement. Failure to comply can lead to punishment by imprisonment or fines.

I applaud both Congressman Wolf and Congressman Latham in their efforts to shine light on this troubling revelation. I want to also again thank our witnesses, including our colleague who is here with us today, for being with us and affording us the opportunity to improve upon the situation, which is what all hearings should be about.

Thank you very much. I yield back.

Mr. MICA. Thank the gentlelady.

Do other Members seek recognition?

If not, then we will turn to our first panel. And we have a single Member testifying or asking to comment today, and that is Gerry Connolly, who represents the 11th Congressional District, takes in a good portion of the area that is served by these transportation agencies.

So, welcome. And you are recognized.

TESTIMONY OF THE HONORABLE GERALD E. CONNOLLY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. CONNOLLY. Thank you, Mr. Chairman.

And before I begin my testimony, I just want to thank you personally. When I was chairman of Fairfax County, before I came here to Congress, you were a good friend in helping us work through problems on the Silver Line project rail to Dulles. You and your predecessor, Mr. Oberstar, worked in a bipartisan way to help us save that project, understanding what a critical investment that is not only for our region but for the National Capital. And I thank you for your leadership and your help on that project because it is going forward. It looks good. I know Secretary LaHood has been a friend to the project, as well. And it means a lot to this region.

Again, thank you, Chairman Mica and Ranking Member Eleanor Holmes Norton and members of the committee, for holding this very important oversight hearing on the findings and recommendations contained in the Department of Transportation Office of Inspector General audit report of the Metropolitan Washington Airports Authority, known as MWAA, its management policies and processes.

I appreciate the opportunity to testify on something that is so important to my constituents in the 11th District of Virginia and, in-

deed, throughout this region. I commend the leadership of Congressmen Wolf and Latham in requesting that IG Scovel initiate an audit of MWAA operations.

I also applaud Secretary LaHood's proactive leadership and his commitment not only to overseeing but, more importantly, actively assisting MWAA in implementing those needed reforms. Appointing an accountability officer, for example, was an important first step toward transforming the Authority. And the Secretary has my full support in regard to DOT's effort to amend its current lease with MWAA to enhance accountability, transparency, and internal controls.

We must not forget that as a self-funded, independent organization employing approximately 1,400 employees, MWAA is far more than its board of directors and senior leadership. The poor performance of some political appointees and senior managers ought not to tarnish the excellent work performed by the Authority's career staff members over many years, who have admirably kept the Dulles Corridor Metrorail Project on track, to be completed on time and mostly within budget, and in their day-to-day work to ensure orderly operation of the airports and management of the Dulles Toll Road as well as other projects.

One would never guess from recent headlines that during its 25 years of existence the Airports Authority has actually established a successful, scandal-free track record of financing and overseeing major enhancements and renovations to both National and Dulles Airports.

That being said, I have cosponsored with my colleague, Congressman Wolf, legislation that would streamline and restructure the governance of MWAA and give Virginia the majority of seats. I have long said it is inappropriate to afford Maryland and the District of Columbia disproportionate influence over facilities wholly located within the Commonwealth of Virginia and that primarily affect Virginia residents.

Any logic behind the current structure collapsed, it seems to me, when MWAA took over responsibility for operating the Dulles Toll Road and constructing Dulles rail. Plain and simple, Virginians want Virginians primarily responsible for setting local toll rates.

By reducing the number of members from 17 to 9 and staggering the terms so no Governor has a disproportionate influence over the composition of that board, our bipartisan legislation can create greater accountability, especially to the folks in Virginia, and restore some public confidence in MWAA. To take that a step further, I would even support starting with an entire slate of new members.

Now, with respect to the IG report, one cannot defend the indefensible. In reviewing the interim and final DOT OIG audit report, "indefensible" is one of the milder terms one could apply to some of the management deficiencies and ethical practices exhibited by MWAA's board and senior leadership. Unfortunately, in this instance, one can judge the book by its cover, as the report's title, "MWAA's Weak Policies and Procedures Have Led to Questionable Procurement Practices, Mismanagement, and a Lack of Overall Accountability," accurately captures the Authority's shaky management practices. Stories of extravagant travel, unjustified hiring bo-

nuses, questionable cash awards, and widespread nepotism already have grabbed headlines as a result of OIG's investigation.

While some of the criticism focused on actions of certain board members, the final audit report demonstrates clearly that the depth of management and ethical failures extend far beyond any one person. The fact of the matter is the bar for professional and ethical conduct needs to be raised considerably for all current and future board members and senior managers of MWAA.

The finding from OIG that I found most troubling involved serious management deficiencies, particularly MWAA's noncompliance with requirements in the Airports Act, its lease agreement with DOT, and commonsense contracting practices. From initiating work before awarding a contract, issuing sole-source contracts without adequate justification, providing favored bidders with nonpublic information to bestow an unfair competitive advantage, MWAA's acquisition practices and procedures could serve as a case study in how not to administer procurement policy.

In addition, MWAA's failure to meet its own contracting manual requirements when utilizing categorical exceptions was an inexcusable restriction of fair and open competition. The Authority's decision to delegate procurement authority to employees outside of its procurement and contracts department, subsequently losing track of which personnel they had granted this authority, while simultaneously failing to hold employees to delegated limits, is emblematic of MWAA's lack of internal controls and disregard for sound management principles.

Fortunately, MWAA has demonstrated it now understands the gravity of this situation and is taking steps, however tardy, to ensure that the final chapter of this embarrassing period for the Authority may yet be one of redemption. The decisive actions initiated by the board and senior leadership, including the arrival of new board members and the replacement of some senior managers, are an encouraging indication that MWAA is committed to restoring its reputation and, more importantly, public confidence in the operation.

Developing a new travel policy, increasing transparency through new ethics policies, and instituting strong internal controls for procurement are essential corrective actions in order to eliminate nepotism and favoritism while ensuring that MWAA is always in compliance with the Airports Act and its lease agreement with DOT.

As the committee is aware, MWAA Board Chairman Michael Curto sent a letter to Secretary LaHood and Governors McDonnell and O'Malley and Mayor Gray of the city earlier this week detailing actions the Authority already has taken or plans to take in response to the OIG's 12 broad corrective actions and 30 specific sub-recommendations. I appreciate the candor and resolve from Chairman Curto and MWAA leadership to work swiftly with regional partners to address those shortcomings.

It is difficult, Mr. Chairman, to overstate the importance of MWAA to our region's transportation network and prospects for economic growth. It is absolutely essential that our region's congressional delegation, DOT, and MWAA continue to work together to fully address every single DOT OIG recommendation. Given the diffuse accountability embedded in the current governance of

MWAA, restoring the public confidence will be an arduous but absolutely necessary part of this process.

In closing, I want to again express my gratitude to you, Mr. Chairman, and Ranking Member Eleanor Holmes Norton for providing me the opportunity to testify before the committee. And I look forward to working with you as we proceed in the future.

Mr. MICA. Well, we thank you for your testimony, your participation, and your recommendations.

And I don't see any—Ms. Norton, did you have a question?

Ms. NORTON. Yes, I do have a question for Mr. Connolly.

I certainly agree with his analysis of the issues and the defects in the present regulations, such as they are, at MWAA. I regret the part of his testimony which veers off into an entirely regional matter that has been settled, I thought, by a compromise—a compromise that the District of Columbia only reluctantly accepted.

The 1986 legislation was enacted in order to regulate traffic between Reagan National and Dulles Airport. Dulles was receiving virtually none or too little of the air traffic. Reagan, which was already overcrowded, was receiving much more of the traffic. Since the airport compact was enacted in 1986, there are three airports in this region, and they have divided up the traffic in a very rational way—the airport in Maryland, the airport here in the District, and Dulles Airport. Although, Mr. Chairman, you are aware that every time the FAA bill comes up, there are Members who want more and more of the traffic in the District of Columbia.

The reason that the two airports are regulated and the reason that the District of Columbia is in this at all is because Reagan National Airport receives much—and that is located in Virginia, not, I believe, in Mr. Connolly's district—but that receives traffic that is, in fact, coming to Washington and, therefore, is a preferred airport by much of the traffic. The Federal Government owns the land and wanted to make sure that the traffic was more evenly divided.

Now, Mr. Wolf has had two attempts. The one that everyone has signed on to gives Virginia twice as—gives Virginia the same number—excuse me—the same number as the number of members on the Authority from Maryland and the District of Columbia combined. The other legislation would give Virginia essentially all of the authority, and the other members would have no say because they would so outnumber Maryland and the District of Columbia.

If compromise is to be the way of the lame duck and the way of the 113th Congress, I certainly hope we won't open that issue, which was reluctantly settled to the favor of Virginia and which I think has no place in this hearing today.

And I thank you, Mr. Chairman.

Mr. MICA. You wanted to respond, Mr. Connolly?

Mr. CONNOLLY. Yeah, thank you, Mr. Chairman. And I certainly appreciate Delegate Norton's point of view. I respectfully disagree. I think it has everything to do with today's hearing.

I think, clearly, the practices of this governing body, of MWAA, have shown serious flaws with the governance structure. And I would simply say, if we are talking about control over one's own destiny, which I support, I certainly support voting rights for the District of Columbia. I don't think Congress ought to be making

management decisions for the city's budget or other aspects of its governance.

Delegate Norton has overlooked the fact that there are also, in addition to the Maryland and DC appointees on the board, 3 Federal appointees, so that, as a matter of fact, 10 of the 17 members are not Virginians or not appointed by Virginia. And they are making decisions about toll rates.

What has changed since 1986 is that the Airports Authority—which, by the way, carved out BWI. So the third regional airport is not part of the purview of MWAA, interestingly. But now we are not just managing airports, we are building the largest transit extension in America and managing it, and we are controlling the toll road entirely within Virginia. And the underlying fee is a Virginia property, not a Federal property.

And so that is what has changed. And I respectfully think we ought to consider changing that governing structure so that Virginians have more of a say now in things that profoundly affect my commuters and my citizens on the toll road, which is financing a large part of the extension of rail.

Mr. MICA. OK. Ms. Norton had asked a question. Just a clarification. So your recommendation, did I hear it right, was to dismiss all of the current board members?

Mr. CONNOLLY. The legislation does not address that, Mr. Chairman. What I said was, if we are going to start with a clean slate, we—if this legislation were to become law—

Mr. MICA. Oh, totally clean. Not, like, any of the more recent members. The other thing—

Mr. CONNOLLY. Our legislation is silent with respect to that.

Mr. MICA. OK. There are—well, let's see. We have expanded the membership; now they want to contract the membership and limit some of the membership, according to some of the proposals. All that fight has to go forward. We are not going to settle that here today. But I will be interested in your opinion on that as we move forward. I will also take Ms. Norton's into consideration and the other Members'.

With that, we will let you go. Thank you for your participation, again, your recommendations and your testimony.

And we will welcome Secretary LaHood.

Mike, if you can get his little—OK, here we go.

I want to take this opportunity to welcome our Department of Transportation Secretary and former colleague, the former gentleman from Illinois, still the gentleman from Illinois but now from DOT, Secretary of Transportation LaHood.

Welcome, and you are recognized.

TESTIMONY OF THE HONORABLE RAY LAHOOD, SECRETARY, U.S. DEPARTMENT OF TRANSPORTATION

Secretary LAHOOD. Thank you, Mr. Chairman and the members of the committee, for the opportunity to appear before the committee today to address management issues at the Metropolitan Washington Airports Authority and to share with you steps we have taken to help get the organization back on track.

At DOT, we care deeply about the long-term success of MWAA. I was deeply concerned to learn about the lack of accountability,

transparency, and sound judgment by the MWAA board in its activities. The public expects and deserves more from a public agency entrusted with managing the airports serving the Nation's capital and also building the Silver Line.

The DOT inspector general's report laid out very serious and troubling examples of the Authority's operation, but the reports also may provide a clear and concrete road map for DOT and MWAA itself to bring management practices up to the highest levels.

At the DOT, we took immediate action to help MWAA address these problems and made concrete changes that will preserve these fundamental reforms. This summer, I appointed Kimberly Moore as a Federal accountability officer. And I want to give your colleague, Frank Wolf, a lot of credit for this. Frank and I worked together on this. This was his idea. And Kim Moore has done a great job in a very short period of time. She has worked with MWAA to improve ethics, procurement, and governance policies.

I also brought together the Governors of Maryland and Virginia, along with the mayor of the District of Columbia, to ensure a united front in addressing these issues. In fact, we sent a letter to Chairman Curto and the MWAA board of directors in August laying out both our concerns and necessary reforms to reform transparency.

And if you wouldn't mind, Mr. Chairman, just parenthetically, I just want to list the eight items that were in the letter and tell you where we are at.

Number one, overhaul financial procurement and HR policies. That is underway.

Terminate all existing contracts with former board members and former employees. That is done.

Terminate all employment relationships with former board members. That is done.

Adopt post-employment restrictions for board members and employees that meet Federal standards. That is done.

Strengthen ethics code. Completed.

Tighten travel procedures. Completed.

Implement transparency programs. And the board is, at their last meeting, is pretty well complete on that.

Strengthen oversight of the Dulles rail project, which is using a lot of taxpayer dollars. That is ongoing with our Federal Transit Administration stakeholders and MWAA.

So I am delighted that, out of the eight items, many of them are complete. And I think that goes to the leadership of Mr. Curto and the CEO and president of MWAA.

Since I appointed Ms. Moore as Federal accountability officer, MWAA has implemented new travel policies and ethics policies for MWAA's board and staff, terminated improper contracts and employment relationships, and undertaken to enhance the transparency of MWAA's board. Further improvements are currently underway.

MWAA's success is important to all of us. We have made progress, but we can always do better. DOT looks forward to working with you, this committee, the Congress, our friends that represent this area in Congress, and we will keep all parties advised.

I thank you for holding this hearing and inviting me to participate.

Mr. MICA. Thank you for your testimony.

And we will just ask a couple of questions here.

You cited some of the things that have been done to correct the situation. And I guess you have Kim Moore, who has been charged with some of that responsibility on oversight——

Secretary LAHOOD. May I introduce her? She is here, Mr. Chairman. If she could just stand——

Mr. MICA. That is great. Good. Well, welcome. An important responsibility.

And we appreciate you; Mr. Wolf for his work and efforts to launch some of this; Mr. Latham; and Ms. Moore's efforts to get this under control.

Now, I think the board terms, are they 6 years? And I don't know how many members have been on how long. Do you know the sort of——

Secretary LAHOOD. No, but maybe Mr. Curto can answer that when he is up here. I don't know specifically.

Mr. MICA. Well, my point here is, I thought I heard Mr. Connolly say maybe we need to clean house and start over. What is your opinion there?

Secretary LAHOOD. Well, we——

Mr. MICA. Is that board salvageable?

Secretary LAHOOD. We have, out of the 17 members, I think 11 now—11 or 12 are new members. And the President has just nominated and are pending right now in the Senate two additional members that are Presidential. And we are hoping that there will be one other one.

Really, I think in terms of cleaning house on the board, it has pretty well been taken care of because almost all the members are new members.

Mr. MICA. So you think some of the culture that created this situation has been eliminated?

Secretary LAHOOD. Yes, I do.

Mr. MICA. OK. OK. Well, that is important. And then you have cited the steps that you have taken.

Mr. Connolly actually made a pretty good case of making this more of a Virginia-centered Authority as opposed to the Presidential appointments in Maryland and the rest, DC. What is your opinion there?

Secretary LAHOOD. Well, look, I am not going to—I think it is up to the board and the Congress and the people that represent the airport authorities to decide if they think there is a better approach to the organization of the board. I don't think the DOT Secretary should be deciding what the composition of the board is, how many members it should be. You know, that was done by people who have a lot more jurisdiction over it, and I am going to leave it to others to decide that.

There are a lot of new board members on there. There is a lot of fresh blood. They have a new CEO and president, and I think he has done a good job.

Mr. MICA. Well, what has taken place—and I commend also—the inspector general has done an excellent job. He always does. And we will hear from him in a minute.

Secretary LAHOOD. I agree with that.

Mr. MICA. Again, sort of a sad—well, it is a very sad chapter, particularly in our Nation's capital, to have this—

Secretary LAHOOD. I agree with that.

Mr. MICA. So we hope we can—as Mr. Connolly also said, we have to restore public faith and trust in this important responsibility.

Ms. Norton?

Ms. NORTON. Mr. Chairman, I do not want to convert this into a discussion of what is essentially a regional issue. But I do want to say for the record that what Mr. Connolly proposes is essentially a takeover of the Airports Authority by the State of Virginia. That has profound implications for the rest of the region. And I hope we don't get into those kinds of matters when this is a hearing about a matter on which everybody is in agreement.

Now, Mr. Secretary, I would like to ask your view. I indicated in my opening statement that I had introduced a bill yesterday that would apply, the Federal Acquisition Regulations, to MWAA. I did that after looking at the regulations and seeing that they were tested; essentially, sometimes an agency will make small modifications. I also introduced it because I see that MWAA has been trying to reinvent the wheel. And I couldn't for the life of me understand if, considering that this is Federal land, considering that it is leased from the Federal Government, considering the amount of Federal funds involved, why the Federal Acquisition Regulations already there shouldn't simply apply and just get this over with.

Do you see any reason why the Federal Acquisition Regulations, which are applied to virtually every Federal agency, shouldn't apply to MWAA, as well?

Secretary LAHOOD. Well, first of all, I would like to look at your legislation, Delegate Norton, and I would like to work with you on it. And before I say something very definitive about the procurement, I would really like to talk to our legal team about it.

But, look, we are going to work with you on this, as we have on all of these matters. You are obviously very enlightened about these things. And having served here with you, I know the importance of having good Federal procurement. So let's work together on it and see if we can figure out a better path.

Ms. NORTON. Well, I certainly appreciate that approach. I am trying to go to efficiency in Government.

Secretary LAHOOD. Yes.

Ms. NORTON. There is a lot of, I think, justified and justifiable criticism about Government regulations. And the notion of going all over all of this plowed ground seems to me a colossal waste of time and energy. And I very much appreciate you are willing to consider the legislation.

Secretary LAHOOD. We will do it. We will do it.

Ms. NORTON. Thank you, Mr. Chairman—or Madam Chairman.

Mrs. SCHMIDT. [presiding.] Thank you.

And now I will yield myself such time as needed for some questions.

Nice to see you, sir.

Secretary LAHOOD. Thank you.

Mrs. SCHMIDT. I have a couple of questions.

MWAA, I get why it was formed. I would like some more clarification on why BWI was left out of the loop, since it is in a competitive region with Dulles to get back and forth to. And is there an advantage or a disadvantage for Federal funds to be in the MWAA loop, or is it a wash?

Secretary LAHOOD. I am going to—I think it would be better for me to let Mr. Curto and the Airports Authority answer the question. To be honest with you, I don't know the answer to your question about why BWI was left out. I probably should, but I don't. But I think it is better, when I don't know the answer, to say I don't know and let other people who do know answer it.

Mrs. SCHMIDT. Fair enough.

The second part is the toll road. I mean, maybe Dulles and Reagan have a little Federal control because it is Federal property. That might be the catch, I don't know. But the toll road is definitely Virginia property. Why is MWAA having any jurisdiction over the toll road?

Secretary LAHOOD. Well, look, part of what MWAA is doing is they are the grantee for the construction of the Silver Line, which will deliver people from around the region to Dulles Airport. And we have jurisdiction over the funding for the Silver Line, and we have worked very closely with MWAA and others on that. Part of what we have under consideration now is the TIFIA loan proposal, which will influence the toll road. And so these things are all sort of tied together as a result of the involvement with the Silver Line project.

Mrs. SCHMIDT. I understand the importance of the Silver Line project getting to Dulles. Had MWAA not been involved, would it still have occurred, the Silver Line? I mean, could it have occurred with Virginia working with the Department of Transportation on it without MWAA oversight?

Secretary LAHOOD. Well, look, this project is a project that is a part of the whole Metro system, and the decision was made to have MWAA be the grantee, so to speak, because the line was going to end up at Dulles Airport.

So could there have been another grantee? You know, I would have to go back and look at the debate that took place and how all of that happened.

Mrs. SCHMIDT. My final question: The toll road is solely in Virginia?

Secretary LAHOOD. Yes, the toll road is solely in Virginia.

Mrs. SCHMIDT. And MWAA decides what the rate of the toll will be?

Secretary LAHOOD. Well, look, it is in cooperation with the Commonwealth also.

Mrs. SCHMIDT. OK. Thank you so much.

Secretary LAHOOD. Thank you.

Mrs. SCHMIDT. I am surprised by all of this. Thank you.

Ms. Richardson, do you have any questions?

Mr. Cravaack?

Mr. CRAVAACK. Thanks, Madam Chair.

Thanks, Secretary, for being here.

Secretary LAHOOD. Good morning.

Mr. CRAVAACK. Morning. Just a couple questions.

It sounds like you already have a proactive approach in how to correct the problem.

Secretary LAHOOD. We have taken a very proactive approach.

Mr. CRAVAACK. Yeah, it seems like you have. You gave me a laundry list, and that actually shot down some of my questions. You might not have the answer to this, and the inspector general may have it, but what, in your opinion, was the most egregious findings that you found?

Secretary LAHOOD. Well, the way that this came to my attention is when I read an article in a local publication about a contract that was given to a former board member where this board member was going to be paid for an extended period of time as a consultant. And when I read the article, I couldn't believe it.

Mr. CRAVAACK. Yeah.

Secretary LAHOOD. And that is when—to me, that was the tip of the iceberg.

Mr. CRAVAACK. Yeah.

Secretary LAHOOD. And then we started drilling down, and we came up with these eight items that were included in the letter from the two Governors and the mayor of Washington, DC.

Mr. CRAVAACK. Yeah. Well, like I said, you have already answered my questions in your opening testimony, so thanks for drilling it down.

Secretary LAHOOD. Thank you.

Mr. CRAVAACK. I appreciate it.

And I will yield back. Thank you.

Mrs. SCHMIDT. Thank you.

Mrs. Johnson, do you have any questions?

Ms. JOHNSON OF TEXAS. No.

Mrs. SCHMIDT. Mrs. Edwards?

Ms. EDWARDS. Thank you, Madam Chair.

We will just actually go down the loop.

Mr. Secretary, it is good to see you.

I do want to just go back to this question of the governance structure for the Authority. Because, I mean, in your view, in terms of the amount of resources that we put both into the lease agreements and the activities going at Dulles and at National Airport and, in addition, the Federal resources going in to the Silver Line Metro system, doesn't that justify some more oversight at the Federal level than we have in a lot of other regions that don't share in quite the same relationship with the Federal Government?

Secretary LAHOOD. Well, look, when it comes to the Silver Line, we have a lot of jurisdiction. Our FTA Administrator and the FTA has already done one audit to make sure that the phase-one money was spent correctly. There will be another audit done early next year to make sure that what has continued is being done correctly. That is the way that we would operate with any transit program where we give them money.

The uniqueness of this is that the construction of the Silver Line is being done by the Airports Authority. But our jurisdiction over the Silver Line is quite significant and is significant the way we

do it with every other project that we do like this. We pay a lot of attention, there is a lot of oversight, and we do a lot of audits. We make sure the money is spent correctly. We make sure the contracts are let correctly.

And so, you know, the whole idea of the governance of MWAA I think is better left for debate with the next panel, the chairman and the CEO and the president, you know, to get their take on it. I don't really want to get involved in that. I don't know if that is really my responsibility. I don't want to be telling every airport authority around the country how many members they should have and who should be serving on their boards. That is not our role.

Ms. EDWARDS. Thank you, Mr. Secretary.

And just one final question. The first phase of the project was done under a project labor agreement, but that is not true, then, for the second phase, but largely it is the same number and the same workers.

What was the role of the FTA in its oversight around the development of a project labor agreement in the first phase?

Secretary LAHOOD. Well, once the contract was let, then it is between the people who get the contract and the FTA and others to—well, between the contractor and MWAA to work out the project labor agreement.

I assume that is going to happen in phase two. I think once the contract is let for phase two, people will sit around a table and figure out the PLA.

Ms. EDWARDS. There have been some suggestions, both in the media and otherwise, speculating about the existence of the project labor agreement and moving into phase two as having something to do with all of this mess, apart from the other ethical issues, the mess surrounding departures of board members and the reconfiguration of the board.

Do you know anything about that?

Secretary LAHOOD. I really don't. Yeah. I really don't.

Look, phase one has worked pretty well. It really has. I think phase two will work equally well. Because I think when you talk to these folks that are now in charge of MWAA, a new CEO and president, a relatively new chairman, they get it. We have a former Member of Congress who is the vice chairman of the board who is here today; he gets it. These people get it. They do. They know this has to be done correctly. They also know that a lot of people have an eye on them, not just all of you, but those of us at DOT and others.

So I am confident this is going to be done correctly. They have pending before us a TIFIA loan. I mean, look, we are not going to give them a TIFIA loan if they are not doing things correctly. They know that.

Ms. EDWARDS. All right. Thank you.

And I yield.

Mrs. SCHMIDT. Thank you.

Mr. Coble?

Mr. COBLE. Thank you, Madam Chairman.

Mr. Secretary, good to have you back on the Hill.

Secretary LAHOOD. Thank you.

Mr. COBLE. I was going to ask you, Mr. Secretary, what DOT's next steps are in regard to MWAA, and you have touched on that briefly. Go into it in a little more detail, if you will.

Secretary LAHOOD. Well, we put together a letter, signed by myself and the Governor of Virginia, the Governor of Maryland, and the mayor of DC, where we outlined eight items that they needed to correct quickly. And they have completed the majority of those. They still have more to go.

We have our accountability officer, Kim Moore, assigned by me to work with the MWAA board. She has done a great job, and they have been very cooperative.

And the other thing that I would say is that I have a lot of confidence in the new CEO and president, also in Mr. Curto, who you are going to hear from, but, as important, in Mr. Davis, a former Member of this body. They get it now. They know that things need to change.

And they also know that if they are going to get phase two funded, if they are going to get a TIFIA loan from DOT, things have to be done correctly.

And I believe they are on the right track.

Mr. COBLE. Well, personally I think you served a good watchdog role over there, Mr. Secretary. Good to have you back on the Hill.

Secretary LAHOOD. Thank you.

Mr. COBLE. I yield back, Madam Chairman.

Mrs. SCHMIDT. Thank you.

Are there any other questions?

Secretary LAHOOD. Thank you very much.

Mrs. SCHMIDT. Thank you.

I am sorry, Mr. Petri has—I am sorry, Mr. Petri.

Secretary LAHOOD. Almost.

Mrs. SCHMIDT. Not quite.

Mr. PETRI. This is slightly unrelated, but I just wanted to get on the record that when we passed the FAA reauthorization, it had a provision in it asking the FAA to engage in something similar to what we think of as the Army or the base-closing process, to look at underutilized FAA air-traffic-control facilities around the country, and work with the labor representatives and with others to come up with this.

We know these deadlines are sometimes difficult to meet, but this was supposed to be submitted in June, and now we are 6 months later, and if we don't bring it to the people's attention, it will end up probably continuing to drift into oblivion. So would it be—could you comment on that, or can this be given some attention?

Secretary LAHOOD. I think what I will do, Mr. Petri, is consult with Michael Huerta, the Acting Administrator of the FAA, and, for the record, I will get you an answer.

Mr. PETRI. Thank you, because it is not huge numbers of dollars, but it is—it would save money, and we are looking for efficient operation, safe operation of the Government in every respect, and if we neglect these things, they pile up. So—

Secretary LAHOOD. I agree.

Mr. PETRI. Thank you.

Mrs. SCHMIDT. Thank you.

Any other questions?

Thank you very much for your time.

Secretary LAHOOD. Thank you very much. All right. I got them warmed up for you. Good luck.

Mrs. SCHMIDT. Welcome, gentlemen. We are joined by the Honorable Calvin L. Scovel, inspector general, U.S. Department of Transportation; the Honorable Michael A. Curto, chairman of the Airports Authority Board, Metropolitan Washington Airports Authority. We are also here with the Honorable Tom Davis, from Virginia; and Mr. Potter, the president and chief executive officer of the Metropolitan Washington Airports Authority.

Welcome, gentlemen.

We will begin with the Honorable Scovel.

TESTIMONY OF HON. CALVIN L. SCOVEL III, INSPECTOR GENERAL, U.S. DEPARTMENT OF TRANSPORTATION; HON. MICHAEL A. CURTO, CHAIRMAN, BOARD OF DIRECTORS, METROPOLITAN WASHINGTON AIRPORTS AUTHORITY, ACCOMPANIED BY HON. TOM DAVIS, VICE CHAIRMAN, BOARD OF DIRECTORS, AND JOHN E. POTTER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

Mr. SCOVEL. Madam Chairwoman, Ranking Member Edwards, members of the committee, thank you for inviting me here today to discuss MWAA's governance. Before I begin, I ask consent to include in the record a copy of our recently issued MWAA report.

Mrs. SCHMIDT. So moved.

Mr. SCOVEL. Thank you.

Over the past several months, we have reported a number of deficiencies in MWAA's internal policies and procedures related to contracting, travel, hiring, and transparency. MWAA is taking positive steps to correct these deficiencies, including strengthening several of its policies and terminating contracts with former board members. Further, in exercising the full extent of its authority, the Department has appointed a Federal accountability officer to monitor reform efforts, and is pursuing an amendment to the current lease with MWAA to ensure greater oversight and enforcement.

While these are very positive steps, further actions are needed to ensure fiduciary and ethical responsibility and accountability to Congress, stakeholders and the public.

First, MWAA needs management controls that will protect Federal assets and provide reasonable assurance of sound governance. A lack of such controls has allowed violations of applicable laws and agreements and even MWAA's own policies to go unchecked. Ultimately, MWAA's culture became one that tolerated questionable contracting practices, including awarding two-thirds of its contracts noncompetitively, adding out-of-scope work to existing contracts without proper justification, and initiating work before contract award. MWAA also released nonpublic contract information that gave potential contractors an unfair advantage in competition. These weaknesses were exacerbated by a lack of measures to ensure employees with delegated procurement authority do not violate the terms of their delegation or make improper purchases.

Second, MWAA's code of ethics needs to ensure the integrity of decisions made by MWAA's board of directors and employees. MWAA's code of ethics and related policies and procedures have been insufficient to detect violations of antinepotism and gift provisions and to identify potential conflicts of interest. For example, employees regularly accepted inappropriate gifts from an MWAA contractor, including Super Bowl tickets, travel, and accommodations worth almost \$5,000. cursory reviews of financial disclosure statements and the lack of recurring ethics training have provided little assurance that employees were fully aware of MWAA's ethics requirements.

Third, MWAA's hiring and compensation policies and practices need to ensure sufficient oversight and accountability. Senior officials have placed candidates into new or existing positions without job descriptions, competition, or completed background checks. We found that employees with criminal convictions worked at the Authority in sensitive and management positions for more than a year. In addition, MWAA managers awarded excessive salaries, questionable cash awards, and ineligible benefits. In one case MWAA created a new position for a former board member that included an annual salary of \$180,000 for unspecified job duties before terminating that position.

Finally, MWAA needs to expand its use of open committee meetings and continue to limit its use of executive sessions. This would further promote transparency, ensure accountability, and keep Congress, the public, and other stakeholders informed of its major decisions. MWAA has begun to take action to address our concerns. Notably MWAA has approved new codes of ethics for its employees and board, suspended the use of categorical exceptions for professional services, terminated contracts with former board members, approved a new travel policy, revised the board's bylaws and freedom of information policy, and enhanced screening for nepotism.

While these efforts, coupled with the Department's planned actions, can help improve MWAA's accountability, significant attention will be required to ensure that new contracting, travel, ethics, and disclosure policies instill public confidence. The key will be implementation and enforcement.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions that you or other members of the committee may have.

Mr. MICA. [presiding.] Thank you.

And I think we are going to go ahead and hear all of the other witnesses. So we will turn next to the chair of the board, Mr. Michael Curto, and you are welcome and recognized.

Mr. CURTO. Good morning, Mr. Chairman and members of the committee, and thank you for the opportunity to discuss the Metropolitan Washington Airports Authority's response to the audit by the Department of Transportation's inspector general. I am Michael Curto, chairman of the Airports Authority board of directors, and with me today is the vice chairman of the Authority's board, Congressman Tom Davis, as well as our president and CEO, Jack Potter.

This audit began 16 months ago, shortly after I joined the board, and shortly before Mr. Potter joined the Authority. In May of this

year, the inspector general issued an interim report which raised a number of issues that we have been working to address. The final report issued November 1st raised additional issues and provided a number of recommendations.

Mr. Chairman, I wish to be clear. The Airports Authority intends to address every issue raised in these reports, act on every recommendation, and fix every problem identified, and to do so in a manner that ensures they will not recur. It is my hope and the Authority's goal that through these actions we will restore the confidence and trust of our many friends and partners. I am confident we will succeed.

Today our board of directors is a very different body than the board of only a year ago, and soon it will be even more so due largely to legislation sponsored by Congressman Wolf. By early next year only 2 directors on our 17-member board will have served more than 2 years. Importantly, many of these directors will have joined us after the IG's interim report was issued. They are aware of our challenges and are committed to fixing the problems.

Our new leadership also is reflected in our new president and CEO. Mr. Potter brings a no-nonsense, get-it-done-right management style to the Authority. Working with him closely since becoming chairman in January, I am confident in his ability to lead the staff in successfully meeting these challenges.

As the IG's final report acknowledges, we already have made good progress. We have adopted new policies and revised others, we have made our operations and governance more open, we have improved our internal controls and oversight, and we are strengthening our procurement process with other initiatives underway.

Our purpose in all of these actions is to bring greater transparency, accountability, and unmistakable integrity to all areas of the Authority. Our efforts have benefited greatly from the counsel and guidance provided by the Federal accountability officer appointed earlier this year by Secretary LaHood.

I would like to briefly recap some of our actions. We have revised the Authority's bylaws to increase transparency, including the posting of materials for board meetings to our Web site. We have revised our freedom of information policy to improve transparency, and have designated a freedom of information officer. We have approved a new travel policy with detailed procedures and clear guidelines for expenses. We have approved new codes of ethics for employees and directors with requirements for annual training. We have named an ethics officer to provide oversight, and we have conducted more than 20 training sessions on the new codes for board members and employees.

We have terminated all noncompeted contracts and employment relationships with former board members. We are revising our contracting manual to reflect best practices and optimize competition. We are revising our human resources programs to assure best practices in compensation and hiring. And we have created an internal control group to enforce policies and assure accountability. Finally, we have assigned special management teams across the Authority to address and formally respond to each recommendation in the inspector general's audit.

We are submitting for the record a report we presented this week to Secretary LaHood. You heard Secretary LaHood mention the response to his letter. The response also goes to Governors McDonnell and O'Malley, and Mayor Gray. It describes in detail our actions to address the recommendations of the IG and the concerns these officials expressed this past August.

I believe we are on the right track. I recognize the movement along this track will require hard work, and at times may be slow and encounter difficulties, but I am confident we will achieve steady and significant progress to strengthen the Airports Authority and rebuild the public trust and confidence.

Mr. Chairman, we would be pleased to answer any questions.

Mr. MICA. Thank you.

And I see you are accompanied by John Potter, who is the president and chief executive officer. Did you have any testimony there?

And then the vice chair of the board, Mr. Davis. Mr. Davis is well known to this committee, and our former colleague, and I guess were you made vice chair to investigate vice on the—

Mr. DAVIS. I think the IG has done a good job of that.

Mr. MICA. All right. Welcome back, Mr. Davis, a good friend and former colleague. And I am sure they are very fortunate to have your service on the board.

Well, we will start with some questions, if I might.

So, the investigation started how long ago, Mr. Scovel?

Mr. SCOVEL. Mr. Chairman, in the spring of 2011, we were asked by Mr. Wolf and Mr. Latham to undertake an inquiry of MWAA's governance, transparency, and accountability.

Mr. MICA. And I see you submitted it November 1st. And now, did you—since you submitted it November 1st, you watched some of the changes and implementation of some of your recommendations, or they were aware of your recommendations along the way? How do you feel about what they have done, and how much further is there to go?

Mr. SCOVEL. Mr. Chairman, at Mr. Wolf's request specifically, on May 15th, we conducted a briefing on our findings as of that date for the benefit of the Department, for MWAA itself, and for the local stakeholders in northern Virginia who are most interested. We had previously briefed the Department as well as MWAA leadership on what we were about to say to the local stakeholders specifically. But at that point, starting in the middle of May, we saw tremendous effort on the part of MWAA and especially on the part of the Department to get their arms around all of the problems that we had identified in the findings.

Mr. MICA. So most of what you heard today you feel confident is correct, that they have taken positive steps to implement.

The second part of my question, is there a lot more to go? Can you comment on that based on what you know of their actions to date?

Mr. SCOVEL. Generally, Mr. Chairman, I can say that they have taken numerous positive steps at MWAA, and we are tremendously gratified by the attention and energy from the Department, through the accountability officer and through the negotiations to modify the lease arrangement with MWAA for running the airport facilities. Those are all positive steps in the right direction.

However, I have to note that I wear the title of "hired skeptic" that a member of this committee bestowed on me several years ago. I wear that title most proudly. And until we have seen a record of execution and data to substantiate, especially in the contracting area, that the improvements that are now on paper have actually been carried out over a period of time, I have to reserve judgment.

Mr. MICA. I think we need to work with Mr. Wolf and others to make certain—and Mr. Latham—to make certain that, again, what we have heard today is not just on paper and part of it implemented, but all implemented.

There were some pretty serious charges and some findings of—I termed it corruption when you are taking gifts, when you are—well, we had a whole host of illegal activities, in my opinion. I am not sure, I don't know whether they fall under Virginia law where they were committed, or Federal law. But do you—will you have criminal referrals, or are you turning any of this over to any other authorities so that people who violated the law will be held accountable?

Mr. SCOVEL. Mr. Chairman, to be clear, what we reported on November 1st was the result of an audit. There are investigations, criminal investigations, underway. Agents from my office are participating under the leadership of the FBI. Those are independent matters. I am not cleared to speak at this point—

Mr. MICA. OK. I don't want to get into that.

Mr. SCOVEL [continuing]. On what is developing along those lines.

Mr. MICA. But, again, there are authorities, and it appears, too, there might be violations of State or other jurisdictional laws. Are you cooperating with any other authorities or making referrals, or are they reviewing this information?

Mr. SCOVEL. An assistant United States attorney is—

Mr. MICA. Primary.

Mr. SCOVEL [continuing]. Is spearheading the investigation conducted by my office and the FBI. I leave it to his good judgment on whatever authorities he may need to coordinate with.

Mr. MICA. I guess you put personalities on a board, and sometimes you are going to have some weak regulations and some weak structure, but people perform well, and then in other instances people perform poorly and violate both the intent or actually the law and the spirit of the law.

You heard, I think, Mr. Curto describe the changeover in the board members who were primary. Now, there are personnel also in place that actually participated. Some of the accusations were against the board members, some were against personnel. Now, Mr. Curto, you said there is only two left of the old members, is that—

Mr. CURTO. That is correct, Mr. Chairman. As of the new year, there will be only two board members that have served more than 2 years.

Mr. MICA. Well, I don't want to get into a public forum about the two remaining board members. I will discuss that with Mr. Wolf and others.

Of the personnel, the employed personnel, what changes have been made there? I mean, the board members go through a con-

firmation process or appointment process. Personnel are hired and fired. Can someone tell me who has been hired and fired and held accountable as far as employees? I guess the big offender here was the HR director, and he resigned; is that correct?

Mr. POTTER. That is correct.

Mr. MICA. OK. Who wants to tell me? Mr. Potter, tell us the status of the bad players.

Mr. POTTER. Well, I will tell you this, that we have——

Mr. MICA. Pull that up. It is a little hard to hear you.

Mr. POTTER. We have three vacancies that we are currently filling, the vice president of IT, the vice president of HR, and the manager of procurement. The three areas that they managed were highlighted in this report, and they are no longer with us.

Mr. MICA. IG, is that sufficient to cover the personnel malfeasance that you saw?

Mr. SCOVEL. Mr. Mica, I don't believe it is my role to execute—to make those management decisions or to execute them; however, I will note——

Mr. MICA. Your investigation uncovered wrongdoing both by board members and employees, and if there are still bad players on the board, we can address that. If there are still bad players employed, some steps need to be taken. And you certainly must attribute some of the wrongdoing to some individuals who were in the employ. You said three people are——

Mr. POTTER. Well, if I could just add to that. We have been briefed by the IG this week in terms of identification of some of the players who played roles in some of this activity. When we went through that laundry list, several of the people that were identified are either no longer with us or in the process of being no longer with us. And, again, personnel management——

Mr. MICA. Can you advise the committee as to the progress of the process of, they are no longer with us——

Mr. POTTER. Right.

Mr. MICA [continuing]. And provide us with a list? We are going to leave—we will leave the record open the next 3 weeks to give them enough time. Is that fine, Ms. Norton?

Ms. NORTON. Yes.

Mr. MICA. Without objection.

[The information follows:]

Response to House Transportation and Infrastructure Committee

Metropolitan Washington Airports Authority

Dec. 7, 2012

In response to the Committee's request from the Nov. 16, 2012, hearing, below in Section 1, we have provided a list of personnel, by position, and their employment status with the Metropolitan Washington Airports Authority. These personnel were identified in the recent audit by the DOT Inspector General as individuals about whose actions the IG had concerns.

The Committee also requested a list of Board members who have, or recently have had, relatives who are or were employees of the Airports Authority. That information is contained in Section 2 of this document. We would be pleased to supply any further information we obtain or any additional information requested by the Committee.

Section 1: Employees and status of employment

<u>POSITION</u>	<u>STATUS / ACTION</u>
Human Resources executive	No longer employed by MWAA
Information Technology executive	No longer employed by MWAA
Information Technology staff member	Currently employed
Chief executive officer	Currently employed
Chief operating officer	Currently employed
Public Safety investigator	No longer employed by MWAA
Human Resources manager	Currently employed
Business executive	Currently employed
Senior manager	Cannot identify

Section 2: Current Board members with relatives currently / recently employed

Board Member H.R. Crawford (term expires January 2013) – Relative currently employed in MWAA Human Resources department; relative employed as student intern 2010-2012; relative employed as student intern 2008-2011.

Board Member Michael Curto – Relative in summer student intern program, 2011.

Board Member Tom Davis – Relative in summer student intern program, 2011.

Mr. MICA. And if you could provide us—again, the purpose of this is to hold people accountable—

Mr. POTTER. Right.

Mr. MICA [continuing]. Make certain it doesn't happen again, and then to see that the recommendations of the inspector general are carried through, and, again, that we restore trust, as the gentleman from Virginia Mr. Connolly said is so important in this process. So again, we want people held accountable. We want the board to act, and clean up the mess and, again, the failure that is so embarrassing here.

Mr. SCOVEL. Mr. Mica, if I may, Mr. Potter, to his credit, has reached out to my office requesting specific information that we obtained from the Authority pertaining to misconduct and the names of individuals that we believe may have been responsible for it. My staff met with Mr. Potter and his chief operating officer yesterday, and we have begun that process to make all of that information available to them for their management decisions.

Mr. MICA. Well, again, we have begun that. He said they are in process. We want it to continue and be complete, holding people accountable. Otherwise, you know, this becomes a kabuki dance, and we are not going to put up with that.

Mr. POTTER. Thank you, Mr. Chairman, for recognizing the sensitivity of some of these personnel, and we will deal offline with you. Thank you.

Mr. MICA. And even if it is by position, I don't care about the names, but if people have violated a trust, and the inspector general has helped identify them, and we also have Ms. Moore and others who are working on implementing some of the changes, you don't want the same cast of characters or violators in positions of trust. And we are going to clean house on the board and with employees and restore the confidence.

Mr. Davis.

Mr. DAVIS. Mr. Chairman, let me just say, I think the board, as Chairman Curto noted, is substantially reconstituted at this time. We welcome the oversight, the input from the IG's office and the Secretary's office. We are determined to clean house, let the chips fall where they may.

Mr. MICA. Well, again, you can give us an interim report, and, you know, we will—in the new session I will ask that we follow through, because you want the right things done.

Ms. Norton.

Ms. NORTON. Mr. Chairman, I will yield to my colleague from Maryland, and I will have questions after her.

Mr. MICA. Thank you.

Ms. EDWARDS. Thank you, Mr. Chairman, and thank you to the ranking member.

Mr. Scovel, I really—I appreciate the job that the IG does. I think it is important to look at what you did so that you don't do it again. And thanks for highlighting that. And so in that—in that realm I want to ask you a couple of questions about the contracting and hiring processes or apparatus at the Authority.

Contracts that were made with board members, those have all been terminated?

Mr. SCOVEL. My understanding—and I would ask for some help from Mr. Curto and Mr. Potter on this—is that those contracts have been terminated, or they will not be renewed.

Ms. EDWARDS. And are there still children, grandchildren, contracts with spouses' law firms; are those things still in place?

Mr. SCOVEL. That I don't know.

Ms. EDWARDS. Mr. Curto?

Mr. CURTO. No. I believe the contracts, all contracts with former board members and former employees have been terminated. With respect to relatives of employees or board members, I will let Mr. Potter address that specific question.

Mr. POTTER. We are looking at all hiring that has been done in the past 5 years to determine how people got on board. But I will tell you this: We are going to be very fair about the process. If we have relatives of employees who competed open and fairly for jobs, and if the panels were fair, we are going to continue to employ some people. There is nothing wrong with having a relative work as long as they got there in an appropriate way.

Ms. EDWARDS. Well, I mean, I don't know that I agree with that, frankly. I mean, I think it depends on whose authority they report to, what their employment responsibilities are. That is why at lots of different agencies and in the private sector there are prohibitions around those hirings. I mean, there are a lot of jobs out there, and people may have to find other things to do.

The contract that was with the law firm of the board member, is that board member still on the board?

Mr. CURTO. Yes. That board member is me.

Ms. EDWARDS. So it is your wife is the—works at the law firm that has the contract with the Authority?

Mr. CURTO. No. The circumstances relating to that were as follows: The Authority requested an opinion of counsel from a law firm. I was not chairman at the time, I was not on the legal committee at the time, and the general counsel for the Authority made the decision to retain the law firm. My wife at the time was an employee of that law firm. She wasn't an attorney. She wasn't a partner in the law firm. She had no direct or indirect financial interest in the law firm.

Ms. EDWARDS. Can I just ask, was that also competed, or was that just a sole-source contract?

Mr. CURTO. It was a decision by the general counsel, and it was a sole-source contract.

Ms. EDWARDS. Mr. Scovel, is there a problem with that?

Mr. SCOVEL. If I may have a moment.

Ms. EDWARDS. I know I only have a moment and 37 seconds.

Mrs. SCHMIDT. [presiding.] I am going to yield you more time because I am interested in this question.

Ms. EDWARDS. Thank you.

Mr. DAVIS. If I could add, this was one of those situations, and I wasn't in the loop in the decisionmaking on this, but you needed a law firm very quickly to get a very quick answer. So in a case like that, the general counsel just goes out to a series of firms, and I guess that was the decision that was made.

Mr. CURTO. Congresswoman, the determination that was made was that although it wasn't an actual conflict of interest, it cer-

tainly was an appearance of a conflict of interest. And at the time when the interim report was issued in May, I immediately made a statement recognizing, stepping back, that prospectively any actions I take would be to avoid even the slightest appearance of a conflict of interest.

Ms. EDWARDS. Thank you.

Mr. Scovel.

Mr. SCOVEL. Ms. Edwards, if I may, these are the facts as determined by my audit team. As you well remember, on November 17, 2011, Congress passed H.R. 2112, which amended the Airports Act to add additional seats to the board of directors and provided for the removal of directors for cause.

The board apparently was concerned about the impact of that legislation on the board, and on November 18, 2011, members of the board instructed the general counsel to obtain a legal opinion on that legislation. When the general counsel asked members of the board for possible candidate firms, a board member, Mr. Curto, not yet chairman, but still a member of the board, suggested a firm where his spouse serves as the director of administration. The general counsel then contacted that firm, and arranged for that firm to begin drafting an opinion on the legislation. It was a sole-source contract, and it was executed without the immediate knowledge or involvement of the procurement and contract department of the Authority.

Ms. EDWARDS. Thank you, Mr. Scovel.

You know, I would just note that particularly in this region, there is a lawyer on every corner, and so it is not—and with lots of different expertise in and around this city. And so it does strike me that whether for appearances purposes or for actual conflicts of interest, it sure would make sense to find another lawyer. And if you need some help, I am sure there are plenty of people who can do that.

Let me just—one last thing. How many children and grandchildren of board members are still employed by the Authority?

Mr. POTTER. Well, we do not have an exact count. We are going through a process.

Ms. EDWARDS. Is it more than one?

Mr. POTTER. Yes, it is more than one.

Ms. EDWARDS. More than two?

Mr. POTTER. I don't have an exact count. We are going through the process right now of having all of our employees fill out a form that identifies relatives either within the Authority or on the board. And that process is currently underway, and once that process is complete, we will be able to know.

Ms. EDWARDS. Mr. Scovel, in your view does it present a problem to have close relatives who are relatives of board members as employees of the Authority?

Mr. SCOVEL. Clearly, it does. And I would like to point out, Ms. Edwards, that for a long time the code of ethics that applied to employees, to the staff of the Authority, prohibited nepotism, yet the code of ethics, until recently revised, that applied to the board of directors was silent on nepotism. And it was through that gap that decisions to suggest, if you will, or to recommend, or even to insist that friends and family members be hired within the Authority,

those recommendations or suggestions were made by board members.

Ms. EDWARDS. And have those recommendations been implemented in policy at the Authority?

Mr. SCOVEL. My understanding is that the policy has been changed, or rather that the code of ethics that now applies to board members with respect to nepotism has been brought into conformance with what applied to employees as well. It is one of the recent positive changes I would certainly like to endorse and commend the board for taking.

Ms. EDWARDS. Madam Chairwoman, if I could ask just one last question.

Mrs. SCHMIDT. Go ahead.

Ms. EDWARDS. Thank you very much, and I appreciate it.

With respect to the contract with the board member that is now apparently terminated, I take it, how did that come about? Who asked whom to authorize the contract, and who approved it?

Mr. SCOVEL. If I may have a moment, and then I will direct you as well to Mr. Potter, because both Mr. Curto and Mr. Potter engaged in, shall I say, missteps or misjudgments in their service on the Authority. They have been very candid in their discussions with me and my staff about those events, and I take it in a very positive manner that they are both here today and are available to answer all of your questions on these.

However, as we understand the facts, as my audit team understands the facts, with respect to Mr. Potter's decision regarding the former board member, it was not specifically a contract matter, but rather it was an employment matter, and it ran like this: Mr. Potter determined that he needed a new position with a certain person in mind, and that would be the former board member, but he did not follow standard processes to create or fill that position. This was an advisory position for a board member to occupy immediately upon departure from the board. It did not have a specific job description, but it did have a paycheck, \$180,000 per year, beginning 1 day after that board member left the board.

There may indeed have been a legitimate and compelling business need to secure the services of that former board member, but the process to create and fill the position was unsatisfactory. And this is the case that is highlighted in our issued report as an instance where senior officials circumvented established hiring positions both for current positions and also for new positions, to the detriment, most certainly, of the credibility and integrity of the Authority, and perhaps with a very harsh effect on the morale of all of the rest of the staff, who knew that this was going on.

Ms. EDWARDS. Mr. Curto, did—that contract to the board member let under your leadership?

Mr. CURTO. Yes. Mr. Potter did employ that former board member this past year while I was chair.

Ms. EDWARDS. And was there a conversation or other that ensued with other board members with respect to this, or was that just a decision between you and Mr. Potter?

Mr. CURTO. It was a decision made by Mr. Potter, and he conferred with me.

Ms. EDWARDS. Did anyone else on your board ask you to engage in this contract with this former board member?

Mr. CURTO. No.

Ms. EDWARDS. Did the former board member ask you to engage her in a contract?

Mr. CURTO. No.

Ms. EDWARDS. And so you and Mr. Potter made the decision independent of anything or anyone else to let a contract with the former board member?

Mr. CURTO. It was principally Mr. Potter's decision, yes.

Ms. EDWARDS. So you didn't sign off on it or anything, but it was under your leadership that it happened?

Mr. CURTO. Yes, it was during my tenure as chair, yes.

Ms. EDWARDS. And so the other board members and staff who were engaged in behavior that was highlighted as egregious in the inspector general's report, are all of them still working at the Authority?

Mr. CURTO. I believe Mr. Potter addressed some of that inquiry earlier. He highlighted three senior-level positions; I believe the vice president for IT, human resources, and as well as a retirement in the procurement area. And then below the vice president level, there are a number of positions that he referenced earlier in response to an earlier question.

Ms. EDWARDS. That are open——

Mr. CURTO. That are——

Ms. EDWARDS [continuing]. Or pending.

Mr. CURTO. Some are no longer with the Authority, and others won't be with the Authority.

Ms. EDWARDS. But on the board, the board members who—who were in place over this period of this kind of behavior that is—you know, a lot of which is unethical, who knows what other labels we would attach to it, how many of those board members remain?

Mr. CURTO. Well, as I related earlier, the board, beginning in this January, will principally be a newly constituted board. There will be, I think, approximately two board members that will have been on the board for more than 2 years. One of them was recently reappointed by Governor McDonnell. Another is Vice Chairman Davis, who will have been on approximately about 2 years. Everyone else will have had a tenure of less than 2 years, some as few as weeks, as of January.

Ms. EDWARDS. Just as a matter for your consideration, do you think it is appropriate to remain on the board and Mr. Potter to remain as CEO while under your tenure these actions took place?

Mr. CURTO. I would hope so. I think that the body of the report, most of the findings and conclusions of the inspector general's report occurred prior to my time on the board and certainly prior to my tenure as chair. The misstep that I made with respect to the matter you referenced regarding the retention of the law firm, as I indicated, it was certainly an appearance of a conflict. It wasn't——

Ms. EDWARDS. Well, the retention of the law firm at, I think, \$100,000 and the contract with the former board member of \$180,000, the travel, and other missteps of who knows how many

thousands of dollars, it is not just a simple matter, and with that I yield.

Thank you, Madam Chairwoman.

Mrs. SCHMIDT. Thank you, and I am going to be generous with everybody, but I am going to yield to myself such time as I need.

Mr. Curto, I want to follow up on some questions that Ms. Edwards brought up. Regarding the employment of your wife's—the law firm that your wife worked in in an administrative capacity, didn't have clients, wasn't going to lead to a better paycheck for her, did you tell the board that she was employed there when that contract was let?

Mr. CURTO. In my financial disclosure I made it clear that my wife worked at that law firm. That is part of the normal financial disclosures. And when discussing it with the general counsel, I did.

Mrs. SCHMIDT. You did?

Mr. CURTO. Yes.

Mrs. SCHMIDT. And the general counsel didn't have a problem with it?

Mr. CURTO. I am not sure it was brought to his attention at the very outset, but I think once I helped facilitate the outreach, I then did tell them. I think it was underway at that time.

Mrs. SCHMIDT. I am confused. I mean, so you put it in a financial disclosure. Most people don't read it. I have served on many boards in my time, and somebody makes a suggestion of a law firm, and one of the things that we always ask was, do you have any familiarity with it other than you know that it is a law firm? And they might say, well, I have used so-and-so as counsel in my past, but, you know, I don't have any family members working there. So on the boards that I have served on in the past, we always brought that out into the open. That kind of a discussion was not made?

Mr. CURTO. That discussion took place after they had been retained.

Mrs. SCHMIDT. After they had been retained, OK. So not at the beginning. OK.

Mr. Scovel?

Mr. SCOVEL. Madam Chairwoman, just to add to that, and I think it may have just been clarified, but my audit team was informed by the general counsel that he was not aware at the time that he contacted the law firm and arranged for them to provide the requested legal opinion that Mr. Curto's spouse worked for that firm.

Mrs. SCHMIDT. OK. The other troubling aspect that I have is a former board member that is brought back at a substantial salary, \$180,000—that is actually more than what a Member of Congress makes, so it is a pretty substantial salary—was brought back without any vetting, and a special position was created for this individual, am I correct, or that position wasn't there before? Mr. Potter?

Mr. POTTER. That is correct.

Mrs. SCHMIDT. Why did we need that position, and was there any other reason why this—was it a lady?

Mr. POTTER. It is a lady.

The reason we needed the position was we have a significant challenge out at Dulles Airport. The challenge is that we have very

high cost per enplanement rates, largely driven by the fact that there has been a major capital investment of over \$4 billion in recent years with an expanded international arrivals building, an underground rail to take you from the terminal out to the concourses, as well as other improvements, including the doubling of the size of the terminal. As a result of the capital investments coming to bear in terms of cost to the airlines, we have had to increase the cost per enplanements out at Dulles significantly, and it is affecting the competitive position of that airport.

So when I got on board, I was looking to try and figure out how we could take advantage of the biggest asset we have at Dulles, and that is our land. And what I have come across is the fact that it is a very complicated community. There was a need for somebody that really understood the community, how developers work, how we interrelated between ourselves as a Federal leaseholder and the counties, because development on airport property obviously affects the counties, and there was a need to integrate our actions with the economic development communities in Fairfax, Loudoun, as well as the Commonwealth. And so I thought that the person that I hired was uniquely positioned to do that and would be able to ramp up very quickly an effort to do that. And I will tell you that in the course of the months that she performed that service, I got to meet and understand that community in a very rapid way.

Now, in hindsight, as I have told the press and have readily admitted, my judgment was not good in terms of the hiring of that person. But given the situation, I wanted to move quickly to try and do the best I could to generate additional sources of revenue, nonaviation sources of revenue, for Dulles Airport. But I readily admit, and I was very candid with the IG when they came to speak to me about my motivation. That was my motivation, pure and simple. That board member had advised others on the board that she was leaving, and I thought that it was a service that could be performed.

Mrs. SCHMIDT. Let me ask you, she was leaving. Was it to take another job, or what—she was leaving the board, and then suddenly you hired her to do a service outside of a board member, and you created this position. And I am understanding that you needed somebody to cobble things together. There was no vetting. She got \$180,000 there. How long did she work, and what was the reason for leaving the board that she would have time on her hands and then suddenly use up that time doing this job? I am confused.

Mr. POTTER. Well, she was leaving the board, as she stated, because between her board duties, the fact that she had been running a company, and she was dealing with some health issues, she needed to concentrate her efforts on doing one job, and one job alone. She was seeking to close down her business and work a 40-hour week versus an 80-hour week.

Mrs. SCHMIDT. So she left the board because she had some health issues. She had a job. Does she own her own company?

Mr. POTTER. She did at the time.

Mrs. SCHMIDT. She did at the time. And so she closed the company down and got a \$180,000 job, and how long did she work at that job?

Mr. POTTER. Well, she ended up working for about 6 months. I don't know the exact time. I can give you that.

Mrs. SCHMIDT. And then why did she leave?

Mr. POTTER. Because the fact that one of the requirements in the letter that we received from the Governors and the Secretary of Transportation and the mayor were to end all contracts with former board members. In discussions, followup discussions, with the Secretary's staff, it was made clear to me that the expectation was we end those contracts under whatever terms they were, and put them in our past and look forward.

So we complied with that, and we did as we were instructed. We ended all of those contracts with the sole purpose of putting them behind us, starting a new day, and reconstituting whatever works were required from those contracts.

So I have to tell you, when it comes to those contracts, we had people who were doing a good service—and I am not talking about this individual in general—but we had contracts with former board members who were actually, prior to my time, recruited by my predecessors to help us do work. For example, we had a few folks who were helping us with lobbying efforts in Richmond. I can tell you the contracts that they had were under \$50,000, and you would be hard pressed to replicate that in the private sector, and—

Mrs. SCHMIDT. An arm's length for a long time and then suddenly—

Mr. POTTER. But we did not use any consideration. We recognized that the image of the institution is hurt by the fact that we have these contracts. We put them to an end, and the reason that they were problematic was not the work that was being done, it was the way they were established without competition. So we put them to bed, and we are going to recompetete for those services that we continue to need. And I am going to recruit for somebody to perform the services that I just described because they are very much needed by the Authority.

Mrs. SCHMIDT. OK. I am going to do two more questions, and then I will turn it over to the gentle delegate from this District. And I am going to be very liberal with everybody for time since we have gone off the map, but I think this is a very provocative discussion, and I think you will all agree.

Mr. Scovel, do you have anything to add to the discussion about the employment of this individual?

Mr. SCOVEL. No, I don't. What my audit team has determined is what I have already related for the committee's consideration. And we have found no evidence to suggest that Mr. Potter's decision to employ her and for the reasons that he just outlined were anything other than what he has spoken to this morning.

Mrs. SCHMIDT. Do you think that the salary of \$180,000 was a fair salary?

Mr. SCOVEL. Not for me to judge. I, frankly, don't know everything that she was supposed to be doing. We were looking strictly at the process by which she was hired and the apparent circumvention of established hiring processes for creating the position and then filling it.

Mrs. SCHMIDT. Finally, Mr. Wolf and Mr. Connolly have a bill that would shrink the board, and change the dynamics and direc-

tion of MWAA. How do all of you feel about that? What is your position insight on their bill?

Mr. DAVIS. Can I start? Part of the frustration is if this were just the airports, it worked pretty well. Where this thing got complicated is the Airports Authority undertook the responsibility of building the rail project out to Loudoun County—actually two stops past the airport. It was at that point this got very complicated. It is not a normal skill set. Members from other regions started coming in and putting bells and whistles on the contracting, and it became very, very divisive. We got into a political food fight is the best way to put it. The Secretary got involved, and now, I think, we are going to bring the first phase of the rail project in on time under the amended budget.

But it got complicated. Virginia, I think, has felt that this rail system is the largest rail project in the State. They really felt they needed to have the input and be able to decide how it should be built and where the stations should be located. Having members from outside Virginia making decisions that, in Virginia's judgment, were costing money and not being cost-effective, I think caused a lot of the problems. And so I think the legislation comes from that.

When it comes to the airports, you know, I think the system worked pretty well for a long time, outside of some of the cronyism that developed.

And I just would add, I think Jack Potter is the best thing that has happened to this Authority. He was Postmaster General before this. He has come in. He has had to manage a difficult board with some of the decisions. But as Mike has said now, he will have basically a brand-new board with a brand-new direction.

We have nothing to cover up. It is open kimono. Whatever the IG says, we want to do the right thing. We serve without compensation. I didn't ask for this board. Originally when I was appointed, they said 12 meetings. We had 38 meetings my first year. It takes a lot of time away, and we do this for the public good.

So we are doing everything we can. We found, I think, the best CEO. He has had to answer to a board that has just very recently turned over. And we are, I think, behind him at this point in the tough decisions he has to make.

Mrs. SCHMIDT. Thank you for your input, and I share—my concern is most of this is—all of this is going on in Virginia, and yet you have to listen to folks outside the district, and while they are good-hearted—they have goodwill, I know, as a local person, and we had zoning issues. Everything comes to home. And you had somebody outside—we had a township situation where we owned the zoning, but the county wanted to put its input in, and we, quite frankly, didn't really care much about what the county said because it was all local.

So I can understand your frustrations with other areas talking about where the line should go and where a stop should go when it is in your backyard and not theirs.

Mr. DAVIS. I think the board, the new board, is pretty much in sync is my impression. There were some very controversial decisions about station placements, PLAs, and construction in a right-to-work State. But I think at this point the board is moving in a

positive direction, and I think the chairman has done a good job of uniting it. Some of the decisions made in the past were made with former board members who had a different cultural view of the way the place ought to operate. I feel very good about the direction or I wouldn't stay on this board. I have got other things to do with my time.

Mrs. SCHMIDT. Thank you so much for your time.

Ms. Norton.

Ms. NORTON. Well, I appreciate, Mr. Davis, that you indicated that there is a new start and a new, let us say, regime, and that is why I regret that with Members sitting on this rostrum, who have very little information about the 1986 Airport Act, deciding this is all a Virginia matter. Just let me say for the record, nobody could be more sympathetic with the notion of wanting what happens in one district not to be interfered with by people in another district, and no one obviously saw the 1986 Airport Act as anything of the kind, saw it as very necessary. It was agreed to by all involved.

I would have absolutely no objection to looking at that 1986 act. What I object to is preemptory action by one Member of Congress to take over the whole Airports Authority when neither this committee nor any other committee has any information about why this was done this way.

And this is not the place to hassle this out on a home-rule basis. If people want to talk about home rule, let's start with the District of Columbia; then we will get to Virginia. You have got a compromise on that now. I hope that doesn't get reopened.

Let me ask a question. I am sorry I was called out for a few minutes, but I would like to ask a question in relation to the bill I have just introduced. I introduced it in good faith. I believe there should be hearings before we decide what to do. But I introduced it because I didn't want to see us or see the Airports Authority the kind of hassle it took to get the procurement regulations that now guide most of the Federal Government.

So this question is really taken from testimony from Mr. Curto, who says that the contracting manual and other procedures to correct best practices and promote fair and competition is in revision. And he says the manual is a lengthy and highly technical document. Tell me about it. I am sure it is.

Now, what I want to know from—I suppose this question is for Mr. Scovel. And of course I am quoting from Mr. Curto's testimony, and of course Mr. Potter would be the one to implement whatever comes out.

Do you believe that the Federal acquisition laws and regulations, which I didn't—I didn't look to see when they have been enacted, but all I know is they have stood the test of time—do you believe that they could be useful here, rather than going through the kind of procedure which Mr. Curto in his testimony calls "lengthy and highly technical" so that we could get more quickly to settle what should govern this independent body that is, for all its effects, a hybrid body but more closely related to the Federal Government than to any other part of the compact?

Mr. SCOVEL. Ms. Norton, thank you. Your question relates specifically to adoption of the FAR as the acquisition provision that

would apply to MWAA. I am glad you did not ask for my endorsement of your legislation because I don't believe that is my role. However, I think I can speak to the underlying proposition that the FAR, indeed, is a useful benchmark or a baseline on which MWAA may build its acquisition function.

In fact, relating back to the original Airports Act, which you mentioned, you will remember that the GAO was assigned an audit role with regard to MWAA and specifically instructed to determine whether MWAA's acquisition function was being executed, quote, "in accordance with sound Government acquisition principles." And that refers, but not in so many words of course, to the FAR.

So that is already embedded in one form in the underlying legislation. And our audit, released on November 1st, used the FAR as a benchmark as well because we determined that that would be the best source of sound Government accounting principles on which to judge MWAA's execution of its acquisition responsibilities.

Ms. NORTON. Well, thank you, Mr. Scovel.

Mr. Curto, Mr. Potter, do you see my point? And do you agree with Mr. Scovel?

Mr. POTTER. I do see your point, Delegate Norton. And I would just like to comment that our contracting manual has been reviewed by GAO. It is in compliance with FAA requirements, because we are spending Federal money, so we have to comply with those requirements. It has been reviewed by the FAA. Recently we changed it—

Ms. NORTON. Mr. Curto says, "We are revising our contracting manual and other procedures."

Mr. POTTER. Right. I am just—

Ms. NORTON. Is it revised already?

Mr. POTTER. It is in the process of being revised. But over time it has been revised to be compliant with FAA requirements because we do spend AIP money.

With the rail project—

Ms. NORTON. Mr. Scovel, was the manual in compliance, so this is something we don't even have to worry about? It was already in compliance with—

Mr. POTTER. It—

Ms. NORTON. Just a moment. I have asked Mr. Scovel, who I think is the authority on this issue.

Was it already in compliance? Do you regard it as already in compliance? Mr. Curto says they are undergoing a lengthy revision, so I am just trying to get the facts here.

Mr. SCOVEL. It was in compliance on a number of important respects. However, with respect to other important factors, we would judge it not to be, specifically as it relates to fostering or encouraging competition.

The sole-source requirement, for instance, in the FAR that requires all Federal agencies to publish a notice of an intent to award a sole-source contract before the contract is executed, to permit watching contractors who may have an interest in the proposition to come in at the last moment and say, "We can deliver that service at a better price," that was not a part of MWAA's acquisition manual, and clearly it should be.

Ms. NORTON. And that, of course, was what I found most troubling, the number of sole-source contracts, a very substantial amount, has been unheard of in my own service in the Government. And the so-called categorical—what in the world is a categorical exception, for example?

Mr. SCOVEL. It is an exception to the rule that is stated in MWAA's acquisition manual that competition for contracts over \$200,000 must be engaged in. However, there were a list of six categories of exceptions for which that rule could be waived. It was waived de facto by virtue of being included in the manual. But justification for that waiver, for that exception, had to be included in the contract file.

When my audit team went in and looked at a sample of contracts that had been awarded using these categorical exceptions, we found 56 percent lacked adequate justification. So we couldn't tell exactly what was the basis for executing particular contracts under these so-called exceptions.

Ms. NORTON. So, Mr. Potter, you may have misunderstood my question. I understand that you are in the process of revising. Well, who wouldn't be, given the criticism that sole-source contracts have received?

I am simply trying to find whether there is a more rapid and sure way, instead of having your own manual—which, remember, you have had your own manual before—to adopt regulations that would never be questioned because they have been tested and because they are used every day by virtually every Federal agency. Why would that not be the fastest and perhaps best way to get to the best practices?

Particularly considering that these procedures can be altered to fit a particular agency. So there are small, minor kinds of alterations because every agency is different. Yet every agency goes to this tested set of regulations and gives the kind of fair notice that, to be fair, I think members of your board never had. I mean, when they are told that there are categorical exceptions for a contract over \$200,000, well, you can expect that they will then, of course, expect them to be awarded. So while they are being criticized and while the staff is being criticized, let's remember that they were, in fact, abiding by your rules.

And wouldn't, given the criticism that MWAA has received, wouldn't it put you above criticism to simply adopt the same Federal regulations that every other agency now has adopted?

Mr. POTTER. We have committed to our board to have a new contracting manual by the first quarter of next calendar year. We are working very closely with the——

Ms. NORTON. 2013?

Mr. POTTER. 2013. We are working very closely with the accountability officer to modify our contracting manual to live up to the expectations that are in the FAR. However——

Ms. NORTON. Are you using the FAR as a guide?

Mr. POTTER. Yes, we are. However, we are not the Federal Government, and there are, for example, appeal rights that do not exist legally——

Ms. NORTON. Of course. And there are many differences that other agencies have and have adapted in their own regulations. Mr. Potter—

Mr. POTTER. So, in short, we are living up to the spirit of what you want to do, but it can't be totally comprehensive—

Ms. NORTON. I understand.

Mr. POTTER [continuing]. Because of restrictions in the law.

Ms. NORTON. And that goes without saying. You understand, of course, the GAO is going to look at what you produce. If you are already there, who would want to put you through anything other than—and if you were following the FAR, I would have no objection to that.

Mr. Davis?

Mr. DAVIS. Actually, I think your legislation sets a bar that we have to meet. It is not clear whether we do it exactly through the FAR. We need to be a little more nimble on bid protests and notice requirements and the like.

But I appreciate the fact it sets a bar for us in terms of the transparency and the notice requirements that we need to meet. And I think it is fair to say we want to meet that bar. We may do it slightly differently in some areas, but we could work with you on that. I think it would be helpful.

Ms. NORTON. I would appreciate it. I am suggesting that anything that keeps from you reinventing the wheel ought to be useful to you.

Can I ask if law contracts, law firm contracts, all fell within this categorical category? Mr. Scovel?

Mr. SCOVEL. They did, Ms. Norton. One of the key categories was legal, financial, and legislative representational services. Those were deemed a de facto exception to the rule that contracts over \$200,000 needed to be competed.

Ms. NORTON. Uh-huh. I just want to say for the record—I am sure Mr. Davis will confirm this today—a business often doesn't give retainers anymore. It essentially makes law firms compete for their business. Because this is no longer the world in which we once lived, and that was long before—long before this recession.

Law firms woke up to the fact that, while you don't always go with the low bidder, that it is nonsense not to compete any sizable contract, in the same way that anybody would go to more than one contractor. Because before you went to do landscaping in his front yard or before he went to have his home painted, who would ever go to one painter and say, "How much does it cost to paint the front of my house? You've got the job"? If you wouldn't do that in your own personal business, do not expect it to be acceptable to the Government of the United States or to an independent agency that was created by the Government of the United States.

One more question, Mr. Potter. You were Postmaster General of the United States, which means you ran one of the biggest businesses, as it were, in the world. Did you have your own regulations? What regulations did you use then? And could you have done these kinds of categorical contracts, or did you, in the Post Office?

Mr. POTTER. Well, we were not under the FAR. We had—

Ms. NORTON. Yeah, I understand that you were an independent agency.

Mr. POTTER. We had our own procurement manual. Obviously, it emulated much of what was in the Federal Government. And, no, we did not do the type of sole-source contracting that the Authority has done for years.

Ms. NORTON. So you adopted this only because you found it in place there?

Mr. POTTER. Well, I didn't adopt it at all. In fact, I eliminated the use, put out an order that we will not use, once I became aware of it, categorical exceptions for professional services contracts. And I did that months ago. So——

Ms. NORTON. You did it when it was——

Mr. POTTER. Once I became aware of it, Delegate Norton.

Ms. NORTON. Yeah. Well, I am very pleased that you have done it.

And I appreciate the time you have given me, Madam Chair.

Mrs. SCHMIDT. Thank you.

Mr. Cravaack, you may have as much time as you need.

Mr. CRAVAACK. I am the last guy left, so there you go. Appreciate it.

Congressman Davis, I got a quick question for you. You were a board member when there was a previous board member that was rehired; is that correct?

Mr. DAVIS. Right. Correct.

Mr. CRAVAACK. OK. How do you feel as a board member not being referenced in hiring this individual by Mr. Potter and Mr. Curto?

Mr. DAVIS. Well, I was aware. I mean, there were board members it was run by. So it was not——

Mr. CRAVAACK. So was it approved by the board?

Mr. DAVIS. No, it was not approved by the board. This is his——

Mr. CRAVAACK. Is that standard practice?

Mr. DAVIS. Generally, the CEO acts, and he sounds this out. This was a complicated situation in this particular case with the member who had been a former chairman of the Authority and who did have an expertise in the area Mr. Potter talks about.

Mr. CRAVAACK. If I was a member of a board and my CEO took action and the chairman took out without me really being involved in the yea or nay, I, as a board member, would be pretty upset about that action——

Mr. DAVIS. Right.

Mr. CRAVAACK [continuing]. I have to admit. To be honest with you guys, this sounds like a can of worms, I mean, sitting here taking a listen to this.

Mr. Scovel, tell me, why do you think it came to this? How did it come to this? How did this board come to this?

Mr. SCOVEL. Mr. Cravaack, I think it is captured in a line from the concluding paragraph of our report of November 1st. MWAA is an independent public body, but over the course of the last decade and a half, the focus became the independence of the body and less so on its public responsibilities, to the extent that, as we phrased it in our report, the prioritization of personal agendas excluded consideration of the best interests of the Authority.

And our report is replete with examples of it, I am sorry to say. I know you asked Secretary LaHood what he thought was the most

egregious example, and he gave you one that appeared to him. I could answer that question, too. And if I were to try to pull together examples that are buried like nuggets throughout our report of missteps—again, I will continue to use that word—but missteps of senior leadership, both board and staff at the Airports Authority, it would be a very sorry tale.

And I know it might sound like a chronicle from “The Little Shop of Horrors,” but it has implications for how these jewels in the national capital area are run. These are Federal assets—

Mr. CRAVAACK. Right.

Mr. SCOVEL [continuing]. Worth on the balance sheet of fiscal year 2011 \$9.1 billion. They generated revenues in fiscal year 2011 of exceeding three-quarters of a billion dollars. Forty-two million travelers passed through those two airports in calendar year 2011. Every dollar of revenue is derived directly or indirectly from the taxpayer or the traveler. And the board, as I stated in my opening statement, has a fiduciary responsibility to the Government of the United States and to the taxpayer and to the traveler to make sure that every dollar is expended properly and prudently.

Mr. CRAVAACK. Agreed.

Mr. SCOVEL. And, for instance, if you were to ask me again what I considered the most egregious example, it would be this: the fact that, since 2003, 7 former board members and affiliated firms have been awarded 30 contracts, amounting to almost \$2 million. Out of those 30 contracts, 26 were for lobbying services. That raises at least the appearance that these contracts were nothing but a parachute for departing board members.

One former board member was awarded 16 sole-source contracts, totaling \$262,000 over the past 10 years, the first such contract only 3 months after the member left the board. Another former board member was awarded eight contracts, totaling over \$500,000.

Now, I do want to note that as a result of our audit MWAA has terminated contracts with former board members and has not renewed contracts with other former board members. And in September 2012 the Authority approved a new ethics code prohibiting contracts with board members for 2 years after the conclusion of their service.

Mr. CRAVAACK. Well, it sounds like the reason for the results of this current board is because of your investigation, Mr. Scovel. Would that be a correct statement?

Mr. SCOVEL. We have certainly assisted. But I do want to give great credit to Mr. Wolf and Mr. Latham for alerting us to it, for putting us on it.

And I also want to give great, great credit to Secretary LaHood, who had seized on our preliminary findings released in May, appointed an accountability officer, and together with the other appointing authorities, delivered a letter in August to the Authority expressing—and this is a quote—their “outrage” over some of the findings that we had reported in May, and is also now undertaking to renegotiate the lease under which MWAA operates, occupies, controls, and uses—and those are the words in the lease—these valuable Federal assets on behalf of the Department.

Mr. CRAVAACK. Well, Secretary LaHood said the only reason this really initiated was from what he read in a newspaper article. So kudos to him.

Mr. POTTER, you didn't understand about the category issues. As the CEO, how could you not? You said you only found out about it a couple months ago. How could you not be aware of these?

Mr. POTTER. I was not aware of the use of categorical exceptions. I was aware of some. For example, we buy off of a COG contract, the Council of Governments for the metropolitan area. That is one of the procurements that is considered a sole-source contract. And, again, I think we need to work through how we categorize some of those.

Again, I was not aware of the history that was just described was over a 10-year period of time. So I wasn't aware of those contracts. They weren't coming to me for approval. And once I became aware of them, again, I moved very quickly to try and resolve those matters.

Mr. CRAVAACK. Well, I appreciate it.

In the military we have a thing called "lack of confidence." And to be honest with you gentlemen, I have a supreme lack of confidence in your board. And if it was up to me, which it is not, I would dissolve the board and create a new one. But that is just my opinion.

Mr. DAVIS. Fine with me.

Mr. CRAVAACK. Yeah. I know. Mr. Davis going—

Mr. DAVIS. Fine with me.

Mr. CRAVAACK. Hey, I am ready to pull the ejection seat, right?

Mr. DAVIS. We get paid nothing. I mean, as I said, 38 meetings—

Mr. CRAVAACK. I understand that.

Mr. DAVIS. It is a labor of love. And although my perspective might not have always been perfectly appreciated, I look at where we are today versus 2 years ago, and I say, just give us some time. We are really moving in the right direction. These guys are determined to take us there, if that is any comfort at all. Keep watching us. We want to prove ourselves.

Mr. CRAVAACK. Thank you, Congressman. I appreciate it. I yield back.

Mrs. SCHMIDT. Thank you.

And I want to thank the gentlemen for coming. You were very courageous and very open, and we appreciate that. And good luck. And may you all have a good holiday on Thursday.

We will end this. Thank you.

[Whereupon, at 11:20 a.m., the committee was adjourned.]

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Eddie Bernice Johnson
 Congress of the United States
 30th District, Texas

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Statement for the Record
 Congresswoman Eddie Bernice Johnson
 House Committee on Transportation and Infrastructure
 Friday, November 16, 2012


Metropolitan Washington Airports Authority (MWAA): A Review of the
 Department of Transportation Inspector General's Findings and Recommendations

According to both recent media accounts and the Department of Transportation Inspector General's report, the operations and contracting policies utilized by Metropolitan Washington Airport Authority are of very serious concern, and exemplify an egregious abuse of taxpayer dollars.

To cite only one example, the Airports Act and the lease agreement between DOT and MWAA require the Authority to award contracts over \$200,000 on a competitive basis. Yet, of the 190 contracts awarded from 2009-2011, only 68 contracts were awarded with full and open competition. Likewise, the report has uncovered improper hiring practices, nepotism, excessive salaries, and questionable use of funds.

We must eliminate what appears to be a culture of corruption that has gone on for years. While several actions have been taken at the behest of Secretary LaHood, it appears that MWAA has a long way to go towards restoring the public's trust and proving they are competent stewards of the public's tax dollars. As Inspector General Scovel has noted, there are remaining concerns and additional measures are necessary to correct MWAA's flawed policies and practices.

I thank the Chairman and Ranking Member for holding this critical hearing and look forward to Secretary LaHood and the Inspector General's recommendations.



STATEMENT OF
THE HONORABLE ELEANOR HOLMES NORTON
FULL COMMITTEE HEARING ON
“METROPOLITAN WASHINGTON AIRPORTS AUTHORITY (MWAA): A REVIEW OF THE
DEPARTMENT OF TRANSPORTATION INSPECTOR GENERAL’S FINDINGS AND
RECOMMENDATIONS”
NOVEMBER 16, 2012

Mr. Chairman, thank you for today’s oversight hearing on the Metropolitan Washington Airports Authority (MWAA). MWAA is an independent public body created by Congress under the Metropolitan Washington Airports Act of 1986 (Airports Act), which authorized a compact between the Commonwealth of Virginia and the District of Columbia. MWAA, with 1,400 employees, leases from the federal government and manages Ronald Reagan Washington National Airport and Washington Dulles International Airport. In addition to managing airports, MWAA is responsible for the Dulles Corridor Metrorail project, with an estimated cost of \$5.8 billion, including \$977 million in federal funds.

This hearing is timely and important given the Department of Transportation Inspector General’s Audit Report (IG Report) released this month and the recent news stories about inappropriate spending by MWAA Board members, potential conflicts of interest, and inadequate contracting policies and procedures. The IG report concluded that “MWAA’s contracting policies and practices are insufficient to ensure compliance with the Airports Act and the lease agreement between DOT and MWAA,” and that “the code of ethics and related MWAA policies and procedures in place at the time of our audit lacked the rigor needed to ensure credibility and the integrity of management and employee decisions.”

Since the IG’s draft report was released in May, MWAA has taken some actions to address these issues, including approving a new travel policy and a new code of ethics for Board members and employees. MWAA also has revised the Board’s bylaws and its Freedom of Information Act policies, and has terminated contracts with former Board members. However, I believe that more action is needed.

To address the contracting policies, which have perhaps been most troubling, I introduced yesterday H.R. 6592, for which I am now seeking cosponsors, which would require MWAA to comply with the Federal Acquisition Regulations, the set of rules that govern all aspects of the acquisition process for virtually every federal executive branch agency. Given the continuing ownership of the airports by the federal government, MWAA’s creation by Congress, and the significant federal taxpayer dollars for which MWAA is responsible, there is no reason why MWAA should use a different standard than federal agencies, particularly given the shortcomings reported by the IG. It certainly would make no sense for MWAA to attempt to reinvent a new set of procurement procedures and ignore the long-tested Federal Acquisition Regulations, which provide legal guidelines for every aspect of procurement and maximize fairness and transparency.

I am grateful to Secretary LaHood for his quick attention to the IG's findings, appointing an Accountability Officer to work with MWAA to strengthen its policies. In addition, Secretary LaHood sent a letter with the Governors of Virginia and Maryland and the Mayor of the District highlighting their concern with the lack of accountability and transparency at MWAA and demanding specific reforms.

My bill, along with the steps that MWAA has already taken and is continuing to take, should help MWAA regain its bearings. I look forward to hearing from today's witnesses about what other reforms are necessary and how we can ensure that MWAA is a good steward of the valuable federal assets it controls.

Congressman Chris Van Hollen Testimony
Committee on Transportation and Infrastructure Hearing on
“Metropolitan Washington Airports Authority (MWAA): A Review of the
Department of Transportation Inspector General’s Findings and
Recommendations”
November 16, 2012

Thank you, Chairman Mica and Ranking Member Rahall for the opportunity to submit testimony for the record today on the review of the Department of Transportation Inspector General’s audit of the Metropolitan Washington Airports Authority (MWAA). As a member with many constituents who use the Reagan National and Dulles airports, I appreciate the chance to share my thoughts on the findings of this report. I also thank Congressmen Frank Wolf and Tom Latham for requesting this audit.

MWAA is tasked with a broad responsibility, managing two airports and their development. It also supervises the Metro’s Silver Line extension to Dulles, a \$6 billion project that will have a major impact on transportation and development in our region. It is critical that MWAA be a responsible steward of these projects and operate efficiently and fairly.

Unfortunately, as today’s report shows, MWAA has failed to hold itself to a high ethical standard, instead cultivating a culture of cronyism and kickbacks. The Inspector General reports that MWAA’s standard for contracting was inadequate or nonexistent, with the Board improperly awarding exemptions to competitive bidding rules in approximately two-thirds of the contracts. Similarly lax hiring practices led to the creation of new positions without job descriptions or fair and open recruitment. And while MWAA is required by the Airports Act and its lease to have a code of ethics, the Inspector General reports that this code and its enforcement has failed to prevent clear conflicts of interest.

I appreciate that the Board has taken steps to update its code of ethics and increase transparency. However, there is still much work to be done to ensure fair and open competition for contracts and employment. MWAA must take this report and its recommendations seriously and work quickly to correct its practices and ensure that MWAA manages its public assets fairly and transparently.

Statement of Congressman Gerald E. Connolly (VA-11)
Committee on Transportation and Infrastructure
Metropolitan Washington Airports Authority (MWAA):
A Review of the Department of Transportation Inspector General's Findings and Recommendations
 November 16, 2012

Chairman Mica, Ranking Member Rahall, and members of the Committee, thank you for holding this oversight hearing on the findings and recommendations contained in the U.S. Department of Transportation (DOT) Office of Inspector General (OIG) Audit Report of the Metropolitan Washington Airports Authority's (MWAA) management policies and processes. I appreciate the opportunity to testify on this matter of great economic importance to our region, particularly Virginia's 11th Congressional District.

I commend the leadership of Congressmen Wolf and Latham in requesting Inspector General (IG) Scovel initiate an audit of MWAA operations. I also applaud Secretary LaHood's proactive leadership and commitment to not only overseeing, but more importantly, actively assisting MWAA in implementing needed reforms. Appointing an Accountability Officer was an important first step towards transforming the Authority, and the Secretary has my full support in regard to DOT's effort to amend its current lease with MWAA to enhance accountability, transparency, and internal controls.

We must not forget that as a self-funded, independent organization employing approximately 1,400 employees, MWAA is far more than its Board of Directors and senior leadership. The poor performance of some political appointees and senior managers should not tarnish the excellent work performed by the Authority's career staff members, who have admirably kept the Dulles Corridor Metrorail Project on track to be completed on time and within budget, and in their day-to-day work, ensure orderly operation of the airports, management of the Dulles Toll Road, and other projects.

One would never guess from recent headlines that during its 25 years of existence, the Airports Authority has actually established a fairly successful, and scandal free, track record of financing and overseeing major enhancements and renovations to National Airport and Dulles International Airport.

That being said, I am cosponsoring legislation with Congressman Wolf that would streamline and restructure the governance of the MWAA board and give Virginia the majority of seats. I have long said it is inappropriate to afford Maryland and the District of Columbia such broad influence over facilities wholly located in the Commonwealth of Virginia and that primarily affect Virginia residents. Any logic behind the current structure collapsed when MWAA took over responsibility for operating the Dulles Toll Road and constructing Dulles Rail. Plain and simple, Virginians want Virginians primarily responsible for setting local toll rates. By reducing the number of members from 17 to 9 and staggering the terms so no one Governor can wield undue influence, our bipartisan proposal will create greater accountability and restore public confidence in MWAA. To take that a step further, I would even support starting with a new slate of members.

Now with respect to the IG report, I want to be clear: I will never defend the indefensible.

In reviewing the interim and final DOT OIG Audit Reports, 'indefensible' is one of the milder terms one could apply to some of the management deficiencies and ethical practices exhibited by MWAA's Board and senior leadership. Unfortunately, in this instance, one can judge the book by its cover, as the report's title, *MWAA's*

(OVER)

Weak Policies and Procedures Have Led to Questionable Procurement Practices, Mismanagement, and a Lack of Overall Accountability, accurately captures the Authority's violation of the public trust.

Stories of extravagant travel, unjustified hiring bonuses, questionable cash awards, and widespread nepotism, already have grabbed headlines as a result of OIG's investigation. While some of the criticism focused on the actions of certain Board members, the final Audit report demonstrates that the depth of management and ethical failures extend far beyond any one person. The fact of the matter is the bar for professionalism and ethical conduct needs to be raised for all current and future Board members and senior managers.

The finding from OIG that I found most troubling involved the serious management deficiencies, particularly MWAA's noncompliance with requirements in the Airports Act, its lease agreement with DOT, and common-sense contracting practices. From initiating work before awarding a contract, issuing sole source contracts without adequate justification, to providing favored bidders with non-public information to bestow an unfair competitive advantage, MWAA's acquisition practices and procedures could serve as a guide for precisely how one should *not* administer procurement policy.

In addition, MWAA's failure to meet its own Contracting Manual requirements when utilizing categorical exceptions was an inexcusable restriction of fair and open competition. The Authority's decision to delegate procurement authority to employees outside of its Procurement and Contracts Department, subsequently losing track of which personnel had been granted this authority, while simultaneously failing to hold employees to delegated limits, is emblematic of the MWAA's lack of internal controls and disregard for sound management.

Fortunately, MWAA has demonstrated that it understands the gravity of this situation and already is taking steps to ensure that the final chapter of this embarrassing period for the Authority will be one of redemption. The decisive actions initiated by the Board of Directors and senior leadership – including the arrival of new Board members and the replacement of certain senior managers – are an encouraging indication that MWAA is fully committed to restoring its reputation and confidence in the operation. Developing a new travel policy, increasing transparency through new ethics policies, and instituting strong internal controls for procurement processes are important corrective actions necessary to eliminate nepotism and favoritism; while ensuring MWAA is always in compliance with the Airports Act and the its lease agreement with DOT.

As the Committee is aware, MWAA Board Chairman Michael Curto sent a letter to Secretary LaHood, Governors McDonnell and O'Malley, and Mayor Gray earlier this week detailing actions the Authority already has taken, or plans to take, in response to the OIG's twelve broad corrective actions and the 30 specific sub-recommendations. I appreciate the candor and resolve from Chairman Curto and MWAA leadership to work swiftly with its regional partners to address these shortcomings.

It is difficult to overstate the importance of MWAA to our region's transportation network and prospects for economic growth. It is absolutely vital that our region's congressional delegation, DOT, and MWAA continue to work together to fully address every single DOT OIG recommendation. In closing, I want to again express my gratitude to the Chairman and Ranking Member for providing me the opportunity to testify before the Committee, and I look forward to hearing more about the ongoing efforts to restore integrity, transparency, and accountability to MWAA.

-END-

STATEMENT OF THE
HONORABLE RAY LAHOOD
SECRETARY OF TRANSPORTATION
BEFORE THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
U.S. HOUSE OF REPRESENTATIVES
HEARING ON

*Metropolitan Washington Airports Authority (MWAA): A Review of The Department of Transportation
Inspector General's Findings and Recommendations*

November 16, 2012

Mr. Chairman and members of the Committee:

Thank you for the opportunity to appear before the Committee today to address management issues at the Metropolitan Washington Airports Authority (MWAA).

I want to commend the Department of Transportation's Inspector General (DOT IG) and his staff for the rigorous and detailed November 1 report on a range of ethical, personnel, and procurement failures at MWAA in recent years. Let me be clear, the failures outlined by the IG are unacceptable and have undermined the public's confidence in MWAA and its Board of Directors. The Board must act expeditiously to address the IG's findings in order to regain the public's trust. Fortunately, this report provides a clear and concrete roadmap for MWAA to follow in order to bring its management practices up to the high level expected by the public that it serves.

DOT and the Federal government as a whole have a unique interest in the ethical and transparent management of Reagan and Dulles Airports. These two airports are Federal assets that were run

by the Federal Aviation Administration, until 1986 federal legislation authorized the MWAA compact. At that point, MWAA took over management of the airports and undertook responsibility for capital improvements. DOT entered into a 50-year lease (which was later extended to 80 years) with MWAA after the Commonwealth of Virginia and the District of Columbia enacted the statutes that created the compact.

Not only is MWAA in charge of operating two federally-owned airports, MWAA is also responsible for managing the two phased extension of the Washington Metropolitan Area Transit Authority's (WMATA) service known as the METRO Silver Line. One of the most important transportation projects in the country, the Silver Line will increase transportation options in the Capital region by extending existing Metrorail service to Tysons Corner, Virginia's largest employment center, and to Dulles Airport and beyond. The Department has been a strong supporter of the Silver Line, contributing a significant portion of the financing for Phase I and playing an active role in securing state and local commitments for Phase II. Because of the project's significance to our Region's transportation system and the substantial Federal commitment to the project, the Department has additional cause for strong interest in ensuring the integrity of the entity charged with its design and construction.

In May of this year, the IG issued an interim report highlighting systematic procurement and ethical lapses at the Authority. Following these allegations and other public reports of misconduct, I became convinced that DOT needed to take an active role in ensuring that MWAA operates in a manner that is transparent and accountable to the public. As a result, in late July, I appointed a Federal Accountability Officer to provide MWAA with advice and counsel on improved ethics, procurement, and governance policies. For this important role, I selected Ms. Kimberly Moore, a career attorney in the Department's Office of General Counsel with expertise

in these areas. Ms. Moore reports directly to me on her work related to MWAA. Then in August, I—along with the Governors of Virginia and Maryland and the Mayor of the District of Columbia—sent a letter to MWAA setting forth the specific reforms they needed to institute in order to regain the public’s confidence. A copy of that letter is attached to this testimony.

Since these steps were taken, MWAA has made considerable progress in addressing the issues identified by the DOT IG and in the August letter. In particular, MWAA has implemented new travel policies and new ethics policies for MWAA’s Board of Directors and staff, terminated improper contracts and employment relationships, and undertaken efforts to enhance the transparency of the activities of MWAA’s Board of Directors. Work on revisions to procurement, personnel, governance and accountability policies and procedures, along with intensive assessment and training efforts, is currently underway. We are pleased with the level of cooperation that Ms. Moore has received over the last several months from the MWAA Board and Executive leadership and look forward to continued cooperation. But there is still much more to be accomplished to mitigate the control weaknesses that led to these ethical, personnel and procurement failures.

With that understanding, DOT is fully committed to helping MWAA address the control weaknesses raised in the IG’s report. We are now actively engaged in assisting MWAA’s response to the recommendations found in the DOT IG report. The report provides a specific recommendation for increased DOT oversight of MWAA. We agree with this approach and plan to act quickly to institutionalize the oversight function. We have formally requested that the MWAA Board of Directors provide us with its views on the report as an aspect of our process.

We look forward to working with Congress and MWA to bring about the changes so clearly called for by this timely report, and we will keep all parties advised of our progress. Thank you for the opportunity to testify today.

ATTACHMENT



August 14, 2012

Mr. Michael A. Curto, Chairman
 Members of the Board of Directors
 Metropolitan Washington Airports Authority
 1 Aviation Circle
 Washington, DC 20001

Dear Chairman Curto and Members of the Board of Directors:

The effective and ethical management of the federally-owned Ronald Reagan Washington National Airport and Dulles International Airport is of the highest importance to the Washington Metropolitan region. The MWAA is entrusted with the operation of the two airports under the Metropolitan Washington Airports Act of 1986 and a lease with the Secretary of Transportation. By statute, MWAA is a public body, managing and operating important federal assets, and the Board of Directors is expected to conduct its business with the utmost integrity and with continuous regard for the public that it serves. As such, MWAA has a responsibility to operate in a manner that is transparent and accountable both to the public and to the authorities who appoint the Board. Recent reports, however, have raised serious doubts about the ability of the Board to competently promote, protect and manage the Airports and other transportation activities.

We are gravely concerned with the lack of accountability, transparency, and sound judgment that has come to light regarding the Board's recent activities. In May, the U.S. Department of Transportation's Inspector General issued a draft audit report of MWAA's operations that raised serious concerns about MWAA's policies and procedures in contracting, ethics, and travel, and the lack of transparency and accountability in the activities of MWAA's Board. The Inspector General raised concerns related to nepotism and provided examples of Board members participating in matters in which they have potential conflicts of interest. The report revealed excessive Board spending on air travel, meals, and wine. Overall, the report depicts an organization that conducts much of its business behind closed doors, awards many of its contracts on a sole-source basis, and is in desperate need of reform.

Against this backdrop, we are outraged by ongoing reports describing questionable dealings, including the award of numerous lucrative no-bid contracts to former Board members and employees and the employment of former Board members. It has become clear that MWAA's policies and procedures are deficient and lack the safeguards necessary to ensure the principled oversight of nationally and regionally significant assets. The Board needs to restore the confidence of its appointing officials and the public.

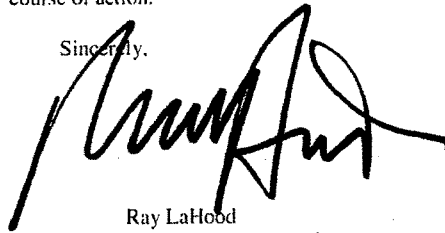
As you know, the Secretary of Transportation has appointed a Federal Accountability Officer to ensure that these concerns are promptly addressed. We expect that you will grant her access to personnel and documents, and inform her in advance of, and provide access to, all Board of Directors meetings, including executive sessions. With her guidance, you must upgrade your

procurement and travel policies and procedures, ethics code, and bylaws, bringing them in line with best Federal practices. In particular, the following reforms must be instituted immediately, in the most appropriate and lawful manner:

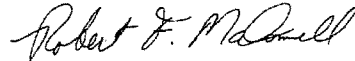
- Swiftly overhaul financial, procurement, and human resources policies and adopt policies in line with Federal standards for transparency and fairness in these categories;
- Terminate all existing contracts with former Board members and former employees that were not competitively bid;
- Terminate all existing employment relationships with former Board members;
- Adopt post-employment restrictions for Board members and employees that meet Federal standards;
- Strengthen your ethics code to guard against conflicts of interest and provide annual ethics training to Board members and employees;
- Tighten travel procedures to eliminate wasteful spending. These procedures should be consistent with Federal requirements;
- Implement a transparency program that requires open meetings and the posting of meeting announcements, agendas, and all minutes on the internet. This program must ensure executive sessions are used for limited and proper purposes; and
- Strengthen all oversight, construction planning and management programs to find ways to reduce design, construction, and operating costs of airport facilities and the rail to Dulles project.

The Board must undertake all of these actions and more if it is to regain the trust of the public we all serve. Your candor and wholehearted implementation of these changes is the only acceptable course of action.

Sincerely,



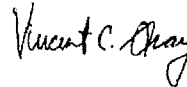
Ray LaHood
U.S. Secretary of Transportation



Robert F. McDonnell
Governor of the Commonwealth of Virginia



Martin O'Malley
Governor of the State of Maryland



Vincent C. Gray
Mayor of the District of Columbia

cc: The Honorable Thomas M. Davis III, Robert Clarke Brown, Richard S. Carter, the Honorable William W. Cobey Jr., Frank M. Conner III, the Honorable H.R. Crawford, Shirley Robinson Hall, Michael L. O'Reilly, Warner H. Session, Todd A. Stottlemyer, and John E. Potter.

QUESTIONS FOR THE RECORD
SECRETARY RAY LAHOOD
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
U.S. HOUSE OF REPRESENTATIVES
METROPOLITAN WASHINGTON AIRPORTS AUTHORITY (MWAA): A REVIEW OF
THE DEPARTMENT OF TRANSPORTATION INSPECTOR GENERAL'S FINDINGS AND
RECOMMENDATIONS HEARING
NOVEMBER 16, 2012

From Chairman Petri:

- 1. In the FAA Reform Act, section 804 requires FAA to work with labor and industry to develop a consolidation and realignment plan for FAA facilities, and to submit that plan to Congress within 60 days of enactment. That report is now over five months late. Given the tight Federal budget and the clear cost savings and demonstrated NextGen benefits of facility realignment and consolidation, what is the status of that report and when will FAA submit it to this Committee?**

RESPONSE: The FAA has been working collaboratively with labor groups and other stakeholders on an initial report. The Agency will be finalizing the report, which outlines the process and criteria for evaluating facilities for potential consolidation and realignment, over the coming months. The FAA expects to submit the report to Congress early in 2013.

**Before the Committee on Transportation and Infrastructure
United States House of Representatives**

For Release on Delivery
Expected at
9:00 a.m. EDT
Friday
November 16, 2012
CC-2013-005

Observations on the Metropolitan Washington Airports Authority's Governance

**Statement of
The Honorable Calvin L. Scovel III
Inspector General
U.S. Department of Transportation**



Mr. Chairman and Members of the Committee:

Thank you for inviting me to testify on the governance of the Metropolitan Washington Airports Authority (MWAA). As an independent public body subject to few Federal and State laws, MWAA must rely on the strength of its policies and processes to ensure credibility in its management of two of the Nation's largest airports and a multibillion-dollar public transit construction project. However, in May 2012, we reported in an interim letter that MWAA's oversight and internal policies and procedures related to contracting, ethics, travel, and transparency were insufficient to ensure fiduciary and ethical responsibility and accountability to Congress, stakeholders, and the public.¹

Our November 1, 2012, report details our observations on MWAA's (1) contract award and procurement practices, (2) code of ethics for its employees, (3) hiring and compensation practices, and (4) Board of Director activities.² My testimony today will highlight these observations and recent actions MWAA has taken in response.

In summary, MWAA's policies and practices have not provided the controls needed to ensure accountability, transparency, and sound governance. MWAA's lack of internal controls has created a culture that allows questionable contracting practices by staff as well as its Board of Directors and senior officials—including initiating work before contract award, awarding sole source and limited competition contracts without proper justification, and providing non-public information that gives potential contractors an unfair advantage in competition. MWAA's code of ethics and related policies and procedures have similarly been insufficient to detect violations of anti-nepotism and gift provisions and identify potential conflicts of interest. Lacking a formal policy for filling vacancies or creating new positions has allowed senior officials to place candidates into new or existing positions without job descriptions, competition, or completed background checks. Finally, MWAA's policies and processes have not ensured accountability and transparency for activities conducted by its Board of Directors.

MWAA has begun to take action to address these concerns. Notably, MWAA has terminated contracts with former Board members, approved a new travel policy and new codes of ethics for employees and the Board, and revised the Board's bylaws and Freedom of Information Policy. In a letter dated October 18, 2012, the Department of Transportation (DOT) Office of the Secretary (OST) referenced additional planned actions to improve MWAA's accountability, including appointing an Accountability Officer to monitor and report on any reform efforts and pursuing an amendment to the lease between MWAA and DOT to ensure greater oversight.

¹ OIG, "Interim Response Letter to Congressmen Wolf and Latham Regarding MWAA," May 15, 2012. OIG correspondence and reports are available on our Web site at <http://www.oig.dot.gov/>.

² OIG, *MWAA's Weak Policies and Procedures Have Led to Questionable Procurement Practices, Mismanagement, and a Lack of Overall Accountability*, Nov. 1, 2012.

BACKGROUND

MWAA was created through an interstate compact between the Commonwealth of Virginia and the District of Columbia as well as the Metropolitan Washington Airports Act of 1986.³ In March 1987, the Secretary of Transportation and MWAA entered into a 50-year lease authorizing MWAA to occupy, operate, control, and use all land and related areas of Ronald Reagan Washington National Airport and Washington Dulles International Airport, with full power over operations and development of the airports. In April 2003, the term was extended to 80 years. More recently, MWAA assumed responsibility for the Dulles Corridor Metrorail Project, with a \$3.1 billion budget for Phase 1—\$977 million of which is Federal investment—and cost estimates of \$2.7 billion for Phase 2.

As designed by the Airports Act and lease, MWAA was governed by a 13-member Board of Directors composed of members from Virginia, the District of Columbia, and Maryland, and Presidential appointees. In October 2012, Board membership increased to 17 members.⁴ Board members serve 6-year terms without compensation. The Board is responsible for establishing policy and providing direction to MWAA's President/Chief Executive Officer (CEO).

The Airports Act and the lease established MWAA as an independent public body. As such, MWAA is not subject to Federal or State laws that govern procurement, ethics, civil service, and transparency. However, MWAA must abide by the provisions and terms of the Airports Act, the lease, and the interstate compact, as well as its own internal policies and processes. The Airports Act and lease require MWAA to develop a code of ethics to ensure the integrity of decisions made by MWAA's Board of Directors and its approximately 1,400 employees. MWAA has two separate codes of ethics policies—one for its Board of Directors and another for its employees. Each code describes situations causing both an actual or apparent conflict of interest, which could adversely affect the confidence of the public in the integrity and credibility of MWAA. Each code defines standards of ethical conduct, such as acceptance of gifts and annual financial interest disclosure requirements.

While MWAA is not required to follow Federal statutes or regulations for procuring goods and services, the Airports Act and the lease agreement with DOT require the Authority to obtain full and open competition for contracts in excess of \$200,000, to the maximum extent practicable. The Act and the lease specify this be accomplished through the use of published competitive procedures. MWAA's Board of Directors may grant exception to this requirement by a vote of the majority of the Board.

³ Pub. L. 99-591.

⁴ In October 2012, the District of Columbia passed legislation to amend the interstate compact to complete the implementation of changes to the Board's composition mandated by the Consolidated and Further Continuing Appropriations Act of 2012 (Pub. L. 112-55, Div. C, Title I, § 191). Congress passed this Act in November 2011 to expand the MWAA Board from 13 to 17 members, including 7 appointed by the Governor of Virginia, 4 by the Mayor of the District of Columbia, 3 by the Governor of Maryland, and 3 by the President of the United States.

In 2011, amid multiple allegations of misconduct and mismanagement on the part of MWAA, Congressmen Frank R. Wolf and Tom Latham asked OIG to initiate a review of MWAA. In May 2012, we provided an interim letter to the Congressmen and briefed key stakeholders, including Loudoun and Fairfax counties, regarding our preliminary observations on weaknesses we identified in MWAA's management and questionable Board activities.⁵ In response, the Secretary, the Governors of Maryland and Virginia, and the Mayor of the District of Columbia issued a letter in August 2012 to MWAA's Chairman and Board members mandating immediate reform of MWAA's business practices. Reforms include terminating all existing contracts with former Board members and former employees that were not competitively bid, strengthening MWAA's ethics code and ethics training requirements, and tightening Board travel procedures. In addition, the Secretary appointed an Accountability Officer to monitor and report on any reform efforts.

MWAA'S CONTRACTING POLICIES AND PRACTICES ARE INSUFFICIENT TO ENSURE COMPLIANCE WITH THE AIRPORTS ACT OR LEASE AGREEMENT

MWAA's contracting policies and practices are insufficient to ensure compliance with the Airports Act and the lease agreement between DOT and MWAA. The Act and the agreement require the Authority to competitively award contracts over \$200,000 to the maximum extent practicable. However, for the period we reviewed,⁶ MWAA used categorical exceptions to limit competition for almost two-thirds of MWAA's contracts that exceeded \$200,000. While MWAA's Contracting Manual allows the use of categorical exceptions,⁷ MWAA frequently did not meet its Contracting Manual requirements for adequate justifications when using these exceptions. Further, adding new out-of-scope work to existing contracts and issuing task orders without required justifications and approvals have also limited competition.

These weaknesses are exacerbated by ineffective contract management and oversight and a lack of adequate procurement integrity policies to ensure impartiality when awarding and administering contracts. Notably, MWAA has delegated procurement authority to employees outside its Procurement and Contracts Department but has not kept track of those with this authority and has not held employees to their delegated authority limits.

MWAA Board members and senior officials have set the tone for a lax internal control culture by engaging in questionable contracting practices—including initiating work

⁵ At Congressman Wolf's request, our interim letter also included a preliminary review of MWAA's assumptions for Dulles Toll Road revenue, which found that the assumptions appeared reasonable.

⁶ January 2009 to June 2011.

⁷ MWAA's Board of Directors authorized six categorical exceptions to full and open competition in section 1.2 of MWAA's second edition Contracting Manual: (1) limited competition for urgent needs; legal, financial, audit, or legislative representation professional services; and local business set asides; (2) airport security controlled distribution RFP; (3) utility supplies and services; (4) Government purchasing agreements; (5) airline tenant procured projects; and (6) proprietary equipment and software. Use of these exceptions requires no further Board approval.

before contract award, awarding sole source contracts without proper justification, and providing non-public information that gives potential contractors an unfair advantage in competition.

MWAA'S ETHICS CODE AND PROCESSES HAVE BEEN INSUFFICIENT TO PREVENT ACTUAL AND PERCEIVED CONFLICTS OF INTEREST AMONG EMPLOYEES

MWAA recently approved a new employee code of ethics that will go into effect on January 1, 2013. However, MWAA's code of ethics and related policies and procedures in place at the time of our audit lacked the rigor needed to detect violations of anti-nepotism and gift provisions and to identify potential conflicts of interest. We identified several violations and conflicts, including:

- The Vice President of Human Resources indirectly supervised relatives, despite the code's explicit provision prohibiting such relationships.
- Employees regularly accepted inappropriate gifts from an MWAA contractor—including Super Bowl tickets, travel, and accommodations worth almost \$5,000.
- The former President/CEO's 2009 financial interest form was missing a page with key details about the CEO's financial holdings.

Weak policies and procedures, cursory reviews of financial disclosure statements, and a lack of recurrent ethics training have provided little assurance that employees are fully aware of MWAA's ethics requirements, increasing the risk of unintentional ethics violations.

MWAA LACKS HIRING AND COMPENSATION POLICIES AND PRACTICES TO ENSURE SUFFICIENT OVERSIGHT AND ACCOUNTABILITY

MWAA's standard hiring process for filling vacancies or creating new positions has not been formally documented as an official policy, which has allowed senior officials to place candidates into new or existing positions without job descriptions, competition, or completed background checks. In some cases, senior officials abused MWAA's student program to hire employees who were not students, using personnel documentation that falsely showed student status. MWAA's lack of oversight also resulted in employees with known criminal convictions working at the Authority in sensitive and management positions for more than a year.

In addition, MWAA managers awarded excessive salaries, unjustified hiring bonuses, questionable cash awards, and ineligible benefits. For example, MWAA created a new position for a former Board member that included an annual salary of \$180,000 for unspecified job duties, before ultimately terminating the position after public outcry. In

another example, an MWAA Human Resources manager deliberately abused MWAA's benefits programs to continue paying an individual who no longer worked for the Authority.

MWAA'S POLICIES AND PROCESSES DID NOT ENSURE ACCOUNTABILITY AND TRANSPARENCY FOR ITS BOARD OF DIRECTORS

MWAA's policies and processes have not ensured accountability and transparency for activities conducted by its Board of Directors. Unlike its policies for MWAA employees, MWAA's policies for the Board did not at the time of our review explicitly prohibit nepotism or other relationships that may cause undue influence at the Authority.

Without such controls, MWAA has not been able to hold its Board accountable to the same standards it holds its employees. Specifically, MWAA could not ensure that relatives and friends of Board members did not receive preferential treatment in hiring or contracting. Oversight weaknesses and a lack of training have further hindered MWAA's ability to prevent conflicts of interest for its Board members. For example, contrary to MWAA's ethics policies established specifically for the Board, a Board member participated in the selection of a contractor who employed the Board member's spouse. While MWAA has taken steps to improve Board accountability and transparency—including a new code of ethics for the Board and revised travel policies—significant attention will be required to ensure that new travel, ethics, and disclosure policies are implemented and enforced.

MWAA HAS BEGUN TO ADDRESS OIG OBSERVATIONS ON GOVERNANCE WEAKNESSES

On May 15, 2012, we issued an interim letter describing our observations of MWAA's governance. In particular, we observed that MWAA's oversight and internal policies and procedures related to financial disclosures, travel, and transparency were insufficient to ensure fiduciary and ethical responsibility and accountability to Congress, stakeholders, and the public. We also observed that MWAA's contracting policies and practices were insufficient to ensure compliance with the Act's provisions and MWAA's internal procurement procedures, resulting in contracts that are not subject to full and open competition and may not represent best value.

Following our May 2012 interim letter, MWAA has taken action to improve its accountability, transparency, and governance. For example, as of September 19, 2012, MWAA approved new codes of ethics for its Board of Directors and its employees. The revisions will go into effect December 1, 2012 (for the Board) and January 1, 2013 (for MWAA employees). In addition, the Authority has approved a new travel policy, and revised the Board's bylaws and Freedom of Information Policy to increase transparency.

According to MWAA officials, the Authority has also:

- suspended the use of categorical exceptions for professional services,
- terminated contracts with former Board members or let those contracts expire,
- established guidelines requiring contracting officers to select contractors under temporary staffing multiple-award contracts, and
- enhanced screening for nepotism.

In an October 18, 2012, memorandum to the Inspector General, OST noted that MWAA's pattern of conduct is unacceptable for a public body entrusted with the management and operation of important Federal assets. In exercising the full extent of its authority, OST referenced additional planned actions to improve MWAA's accountability, including appointing a Federal Accountability Officer to monitor and report on any reform efforts and pursuing an amendment to the lease between MWAA and DOT to ensure greater oversight. (OST's October 18, 2012, letter is provided as an appendix in our November 2012 report.)

While MWAA is taking positive steps to correct the deficiencies we identified, further actions are needed to fully address these deficiencies to ensure fiduciary and ethical responsibility and restore public trust in the soundness of its current and future activities.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you or other members of the Committee may have.

**Testimony of Michael A. Curto
Chairman, Board of Directors
Metropolitan Washington Airports Authority
before the
Committee on Transportation and Infrastructure
U.S. House of Representatives
November 16, 2012**

Good morning, Mr. Chairman and Members of the Committee, and thank you for the opportunity to discuss the Metropolitan Washington Airports Authority's response to the audit by the Department of Transportation's Office of Inspector General. I am Michael Curto, Chairman of the Airports Authority Board of Directors, a position I assumed at the first of this year, after joining the Board in January of 2011. With me is the Airports Authority's President and CEO, Jack Potter.

As background, the Metropolitan Washington Airports Authority was established in 1987 by the governments of Virginia and the District of Columbia to manage and operate Washington's Ronald Reagan National and Dulles International Airports, which together serve more than 40 million passengers a year. The Airports Authority also operates and maintains the Dulles Airport Access Road and the Dulles Toll Road and manages construction of the Silver Line project, a 23-mile extension of the Washington region's Metrorail system into Loudoun County, Virginia. No taxpayer money is used to operate the toll road, which is funded by toll revenues, or the airports, which are funded through aircraft landing fees, rents and revenues from concessions. The Silver Line construction is funded by a combination of toll-road revenues, airport contributions and federal, state and local government appropriations. The Airports Authority is led by a 17- member board of directors appointed by the Governors of Virginia, Maryland, the Mayor of Washington, D.C., and the President of the United States. Fourteen of those seats are now filled, with the three federal positions currently vacant.

As you know, the Inspector General's audit began 16 months ago, and the Inspector General issued an Interim Report in May, discussing a number of findings and issues that we have been working to address ever since. On November 1st, the Inspector General issued the audit's Final Report, which elaborated on many of the issues identified in the Interim Report. The Final Report discussed additional incidents and concerns and provided a list of recommendations. In the two weeks since the Final Report was issued, we have been working

to make sure we have a complete understanding of the new issues so we can be certain that we address them properly.

Let me emphasize that we take all the issues and concerns cited in these reports very seriously, and we are in the process of responding to all of the Inspector General's recommendations. Our primary focus in responding to the report is rebuilding public trust, assuring accountability and instituting best practices across the Airports Authority organization.

Please be assured that the Board of Directors and senior leadership of the Airports Authority are committed to taking whatever measures are appropriate and necessary to address these very serious matters.

As the Inspector General's Final Report acknowledges, we already have taken a number of corrective actions, and we have other activities under way, in response to issues raised in the Interim Report. We believe we are making good progress, and we are expanding and enhancing those efforts based on the findings and recommendations of the Final Report.

As part of that effort, we have completed several major policy and procedure revisions, and we have a number of other initiatives under way to bring greater transparency, accountability, efficiency, and integrity to the Airports Authority's operations and governance.

The criticisms and issues raised in these reports, and in subsequent media coverage, have been unpleasant to hear and damaging to the Authority's reputation and public trust. They will require time and hard work to address. But we are determined to do what is necessary to address them.

To the extent that many of the criticisms have involved our Board of Directors, it is important to note that we are undergoing the most significant change in Board membership in our history. Due largely to recently enacted legislation, sponsored by Representative Wolf, a number of new positions have been added to the Board. In addition, the service of many longtime Board members has recently ended. As a result of these changes, by very early next year, only one of our 14 Board members will have served longer than three years, only one other will have served longer than two years, and every other member will have served two years or less – with several serving for only a matter of weeks. In addition, there are three current vacancies for federal representatives on the Board to be filled by presidential appointments. We look forward to those federal vacancies being filled.

Therefore, the Airports Authority essentially has a new Board of Directors going forward to help lead our efforts to restore trust, build new levels of accountability and assure best practices across the organization. The officials who made our recent Board appointments were

mindful of the issues facing the organization and the need to address those issues, and the current Board is committed to making swift and substantial improvements.

The Board and senior management also are committed to strong oversight and internal controls and to making certain that all of the Airports Authority's policies and operations reflect the best practices of government and industry. We will use this Inspector General's audit as a tool in expanding and enhancing our work to increase transparency, strengthen governance and build renewed public trust.

I would like to recap the key initiatives we are undertaking:

- In February, the Board approved changes to the Bylaws to increase transparency. The Bylaws were further amended in October to incorporate legislative changes increasing the size of the Board to 17 members and eliminating Board service beyond the appointed term limit.
- In July, we revised our Freedom of Information Policy, clarifying how the public can obtain information from the Airports Authority and designating a Freedom of Information Officer. This also helps increase transparency.
- In September, we approved a new Travel Policy with detailed procedures for pre-authorization of travel and clear guidelines and daily limits for meals and expenses.
- In September, we approved a new Code of Ethics for employees and Directors and established requirements for annual ethics training. This new policy bars Board members from being employed or having contracts with the Airports Authority during, and for two years following, their terms. It also expands the definition of family to address nepotism concerns, strengthens financial disclosure requirements, tightens rules designed to guard against conflicts of interest, and clarifies rules regarding gifts.
- In October, we named a formal Ethics Officer to provide oversight. In addition, alleged ethics violations involving Board members will be referred to a Board Ethics Committee, which will report its findings to the full Board of Directors. We have scheduled 40 ethics training sessions to make sure everyone at the Airports Authority understands and follows the new ethics policy. The training sessions are mandatory for all employees, and more than half of all our employees already have received the training.
- We are revising our contracting manual and other procedures to reflect best practices, and promote fair and open competition. The manual is a lengthy and highly technical document because of the wide variety of complex contracts needed to operate the airports and the Dulles Toll Road, and to construct the Silver Line and other capital projects. Our procurement and finance team is hard at work reviewing and revising the manual, which covers all aspects of awarding and managing contracts. Our goal is to have clear and

efficient guidelines that optimize competition. We expect to have a new manual ready for the Board's approval in the coming months.

- We have suspended the use of categorical exceptions to full and open competition for the procurement of legal, financial, audit and legislative professional services.
- We have terminated all non-competed contracts involving former Board members.
- We have created an Internal Control Group to establish systems and track actions necessary to enforce policies and assure accountability in contracting, as well as other areas.
- We are tightening up our hiring, compensation and benefits structures, to assure that they are consistent with our goal of best practices. We also are hiring outside experts to evaluate our human resources program – including compensation and hiring practices.
- The CEO has temporarily taken over day-to-day management of the Human Resources department during the review of personnel practices, following the recent retirement of the Human Resources vice president.
- We have ended employment relationships with former Board members.
- We have revised the management guidance for our Student Employment Program.
- Our airport police department is pursuing additional regulatory authority for conducting criminal background checks to aid our personnel process.

From our early review of the Final Report, it appears that some of the issues and incidents cited are one-time or isolated events that were detected and dealt with when they occurred during the five-year period covered by the audit. But for everything covered in the report, we want to be sure we have a proper understanding of all the details and circumstances. The Inspector General has agreed to provide more specific details to us where needed. We look forward to working with the Inspector General's office to learn more about the findings and ensure that we fully understand all the facts and circumstances. This will help us be sure that we take all appropriate actions to rectify problems and improve procedures.

The Authority's senior management team has launched an organization-wide effort to respond to each of the 12 recommendations in the Inspector General's Final Report. We have established specific tasks and timelines to meet each part of each recommendation over the coming weeks and months, and to produce a formal response to the recommendations, which we plan to submit to the Secretary of Transportation by December 1st.

In addition to acting on the findings and recommendations of the Inspector General's report, we also are responding to a separate set of recommendations we received this summer from U.S. Secretary of Transportation Ray LaHood, Governor Robert McDonnell of Virginia, Governor Martin O'Malley of Maryland and Mayor Vincent Gray of the District of Columbia.

We thank these officials for their leadership and support and for their interest in helping us make the Airports Authority a better organization.

We have sent these officials a detailed letter outlining the actions we are taking in response to their recommendations. This letter, which we are submitting for the record and attaching to this testimony, provides a comprehensive description of the numerous actions we are taking to respond to each item they identified in their August letter to the Airports Authority's Board. The activities described in our letter also address many of the issues and concerns that are raised in the Inspector General's audit.

In responding to these issues, we have worked closely with the Federal Accountability Officer, appointed by Secretary LaHood, who has provided the perspective of the Secretary as we continue to review and revamp our policies and procedures. She has provided excellent counsel and guidance on a number of difficult and complex issues.

I believe it is important to note that throughout the 16 months of the Inspector General's review, the Airports Authority's employees have remained focused on customer service and on our core missions of managing Reagan National and Dulles International Airports and the Dulles Toll Road, and construction of the Silver Line. All those enterprises are operating well, which is a testament to the talent and dedication of the Airports Authority staff. I thank and commend them for their good work.

Clearly, we have much work ahead of us in gathering additional facts and understanding the context of the Inspector General's findings. We appreciate all the important contributions that so many people have made to this effort. We thank the auditors in the Inspector General's office for their months of diligent work. And we thank Representative Wolf, Secretary LaHood, the Governors and the Mayor for their leadership.

I want to emphasize again that we take this report very seriously, and we will respond to all of its recommendations. And I want to be very clear about the firm commitment of the Board of Directors and senior management to doing whatever is necessary to address the issues raised in this report. Our key focus will continue to be on rebuilding public trust, assuring accountability and instituting best practices.

We believe the steps we have taken to date, the initiatives we are currently pursuing, and the work we plan in the days and months ahead, will help build renewed confidence in our organization's integrity and demonstrate the highest regard for the public we serve. We are determined to make the Airports Authority a stronger and more efficient organization that is better equipped to serve the traveling public and our regional economy.

And now, Mr. Chairman, I would be pleased to answer your questions.

Office of Inspector General

Audit Report

**MWAA'S WEAK POLICIES AND
PROCEDURES HAVE LED TO
QUESTIONABLE PROCUREMENT
PRACTICES, MISMANAGEMENT, AND A
LACK OF OVERALL ACCOUNTABILITY**

Metropolitan Washington Airports Authority

*Report Number: AV-2013-006
Date Issued: November 1, 2012*





U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Memorandum

Subject: **ACTION:** MWAA's Weak Policies and
Procedures Have Led to Questionable Procurement
Practices, Mismanagement, and a Lack of Overall
Accountability
Report No. AV-2013-006

Date: November 1, 2012

From: Calvin L. Scovel III *C. L. Scovel III*
Inspector General

To: Deputy Secretary

The Metropolitan Washington Airports Authority (MWAA) manages Ronald Reagan Washington National Airport and Washington Dulles International Airport under the terms of a lease with the U.S. Department of Transportation (DOT). More recently, MWAA assumed responsibility for the Dulles Corridor Metrorail Project, with a \$3.1 billion budget for Phase 1—\$900 million of which is Federal investment—and cost estimates of \$2.7 billion for Phase 2. As a public body with responsibility over two major federally owned airports and a multibillion-dollar public transit development effort, MWAA has been the subject of significant interest regarding the policies and practices of its management and Board of Directors.

In 2011, Congressmen Frank R. Wolf and Tom Latham requested that we review MWAA's management policies and processes. The Congressmen stressed that the accountability and transparency of MWAA and its Board of Directors are important to ensure the success of the Dulles Metrorail Project.

On May 15, 2012, we provided an interim letter¹ to the Congressmen and briefed key stakeholders, including Loudoun and Fairfax counties, regarding our preliminary observations on MWAA's management. In particular, we observed that MWAA's oversight and internal policies and procedures related to financial disclosures, travel, and transparency were insufficient to ensure fiduciary and ethical responsibility and accountability to Congress, stakeholders, and the public. We also observed that MWAA's contracting policies and practices were

¹ OIG, "Interim Response Letter to Congressmen Wolf and Latham Regarding MWAA," May 15, 2012. OIG correspondence and reports are available on our Web site at www.oig.dot.gov.

insufficient to ensure compliance with the Act's provisions and MWAA's internal procurement procedures, resulting in contracts that are not subject to full and open competition and may not represent best value.² Since our interim letter, MWAA has begun to take steps to improve its transparency, governance, and procurement practices.

This report provides the results of our review, including updates on actions taken in response to concerns raised in our interim letter as well as further actions needed to better ensure accountability and transparency in MWAA's governance.³ Specifically, this report details our assessment of (1) MWAA's contract award and procurement practices, including compliance with relevant laws; (2) its code of ethics for its employees; (3) its hiring and compensation practices; and (4) the accountability and transparency of its Board of Director activities.

We conducted our audit in accordance with generally accepted Government auditing standards. To conduct our work, we reviewed relevant acts, agreements, policies, and manuals; examined Federal, State, and local best contracting practices; and interviewed MWAA officials. In addition, we reviewed a total of 125 contracts to evaluate MWAA's contract practices. Exhibit A provides the full details of our scope and methodology, and exhibit B lists organizations visited or contacted.

RESULTS IN BRIEF

As a result of our interim letter, subsequent audit work, and increased public scrutiny, MWAA has taken action to improve its accountability, transparency, and governance. For example, MWAA has approved a new travel policy and new codes of ethics for employees and the Board, revised the Board's bylaws and Freedom of Information Policy, and terminated contracts with former Board members. While these are the types of actions needed to ensure fiduciary and ethical responsibility, further actions remain to fully address the management weaknesses we identified during our audit.

First, MWAA's contracting policies and practices are insufficient to ensure compliance with the Airports Act and the lease agreement between DOT and MWAA. The Act and the agreement require the Authority to competitively award contracts over \$200,000 to the maximum extent practicable. However, for the period we reviewed,⁴ MWAA used categorical exceptions to limit competition for almost two-thirds of MWAA's contracts that exceeded \$200,000. While MWAA's

² In addition, at Congressman Wolf's request, our interim letter included a preliminary review of MWAA's assumptions for Dulles Toll Road revenue, which found that the assumptions appeared reasonable.

³ As first referenced in our interim letter, investigations into allegations of mismanagement and misconduct are still ongoing and are not discussed in this report.

⁴ January 2009 to June 2011.

Contracting Manual allows the use of categorical exceptions,⁵ MWAA frequently did not meet its Contracting Manual requirements for adequate justifications when using these exceptions. Adding new out-of-scope work to existing contracts and issuing task orders without required justifications and approvals have also limited competition. These weaknesses are exacerbated by ineffective contract management and oversight and a lack of adequate procurement integrity policies to ensure impartiality when awarding and administering contracts. Notably, MWAA has delegated procurement authority to employees outside its Procurement and Contracts Department but has not kept track of those with this authority and has not held employees to their delegated authority limits. MWAA Board members and senior officials set the tone for a lax internal control culture by engaging in questionable contracting practices—including initiating work before contract award, awarding sole source contracts without proper justification, and providing non-public information that gives potential contractors an unfair advantage in competition.

Second, the code of ethics and related MWAA policies and procedures in place at the time of our audit lacked the rigor needed to ensure credibility and the integrity of management and employee decisions. While MWAA recently approved a new employee code of ethics that will go into effect on January 1, 2013, the Authority's existing ethics-related procedures have been insufficient to detect violations of anti-nepotism and gift provisions and to identify potential conflicts of interest. For example, the Vice President of Human Resources indirectly supervised relatives, despite the code's explicit provision prohibiting such relationships. In addition, employees regularly accepted inappropriate gifts from an MWAA contractor—including Super Bowl tickets, travel, and accommodations worth almost \$5,000. cursory reviews of financial disclosure statements have further limited MWAA's ability to prevent and detect conflicts of interest. For example, at the time of our review, the former President/Chief Executive Officer's (CEO) 2009 financial interest form was missing a page with key details about the CEO's financial holdings. Weak policies and procedures and a lack of recurrent ethics training have provided little assurance that employees are fully aware of MWAA's ethics requirements, increasing the risk of unintentional ethics violations.

Third, MWAA's hiring and compensation practices lack oversight and accountability. MWAA's standard hiring process for filling vacancies or creating new positions has not been formally documented as an official policy, which has allowed senior officials to place candidates into new or existing positions without

⁵ MWAA's Board of Directors authorized six categorical exceptions to full and open competition in section 1.2 of MWAA's second edition Contracting Manual: (1) limited competition for urgent needs; legal, financial, audit, or legislative representation professional services; and local business set asides; (2) airport security controlled distribution RFP; (3) utility supplies and services; (4) Government purchasing agreements; (5) airline tenant procured projects; and (6) proprietary equipment and software. Use of these exceptions requires no further Board approval.

job descriptions, competition, or completed background checks. In some cases, senior officials abused MWAA's student program to hire employees who were not students, using personnel documentation that falsely showed student status. MWAA's lack of oversight also resulted in employees with known criminal convictions working at the Authority in sensitive and management positions for more than a year. In addition, MWAA managers awarded excessive salaries, unjustified hiring bonuses, questionable cash awards, and ineligible benefits. For example, MWAA created a new position for a former Board member that included an annual salary of \$180,000 for unspecified job duties, before ultimately terminating the position after public outcry. In another example, an MWAA Human Resources manager deliberately abused MWAA's benefits programs to continue paying an individual who no longer worked for the Authority.⁶

Finally, MWAA's policies and processes have not ensured accountability and transparency for activities conducted by its Board of Directors. Unlike its policies for MWAA employees, MWAA's policies for the Board did not at the time of our review explicitly prohibit nepotism or other relationships that may cause undue influence at the Authority.⁷ Without such controls, MWAA has not been able to hold its Board accountable to the same standards it holds its employees. Specifically, MWAA could not ensure that relatives and friends of Board members did not receive preferential treatment in hiring or contracting, as we found in one case. Oversight weaknesses and a lack of training have further hindered MWAA's ability to prevent conflicts of interest for its Board members. For example, contrary to MWAA's ethics policies established specifically for the Board, a Board member participated in the selection of a contractor who employed the Board member's spouse. While MWAA has taken steps to improve Board accountability and transparency—including a new code of ethics for the Board and revised travel policies—significant attention will be required to ensure that new travel, ethics, and disclosure policies are implemented and enforced.

We are making a series of recommendations to the Office of the Secretary to facilitate the improvement of MWAA's policies, processes, internal controls, transparency, and accountability.

BACKGROUND

MWAA was created through an interstate compact between the Commonwealth of Virginia and the District of Columbia as well as the Metropolitan Washington Airports Act of 1986.⁸ In March 1987, the Secretary of Transportation and MWAA entered into a 50-year lease authorizing MWAA to occupy, operate,

⁶ This manager was later disciplined with a 3-day suspension for these actions.

⁷ MWAA's recently revised Board code of ethics will take effect December 2012 and includes a provision preventing these relationships.

⁸ Pub. L. 99-591.

control, and use all land and related areas of the airports, with full power over operations and development of the airports. In April 2003, the term was extended to 80 years.

As designed by the Airports Act and lease, MWAA was governed by a 13-member Board of Directors composed of 5 members from Virginia, 3 from the District of Columbia, 2 from Maryland, and 3 Presidential appointees. In October 2012, Board membership increased to 17 members.⁹ Board members serve 6-year terms without compensation. The Board is responsible for establishing policy and providing direction to MWAA's President/CEO.

The Airports Act and the lease established MWAA as an independent public body. As such, MWAA is not subject to Federal or State laws that govern procurement, ethics, civil service, and transparency. However, MWAA must abide by the provisions and terms of the Airports Act, the lease, and the interstate compact, as well as its own internal policies and processes.

The Airports Act and lease require MWAA to develop a code of ethics to ensure the integrity of decisions made by MWAA's Board of Directors and its approximately 1,400 employees. MWAA has two separate codes of ethics policies—one for its Board of Directors and another for its employees. Each code describes situations causing both an actual or apparent conflict of interest, which could adversely affect the confidence of the public in the integrity and credibility of MWAA. Each code defines standards of ethical conduct, such as acceptance of gifts and annual financial interest disclosure requirements.

While MWAA is not required to follow Federal statutes or regulations for procuring goods and services, the Airports Act and the lease agreement with DOT require the Authority to obtain full and open competition for contracts in excess of \$200,000, to the maximum extent practicable. The Act and the lease specify this be accomplished through the use of published competitive procedures. MWAA's Board of Directors may grant exception to this requirement by a vote of the majority of the Board.

In 2011, amid multiple allegations of misconduct and mismanagement on the part of MWAA, Congressmen Wolf and Latham asked OIG to initiate a review of MWAA. In May 2012, we reported our observations to date in an interim letter. We identified weaknesses in MWAA's policies and procedures related to contracting, financial disclosure, travel, ethics, and transparency that limited

⁹ In October 2012, the District of Columbia passed legislation to amend the interstate compact to complete the implementation of changes to the Board's composition mandated by the Consolidated and Further Continuing Appropriations Act of 2012 (Pub. L. 112-55, Div. C, Title I, § 191). Congress passed this Act in November 2011 to expand the MWAA Board from 13 to 17 members, including 7 appointed by the Governor of Virginia, 4 by the Mayor of the District of Columbia, 3 by the Governor of Maryland, and 3 by the President of the United States.

MWAA's accountability to Congress, stakeholders, and the public—as well as its compliance with the Act. Specifically, we reported the following:

- MWAA's policies are not sufficient to promote ethical conduct or prevent potential conflicts of interest for its Board members.
- MWAA's policies and oversight do not ensure that Board travel expenses are reasonable.
- Visibility into key Board activities remains limited despite actions taken to enhance Board transparency.
- MWAA did not maximize competition for contracts or always request Board approval when required.
- MWAA's contracting policies and procedures do not reflect effective contract management.
- MWAA's policies lack procedural safeguards for ensuring they are followed, and there are limited avenues for judicial review and other mechanisms (such as penalties for noncompliance) to address concerns regarding MWAA's ethics, transparency, contracting, and other practices.

Notably, we reported that MWAA's government-appointed Board members are not bound to the same State ethics and financial disclosure laws as the elected officials who appointed them. This is in contrast to other major transportation Boards—for example, the Board of Directors of the Dallas-Fort Worth International Airport must follow Texas State law and guidelines related to ethics, transparency, and procurement; willful failure to comply can be punishable by imprisonment and fines.

In response to our May 15 interim letter describing questionable Board activities, the Secretary, the Governors of Maryland and Virginia, and the Mayor of the District of Columbia issued a letter in August 2012 to MWAA's Chairman and Board members mandating immediate reform of MWAA's business practices. Reforms include, among others, terminating all existing contracts with former Board members and former employees that were not competitively bid, strengthening MWAA's ethics code to guard against conflicts of interest and provide annual ethics training to Board members and employees, and tightening Board travel procedures to eliminate wasteful spending. In addition, the Secretary appointed an Accountability Officer to monitor and report on any reform efforts.

MWAA HAS BEGUN TO ADDRESS OIG OBSERVATIONS ON WEAKNESSES IN GOVERNANCE

Since our interim letter and the beginning of our audit, MWAA has taken a number of steps aimed at improving its transparency, governance, and

procurement practices. For example, MWAA took action to remove a former Board member who had been hired into a senior position a day after retiring from the Board.

According to MWAA officials, the Authority has taken action to

- approve a new travel policy,
- revise the Board's bylaws and Freedom of Information Policy to increase transparency,
- suspend the use of categorical exceptions for professional services,
- terminate contracts with former Board members or let those contracts expire,
- establish guidelines requiring contracting officers to select contractors under temporary staffing multiple-award contracts, and
- enhance screening for nepotism.

Furthermore, as of September 19, 2012, MWAA approved new codes of ethics for its Board of Directors and its employees. The revisions will go into effect December 1, 2012, (for the Board) and January 1, 2013 (for MWAA employees).

In addition, in its response to this report, the DOT Office of the Secretary (OST) referenced additional planned actions to improve MWAA's accountability, including pursuing an amendment to the lease between MWAA and DOT to ensure greater oversight. See the appendix for OST's official response.

These actions indicate that longstanding weaknesses exist and that significant changes are needed to promote ethical conduct among MWAA employees and Board members and ensure the integrity of its contracting policies and practices. However, MWAA's recent actions have not been independently assessed and remain to be implemented. In addition, further actions are needed to fully address the management weaknesses we identified during our audit, particularly as they relate to the Authority's oversight of its activities.

MWAA'S CONTRACTING POLICIES AND PRACTICES ARE INSUFFICIENT TO ENSURE COMPLIANCE WITH THE AIRPORTS ACT OR LEASE AGREEMENT AND DO NOT FOLLOW CONTRACT MANAGEMENT BEST PRACTICES

The Airports Act and the lease agreement between DOT and MWAA require the Authority to award contracts over \$200,000 competitively to the maximum extent practicable and to develop and publish competitive procedures. However, MWAA's contracting policies and practices do not encourage competition. Instead, MWAA has relied on categorical exceptions to award contracts with

limited competition. These weaknesses are exacerbated by ineffective contract management and oversight and a lack of adequate procurement integrity policies to ensure impartiality when awarding and administering contracts. Finally, MWAA lacks a formal acquisition planning process and has not effectively managed the size and skill of its acquisition workforce.

Throughout our review, we identified some MWAA Board members and senior officials, such as Vice Presidents, who engaged in questionable contracting practices, compromising MWAA's contracting policies and internal controls for procurement. The integrity of an organization's top management plays a key role in determining an organization's internal control culture. While official policies establish rules, the organizational culture must follow suit to ensure the rules are followed, not compromised or ignored.

MWAA's Contracting Policies and Practices Do Not Maximize Competition

While the Airports Act and MWAA's lease agreement require full and open competition to the maximum extent practicable, the Act also permits the Board to grant exceptions to competition requirements. MWAA's Contracting Manual, which was approved by the Board, allows staff to use categorical exceptions to limit competition. For the period we reviewed,¹⁰ MWAA used this authority to award almost two-thirds of its contracts that exceeded \$200,000 with less than full and open competition for items such as legal, financial services, or urgently needed goods or services. Finally, MWAA awarded out-of-scope contract modifications and task orders without required Board approval, placed large-value task orders without adequate justification, and distributed work on multiple-award¹¹ contracts disproportionately. These practices limit competition because they allow MWAA to procure significant new work on existing contracts that could be awarded competitively.

MWAA Awarded Two-Thirds of Its Contracts With Less Than Full and Open Competition

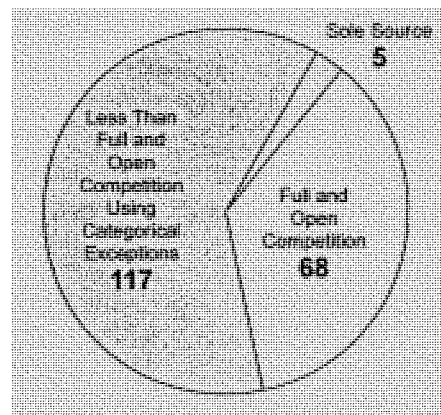
Between January 2009 and June 2011, MWAA awarded 190 contracts that exceeded \$200,000—only 68 (36 percent) of which were awarded with full and open competition. Of these 190 contracts, 5 were sole source awards with a combined value of \$6 million. However, MWAA awarded these five contracts without Board approval—which the Airports Act, lease agreement, and MWAA's Contracting Manual require. MWAA awarded the remaining 117, or 62 percent of the 190 contracts over \$200,000, using categorical exceptions (see figure 1); these contracts amounted to \$225 million, or 40 percent of the total value of the

¹⁰ January 2009 to June 2011.

¹¹ A multiple-award contract is a task order contract or any other indefinite-delivery, indefinite-quantity contract that an agency enters into with two or more sources under the same solicitation.

Authority's contracts over \$200,000.¹² MWAA's policies allow limited competition through the use of six categorical exceptions,¹³ but its Contracting Manual states that these exceptions "comprise only a small portion of the Airport Authority's contracts and their dollar value."

Figure 1. MWAA Contracts Over \$200,000 Awarded Between January 2009 and June 2011



Source: OIG analysis of MWAA's contracting data.

MWAA used the professional services categorical exception—including legal, financial, audit, and legislative services—to award 14 limited competition contracts (valued at \$20 million), or 7 percent of the 190 contracts over \$200,000, that MWAA awarded between January 2009 and June 2011.¹⁴ Unlike MWAA's Contracting Manual, the Federal Acquisition Regulation (FAR) restricts the use of these types of exceptions. In response to our concerns, MWAA issued a memorandum to suspend the use of the categorical exception for professional services, pending revisions to the Contracting Manual.¹⁵

MWAA also used categorical exceptions without providing adequate justification as to why it was in the Authority's best interest not to obtain full and open competition. Consistent with Federal best practices, MWAA's contracting policies

¹² Awarded between January 2009 and June 2011.

¹³ The six categorical exceptions established in section 1.2 of MWAA's second edition Contracting Manual include (1) limited competition for urgent needs; legal, financial, audit, or legislative representation professional services; and local business set asides; (2) airport security controlled distribution RFP; (3) utility supplies and services; (4) Government purchasing agreements; (5) airline tenant procured projects; and (6) proprietary equipment and software. Use of these exceptions requires no further Board approval.

¹⁴ MWAA awarded a total of 709 contracts with a total value of \$589 million. MWAA awarded 54 limited competition contracts using the professional services exception out of the 709—including 40 contracts that were below \$200,000.

¹⁵ As of August 10, 2012.

require such justifications when awarding contracts with less than full and open competition. However, we found inadequate justifications in 27, or 56 percent of the 48 contracts we reviewed (see table 1).¹⁶

Table 1. Inadequate Justifications for Categorical Exceptions to Full and Open Competition

Reason justifications were inadequate per MWAA's Contracting Manual	No. of contracts ^a
Approved after the contractor had started work	17
Approved even though the justification was incomplete	15
No justification documented	1
Approved for the limited competition exception, but lacked any evidence of competition	8
Approved for the urgent needs exception, but did not adequately justify the reason for the urgency	3

^a The contracts add up to more than 27 because the justifications for some contracts were inadequate for more than one reason.

Source: OIG analysis of MWAA contracts awarded with categorical exceptions.

In addition, MWAA awarded five sole source contracts over \$200,000 without Board approval, violating the Airports Act, lease agreement, and MWAA's Contracting Manual. MWAA asserts that these five contracts did not require Board approval because they were awarded as categorical exceptions to competition. However, MWAA's contract database and file documents show that the contracts were actually awarded sole source. For example, MWAA officials explained that three of the five contracts were awarded under the "urgent" categorical exception, but the files lacked evidence of urgency. Further, MWAA awarded the three contracts—each worth \$350,000—to the same contractor over 3 consecutive years, suggesting that the awards were for a recurring need rather than an urgent one.

MWAA's Contracting Manual also requires justification for all sole source contracts valued over \$2,500. We reviewed all 15 contracts for which MWAA's Secretary of the Board served as the Contracting Officer's Technical Representative (COTR) and identified 10 sole source contracts with award values under \$200,000 that lacked adequate justification. In addition, these contracts lacked evidence of actions taken to encourage competition, such as advertising or market research, which is not consistent with MWAA's Contracting Manual requirements. For example, the Board requested that a \$190,000 sole source contract for independent engineering reviews be awarded to an engineering firm

¹⁶ These 48 include all contracts awarded under a categorical exception from sample 1 and sample 3, see exhibit A. From sample 1, 19 of the 32 were awarded as categorical exceptions, but the justifications for 9 were inadequate. From sample 3, 29 of the 69 were awarded as categorical exceptions, but the justifications for 18 were inadequate.

that employed a project manager who had worked on a prior MWAA contract. In response to the request, the project manager informed the Secretary of the Board, via personal email, that he was leaving the firm under the prior contract. The Board then awarded the contract to the project manager's new firm. The justification for this award did not specify whether the project manager had unique qualifications and did not describe any efforts made to seek competition for the contract. Further, MWAA classified 2 of the 10 sole source contracts as recurring needs, but the justifications did not specify the actions it would take to obtain competition in the future, as MWAA's Contracting Manual requires.

MWAA Does Not Follow Federal Best Practices To Publicize and Solicit Contract Opportunities

To encourage competition, the FAR generally requires agencies to publicize contract actions, including intent to award sole source contracts prior to awarding them. In contrast, MWAA's Contracting Manual does not require public notification of intent to award sole source contracts, and none of the five sole source contracts over \$200,000 had been publicized prior to award. This practice does not provide other contractors a fair opportunity to offer the supply or service at a potentially lower cost.

According to MWAA's Contracting Manual, solicitations for contracts over \$25,000 are generally posted on its Web site to foster competition.¹⁷ Further, the Manual requires the involvement of the Procurement and Contracts Department to help prepare a solicitation. However, we identified cases in which MWAA's Board of Directors did not issue formal solicitations for contracts or involve the Procurement and Contracts Department until the contracts were ready to be awarded. For example, MWAA's Board of Directors awarded a \$150,000 contract to help prepare a solicitation for a study to assess MWAA's organizational structure. Forty days later, MWAA decided not to compete the contract. Instead, MWAA—without the Procurement and Contracts Department's involvement—awarded an \$885,000 organizational study sole source contract to the contractor hired to develop the solicitation. Contracting without a solicitation not only limits competition but can lead to potential misunderstandings about the requirements or scope of the contract. In addition, under Federal procurement rules, if a contractor assists in preparing a work statement to be used in competitively acquiring a service, that contractor generally may not supply that service, except in limited situations.¹⁸ These rules are designed to ensure that the Government receives unbiased advice and avoids allegations of favoritism.

¹⁷ MWAA Contracting Manual, second edition, Section 1.5. MWAA does not require solicitations for sole source awards to be posted on its Web site.

¹⁸ FAR 9.505-2.

Out-of-Scope Contract Actions, Unjustified Task Orders, and Unbalanced Work Distribution on Multiple-Award Contracts Further Limited Competition

MWAA issued out-of-scope contract actions over \$200,000—including contract modifications and task orders¹⁹—without required Board approval.²⁰ From our statistical sample of 24 out of 343 active MWAA contracts,²¹ we identified 8 for which MWAA issued a total of 20 out-of-scope contract actions with a combined value of \$57 million. Based on these findings, we project that MWAA has issued \$107.6 million in out-of-scope contract actions on contracts active as of June 2011.²²

A 2002 audit by the Government Accountability Office (GAO) also found that MWAA added out-of-scope contract modifications, noting that MWAA's published contracting guidance at the time did not require contract modifications to remain within scope.²³ In early 2003, MWAA published the first edition of its Contracting Manual, which contained the requirement that out-of-scope work be awarded under a new contract—unless justified as sole source, which requires Board approval when the value of the added work exceeds \$200,000.

However, MWAA's acquisition staff were not aware of a single instance in which an out-of-scope contract action came before the Board for approval, which may be the result of MWAA's definition of within-scope work. According to MWAA's Contracting Manual, within-scope work includes requirements that the contract did not initially solicit but are now considered integral. This definition allows work to be added to contracts that far exceeds the contract award amount and length and is unrelated to the original contract's purpose.

For example, the expansion and renovation of the Dulles Airport main terminal, an \$8 million contract awarded in 1989, has grown by 1,700 percent to a total value of \$147 million. From 2003 to June 2011, MWAA issued 10 contract modifications—at a total cost of \$36 million—which added design and construction management services for integrating the Transportation Security Administration's (TSA) luggage screening equipment and the airport's baggage handling systems. According to MWAA, these modifications were within the original scope of the contract because the expansion and renovation of the main terminal at Dulles Airport has been a long-term, complex, and evolving project. However, TSA's luggage screening requirement was created more than a decade

¹⁹ A contract modification is any written change to the terms of a contract. A task order is an order for services placed against an established contract.

²⁰ MWAA Contracting Manual, second edition. Section 5.4.2, requires that new work in excess of \$200,000 obtain Board approval.

²¹ Active as of June 30, 2011. See sample 2 in exhibit A.

²² Our estimate has an actual lower limit of \$57.3 million and a 90-percent upper confidence limit of \$170 million.

²³ GAO Report Number GAO-02-36, "Metropolitan Washington Airports Authority: Contracting Practices Do Not Always Comply with Lease Requirements," March 1, 2002.

after MWAA awarded this contract. Therefore, TSA's new luggage screening requirement could not be reasonably expected to be part of the contract.

Unlike the approach taken by MWAA, courts interpret within-scope work to be what an offeror would reasonably expect to occur during performance of the contract when the offeror submitted its proposal.²⁴ Adding work that had not been originally contemplated or solicited prevents qualified contractors from competing for the new work. By issuing out-of-scope contract actions that could have been competitively awarded, MWAA has missed opportunities to maximize competition and obtain better value.

MWAA may have also missed opportunities to maximize competition in its administration of task order contracts. MWAA's Contracting Manual requires proper justification to explain why work valued at over \$200,000 should be performed as a task order on an existing contract, rather than be awarded as a separate new contract.²⁵ In our sample,²⁶ MWAA placed 25 of 27 task orders without adequate justification.²⁷ The 25 task orders have a combined value of \$13.6 million. According to an MWAA acquisition official, the justifications were provided verbally in some cases; however, verbal justifications cannot be verified and are therefore inadequate.

The manner in which MWAA has used multiple-award contracts has further limited competition. In the Federal arena, multiple-award contracts are intended to maintain a competitive environment among awardees and to improve contractor performance.²⁸ To this end, Federal contracting officers must provide contractors on multiple-award contracts with fair opportunities to compete for work and document the rationale for their selection of contractors under each task order.²⁹ While MWAA's Contracting Manual allows use of multiple-award contracts, it does not provide instructions for administering them. We found that MWAA employees outside the Procurement and Contracts Department—such as COTRs—have ordered work under multiple-award contracts without involving the contracting officers and have not documented contractor selection rationale.

²⁴ *AT&T Communications v. Wiltel, Inc.*, 1 F.3d 1201, 1207 (Fed. Cir., 1993); *DynCorp International LLC*, B-402349, March 15, 2010.

²⁵ MWAA has required task order justifications since January 2006. MWAA incorporated this initially unpublished guidance into its Contracting Manual, which went into effect in 2009.

²⁶ Our sample consisted of 24 MWAA contracts active as of June 30, 2011. Three of these contracts were task order contracts, which are contracts for services that do not procure or specify a firm quantity of services and provide for the issuance of task orders during the contract period.

²⁷ We found justifications for 3 of 27 task orders in our sample, but we did not consider 1 justification adequate because it was dated after the award of the task order.

²⁸ Office of Management and Budget, "Best Practices for Multiple Award Task and Delivery Order Contracting: Interim Edition," February 19, 1999.

²⁹ FAR 16.505(b)(1) and 16.505(b)(5).

Over the past 8 years, MWAA awarded more than 80 percent of work under three groups of multiple-award contracts to a single contractor (“Contractor A” in table 2). However, the contractor’s rates were often higher than the other multiple-award contractors’ rates. For example, the contractor’s rates in a 2012 contract were between 28 percent and 234 percent higher. While MWAA may have had non-price related reasons for selecting Contractor A, this unbalanced distribution of work to a single contractor with significantly higher rates appears contrary to the purpose of multiple-award contracts and could further compromise MWAA’s competitive environment.

Table 2. Disproportionate Distribution of Work on a Series of Multiple-Award MWAA Contracts

Group of multiple-award contracts	Percent of work awarded		No. of other contractors
	Contractor A	Other contractors	
Multiple-award Group 1 (2004-2008)	75	25	3
Multiple-award Group 2 (2008-2012)	86	14	3
Multiple-award Group 3 (Jan. 2012-)	90	10	2

Source: OIG analysis of MWAA data.

In addition, MWAA allowed Contractor A to add job categories to a contract but did not offer the other multiple-award contractors the same opportunity. Thus, when MWAA ordered work related to those additional job categories, they were effectively sole source awards because only one contractor was able to accept the work.

In another set of multiple-award contracts, one of five firms received over 38 percent of work. A former MWAA Board member was an owner of the firm that received the most work, which could create the appearance of favoritism.

In July 2012, MWAA’s Procurement and Contracts Department established guidelines requiring contracting officers to select contractors under multiple-award contracts for temporary staff. However, this policy only applies to temporary staffing contracts rather than to all multiple-award contracts.

MWAA’s Insufficient Policies and Lack of Controls Undermine Its Contract Management

MWAA does not effectively manage its contracts. Specifically, MWAA does not track employees who have been delegated contracting authority and lacks controls to ensure employees follow its contracting policies. MWAA also lacks a formal acquisition planning process and has not effectively managed the size and skill of

its acquisition workforce. Moreover, MWAA lacks contracting policies and practices to ensure impartiality when awarding and administering contracts.

MWAA Does Not Track Employees With Delegated Procurement Authority or Ensure They Stay Within Delegated Award Limits

MWAA's procurement authority has been delegated to seven MWAA employees³⁰ outside its Procurement and Contracts Department who may award contracts up to a certain dollar amount. Six of the seven are allowed to further delegate this authority to other employees without requesting permission or approval. However, MWAA has not kept track of who has been delegated this authority and could not give us an accurate count of all of its employees authorized to award MWAA contracts.

We determined that 24 employees³¹ outside of MWAA's Procurement and Contracts Department have been delegated procurement authority and that 8 of these employees awarded a total of 22 contracts that exceeded the value of their authority limit³² by as much as \$50,000—for a total of almost \$300,000. For example, MWAA's General Counsel awarded a \$100,000 legal services contract, and an employee at Ronald Reagan Washington National Airport awarded an \$87,000 contract for carpeting. However, both employees had authority limits of only \$50,000. Employees who award contracts above their delegated authorities not only violate the terms of their delegation but also may make improper purchases or lack the appropriate experience and knowledge to execute larger and potentially more complex contracts.

MWAA Lacks Controls To Ensure Employees Follow Key Contracting Policies and Procedures

MWAA also lacks controls to ensure that its employees follow MWAA's contracting policies and practices regarding the start of contract work, Board approval for high-value contracts, and for technical evaluation committees responsible for selecting contractors.

MWAA allowed work to begin prior to contract award dates—that is, before the contracting officer completed and signed the contract documents. In some cases,

³⁰ MWAA directive GC-002 includes delegated contracting authority to: (1) President and CEO, (2) Executive Vice President and Chief Operating Officer (COO), (3) Vice President and General Counsel, (4) Vice President of Business Administration, (5) Vice President and Airports Manager Ronald Reagan Washington National Airport, (6) Vice President and Airports Manager Washington Dulles International Airport, and (7) Concessions and Property Development Manager. MWAA's Board Resolution 01-20 grants the President and CEO the authority to enter into, administer, modify, and terminate contracts. This authority is re-delegated in MWAA directive GC-002.

³¹ This number reflects MWAA employees who have been granted delegation in accordance with MWAA directive GC-002. The 24 employees outside of the Procurement and Contracts Department with procurement authority consist of the CEO, COO, General Counsel, Vice President of Business Administration, Concession & Property Development Manager, as well as 8 employees from Ronald Reagan Washington National and 11 from Dulles International.

³² Of these eight employees, seven had \$50,000 authority limits, and one had a \$2,500 limit.

work was started even before the contracting officer was aware MWAA management wanted to award a contract. However, MWAA's contracting policy requires the contracting officer to ensure that all significant procurement actions are taken prior to award. Ultimately, initiating work before contract terms are agreed upon in writing—including its requirements, price, and other terms—significantly increases MWAA's cost and performance risks.

Of the 709 contracts MWAA awarded between January 2009 and June 2011, contractors started work on 27 percent before their official award dates. For example, MWAA paid one contractor \$572 per hour to attend a 5-hour Board meeting on January 6, 2010—during which the Board of Directors approved the selection of the contractor. The contract was not officially awarded until July 13, 2010—188 days after the work began. Table 3 shows the MWAA contracts with work started before official contract award dates.

Table 3. MWAA Contracts With Work Started Before Official Contract Award Dates

No. of days before contract award	1-30 days	31-60 days	61-90 days	91-120 days	121-150 days	151-180 days	Over 180 days	Total contracts
No. of contracts	59	62	29	17	5	5	13	190

Source: OIG analysis of MWAA contract documentation.

Some of these contracts were initiated by top management. For example, 12 of 15 contracts we reviewed—for which the Secretary of the Board was the COTR—were initiated prior to official contract award dates.³³ The 12 contracts—which had a combined value of \$1 million—were for work requirements requested by MWAA Board members. For example, an MWAA Board member requested that a consultant firm proceed with work on a sole source contract 58 days before MWAA's Procurement and Contracts Manager gave his required approval for the award.³⁴

A 2006 MWAA internal audit also reported that contractors began work on some contracts prior to award. In response, MWAA stated that it would revise its Contracting Manual to only permit this practice during extraordinary circumstances, but MWAA has not yet made these planned revisions to the manual.

³³ Work for these 12 contracts began an average of 33 days before award, ranging from as few as 4 days to as many as 66 days before award.

³⁴ FAR 16.603 provides for letter contracts, a written preliminary contractual instrument, which allows work to start prior to contract award. Letter contracts shall not be entered into without competition, when competition is required.

MWAA also lacks controls to ensure that its employees follow its contracting policies and practices regarding high-value contract approval and contractor selection. As stated in MWAA's Contracting Manual, Board approval is required for contract awards exceeding \$3 million, except competitively awarded construction contracts.³⁵ However, as we reported in our interim letter, MWAA employees did not always obtain Board approval for high-value contracts. In our statistical sample of 32 out of 165 contracts awarded between January 2009 and June 2011, we identified 13 that were high-value—4 of which lacked Board approval (totaling \$34 million). MWAA asserts that Board approval was not required for these contracts, but our review found that MWAA's reasons for not seeking Board approval were unsupported. For example, MWAA stated that one high-value contract was a construction contract, but the contract was actually for advisory services to support a construction project, which does not meet MWAA's definition of construction.³⁶ Based on our findings, we project that MWAA spent \$83.6 million³⁷ on contracts without Board approval—14 percent of an estimated total of MWAA's contracts awarded between January 2009 and June 2011. This practice keeps the Board from being fully informed of critical business decisions. In 2002, GAO similarly reported that MWAA had overlooked requirements to secure required Board approval. Our findings indicate that MWAA has not fully addressed GAO's concerns.

In several instances, MWAA also failed to comply with its policy for technical evaluation committees, which evaluate and help select contractors competing for MWAA contracts. For example, MWAA's Contracting Manual states that a supervisor and a subordinate should not serve together as voting members when possible to ensure independent evaluations. However, the Vice President for the Office of Audit, who served as the chair of a technical evaluation committee, selected two subordinates as voting members, and MWAA's Procurement and Contracts Manager approved the committee.

MWAA Lacks a Formal Acquisition Planning Process and Has Not Effectively Managed the Size and Skill of Its Acquisition Workforce

MWAA does not have a formal acquisition planning process that requires forecasts of upcoming acquisition needs. Early identification of acquisition needs allows an organization to maximize competition, consolidate related acquisitions to increase buying power, and reduce administrative burdens.³⁸ Federal law requires agencies to prepare annual forecasts of anticipated acquisitions for the

³⁵ MWAA Contracting Manual, second edition, Section 1.2.

³⁶ MWAA defines "construction" as "construction, demolition, alteration, or repair of buildings, structures, or other real property."

³⁷ Our estimate of \$83.6 million has an actual lower confidence limit of \$33.7 million and a 90-percent upper confidence limit of \$138.1 million.

³⁸ GAO Report Number GAO-05-218G, "A Framework for Assessing the Acquisition Function at Federal Agencies," September 2005.

next fiscal year and to periodically update those forecasts as necessary. For example, DOT adheres to this mandate by requiring each Operating Administration to submit annual forecasts of expected acquisitions over \$100,000 before the start of the next fiscal year. DOT also requires quarterly updates to these forecasts.³⁹ While MWAA's Procurement and Contracts Department requests annual acquisition plans from MWAA managers, these plans are not required. According to MWAA, fewer than 40 percent of MWAA managers respond to these annual requests, and MWAA's Procurement and Contracts Manager considers the plans that are submitted to be "fairly unreliable."

According to MWAA procurement staff, MWAA offices also routinely ignore notices from contracting officers of upcoming contract expiration dates. Because of poor planning, MWAA has extended existing contracts rather than competitively awarding new contracts—ultimately missing opportunities to obtain competition and better prices. For example, because of delays in soliciting a new contract, MWAA extended a custodial services contract for 7 months in 2011.

MWAA's workforce planning has also been insufficient to determine its workforce needs. According to MWAA, the Procurement and Contracts Department has only grown by two employees in the past 20 years, and its one remaining support contractor's term will expire at the end of 2013 with no plans for replacement. However, between 2007 and 2011, new contracts awarded by the Procurement and Contracts Department increased an average of 47 contracts annually due to the Dulles Toll Road and Dulles Metrorail project. While the Procurement and Contracts Department recently requested an additional five staff to manage this increase, MWAA has not conducted a comprehensive workforce assessment to determine the skills needed to award and administer MWAA's existing and future contracts.

In addition, MWAA's contracting officers and COTRs are not required to earn or maintain acquisition certifications. Federal agency contracting officers and COTRs are required to complete specific acquisition-related certification programs and to earn continuing education credits to maintain certification. These certifications can provide staff with the training needed to ensure proper contract award and oversight. According to MWAA officials, training budgets⁴⁰ were not fully used in the past because staff lacked the time for training due to increased workloads. This indicates that MWAA has not made training a priority for its acquisition staff.

³⁹ Transportation Acquisition Manual, Section 1219.202-270.

⁴⁰ From 2009 to 2011, MWAA allotted \$15,000 annually for the Procurement and Contracts Department, approximately 15 employees, or \$1,000 per person.

MWAA's Contracting Policies and Practices Do Not Emphasize Procurement Integrity

MWAA also lacks comprehensive policies to ensure impartiality when awarding and administering contracts. For example, MWAA's Contracting Manual lacks sufficient rules to ensure that employees do not divulge non-public and sensitive procurement information to potential contractors. Federal rules prohibit employees from disclosing information that could jeopardize procurement integrity—such as source selection information and bid or proposal information.⁴¹ Without such restrictions, contractors can gain an unfair advantage when bidding for contracts. For example, one MWAA Board member, who was the Chairman of the committee responsible for selecting a contractor, disclosed in an email to a potential contractor another contractor's pricing.⁴² In another example, the former Vice President for the Office of Information and Telecommunications Systems provided non-public information about an upcoming solicitation to a contractor who was ultimately awarded the contract. Such actions by Federal employees would be considered violations of Federal laws and regulations.

In addition, while the Federal Government imposes some post-employment restrictions on Federal employees, MWAA lacks any post-employment restrictions for Board members and employees. A lack of post-employment restrictions may present at least the appearance that prior members were given an unfair advantage in receiving contracts. We identified 7 former Board members and affiliated firms who have been awarded 30 contracts, amounting to almost \$2 million since 2003. One former Board member was awarded 16 sole source contracts totaling \$262,000 over the past 10 years—the first only 3 months after the member left the Board in 2002. In response to our concerns, MWAA recently began terminating its contracts with former Board members and is not renewing its contracts with other former members. In September 2012, MWAA approved a new ethics code that will prohibit contracts with Board Members for 2 years after the conclusion of their service.

MWAA'S ETHICS CODE AND PROCESSES HAVE BEEN INSUFFICIENT TO PREVENT ACTUAL AND PERCEIVED CONFLICTS OF INTEREST AMONG EMPLOYEES

As required by the lease agreement with DOT, MWAA created a code of ethics with provisions aimed at ensuring the ethical conduct of its employees. However, the code and MWAA's related processes have not been sufficient to prevent actual and perceived conflicts of interest and other violations. Specifically, MWAA lacks effective procedures to detect violations of its anti-nepotism provision and to

⁴¹ 41 U.S.C. 2102; FAR 3.104-3; 5 CFR 2635.703.

⁴² This individual is not a current Board member; however, this incident occurred when the individual served as a Board member.

identify potential conflicts of interest through its financial disclosure process. A lack of required ethics training for all employees has compounded these weaknesses. As a result of these weaknesses and poor oversight, there have been multiple violations of the code's anti-nepotism and gift prohibition provisions and a lack of assurance that employees are fully aware of the ethics requirements. While MWAA recently approved a new code of ethics for its employees, which takes effect in January 2013, additional actions will be required to ensure that the new code is implemented and followed.

MWAA Lacks Sufficient Controls To Detect and Prevent Nepotism

According to MWAA's ethics code, MWAA employees may not hire, supervise, or work with family members.⁴³ However, MWAA lacks controls to detect and prevent these prohibited relationships. For example, MWAA's employment application requests applicants to identify known relatives or friends at MWAA but not the exact relationship, which makes it difficult to determine whether the relationship would constitute nepotism if the applicant were hired.

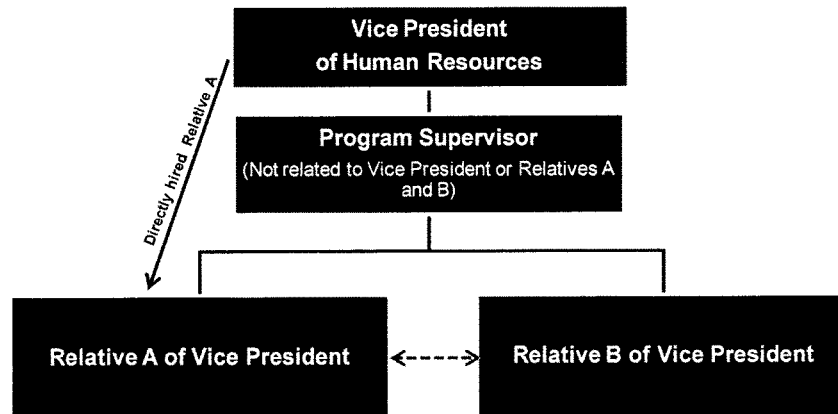
The lack of oversight and responsibility has resulted in clear violations of MWAA's anti-nepotism provision, which states that employees may not

- appoint, employ, promote, or advance a relative within MWAA;
- directly or indirectly supervise relatives or have influence over the work, employment status, or affairs of the organizational unit; or
- work with a relative under the same supervisor.

One MWAA department in particular violated every component of the provision. In this case, two relatives of the Vice President of Human Resources (Relatives A and B in figure 2) worked within his department. Yet, the Vice President denied having any relatives who worked at MWAA.

⁴³ The code specifies relatives as father, mother, grandfather, grandmother, son, daughter, granddaughter, grandson, brother, sister, uncle, aunt, nephew, niece, husband, wife, father-in-law, mother-in-law, daughter-in-law, son-in-law, brother-in-law, or sister-in-law.

Figure 2. Organizational Chart Depicting Violations of Nepotism Provision Within Human Resources Department



Source: OIG analysis.

As depicted in the figure, the following violations were committed:

- The Vice President directly hired Relative A into a position under a direct report (Program Supervisor in figure 2). Moreover, once the Office of Public Safety completed a background check for Relative A, the Office recommended against hiring the employee due to questions about the employee's suitability. However, the Vice President overrode this recommendation and allowed Relative A to stay in the position. In addition, the official allowed Relative A to start working at MWAA 3 weeks prior to completion of the background check, which is contrary to MWAA's hiring practice.⁴⁴
- Relative B is an immediate family member of Relative A. Relative A has the opportunity to influence the work decisions of Relative B due to the particular nature of their positions and the workflow of the program for which they both work.
- The Vice President and Relative B are also related, but their specific family relationship is not included in MWAA's list of prohibited relationships in its anti-nepotism provision. However, given the Vice President's position as the head of the department, the appearance of preferential treatment exists. While the Vice President does not directly supervise Relative B, he is responsible for approving the bonuses, awards, salary, and promotions for all employees in the

⁴⁴ MWAA's hiring practice does not allow employees to start work until after they have passed their background check.

department. Therefore, he has a supervisory relationship with both Relatives A and B.

Without clear internal controls to prevent and detect nepotism, MWAA is vulnerable to the perception of favoritism and cannot ensure that all employees are hired based only on the merit of their qualifications.

MWAA's Financial Disclosure Processes Have Not Promoted Full Disclosure of Conflicts of Interest To Ensure Compliance With Ethics Provisions

MWAA's financial disclosure process has also lacked the rigor needed to ensure employees fully report conflicts of interest that damage the Authority's credibility. At the time of our audit, MWAA's code required MWAA executives, Vice Presidents, and all employees who report directly to the executives or Board of Directors—as well as employees who work in certain departments⁴⁵—to annually disclose personal financial interests in any business doing business with MWAA. However, disclosure requirements for other MWAA staff were less clear, including those for certain contracting officers and COTRs. Further, in contrast to Federal disclosure policies—which require employees to report assets and income, liabilities, outside positions, agreements or arrangements,⁴⁶ and gifts and travel reimbursements—MWAA's disclosure policies only required staff to identify businesses that are a source of employment or other income and businesses in which the employee has an ownership interest or an actual or potential liability.

Furthermore, MWAA's code lacked a clear requirement for employees to disclose receipt of gifts. MWAA's code of ethics prohibits employees from accepting gifts of more than \$25, with some exceptions, or on a regular and frequent basis from vendors either conducting or seeking to conduct business with the Authority. Yet, the MWAA Vice President for Information and Telecommunications Systems and staff members in his department regularly and frequently accepted gifts well in excess of \$25 from an MWAA contractor with a major contract with the department he managed. From 2006 to 2010, the Vice President⁴⁷ and staff members—including the COTR for the contract in question—accepted a total of 46 gifts at a total value of at least \$12,000.⁴⁸ In addition, the Vice President

⁴⁵ These departments include Police and Fire Chiefs and employees of the following departments: Procurement and Contracts Department, Concessions and Property Development, Office of General Counsel, Office of Air Service Planning and Development, Office of Audit, Treasury Branch of the Finance Office, and Manager of Airlines Relations, the Controller, the Controller's secretary, Executive Assistant to the Chief Financial Officer, Managers of Airports' and Public Safety's Administration, Airports' Contract Management Divisions and Procurement Offices and the Public Safety Property/Supply Office.

⁴⁶ These agreements and arrangements involve current or future employment; leave of absence from another employer; continuation payment from another employer; and continuing participation in another employer's pension or benefit plan.

⁴⁷ The Vice President for Information and Telecommunications Systems was terminated from MWAA in April 2012.

⁴⁸ The value of some gifts, including professional sporting events, was not disclosed.

solicited at least one gift for a major sporting event. Accepted gifts included the following:

- Two tickets to the 2009 Super Bowl, associated travel, and accommodations in Tampa, FL, valued at almost \$5,000
- Four trips to golf tournaments, including one trip to the 2009 U.S. Open Golf Tournament in Long Island, NY, and three all-expense paid trips to Hilton Head, SC
- A trip to New York City to attend a major league baseball game
- Nineteen other major sporting events, such as professional basketball and hockey games
- Three concerts, including performances by famous pop artists
- A fishing trip, including food and drinks
- Seventeen social events with food and beverages

While the code encourages employees to seek advice from the Office of General Counsel before accepting gifts, General Counsel staff were not aware of anyone seeking advice regarding these particular gifts. Further, MWAA's financial interest form did not request information on gifts. Disclosing gifts could serve as an important control to help MWAA prevent and detect instances where employees accepted gifts that could have influenced their decisions.

Another key area of concern is the lack of requirements to ensure all contracting officers and COTRs certify that they do not have personal financial interests in the contracts they award and administer. Specifically, MWAA's Contracting Manual only requires contracting officers and COTRs who serve as part of technical evaluation committees to certify they do not have a personal financial interest in any contractors they are evaluating. However, not all contracting officers and COTRs who award or administer contracts participate in technical evaluation committees, which can lead to gaps in certification. Further, although MWAA requires contracting officers to submit financial interest forms, it does not require COTRs to submit the forms. In total, we identified 168 out of 183 active COTRs who have not completed financial interest forms; a few COTRs were required to complete the forms for other duties.

Inadequate reviews of financial disclosure forms have further undermined MWAA's employee ethics code. The Office of General Counsel, which serves as MWAA's ethics office, is responsible for collecting and reviewing financial interest forms. However, reviews were often limited to a cursory check by a staff assistant to make sure all forms have been signed and returned. Further, MWAA does not require that the reviews be signed or dated or otherwise documented. At

the same time, MWAA has not required employees to complete all sections of the form. In 48 (38 percent) of the 125 forms we reviewed,⁴⁹ MWAA allowed employees to leave sections of the form blank. However, “N/A” or “None” responses would have been more appropriate and assured the reviewer that the employees read and understood the question and were, in fact, indicating that the question was not applicable to them or that they had no conflicts of financial interests. Instead, MWAA relies on a pre-printed statement located above the form’s signature line as assurance that employees accurately disclosed all required information.⁵⁰ In contrast, the U.S. Office of Government Ethics requires Federal employees to affirmatively state whether or not they have any information that must be disclosed in each section of the financial disclosure form (such as by including “None” for a response rather than leaving it blank). This eliminates ambiguity regarding filers’ intentions.

Finally, the former CEO’s 2009 financial interest form was incomplete, lacking key details about the CEO’s financial holdings.⁵¹ These weaknesses raise questions regarding MWAA’s commitment to ensuring compliance with ethics requirements, especially for its most senior executives.

MWAA’s revised ethics code for employees, effective January 2013, will address several of these issues by enhancing the requirements for financial disclosure, including requiring employees to disclose gifts.

MWAA Did Not Require Recurring Formal Ethics Training for All Employees

A lack of effective ethics training for employees has also exacerbated MWAA’s weaknesses in its ethics code and processes. Widely considered a best practice among ethics experts for public organizations, periodic ethics training can educate individuals regarding the requirements and standards to which they are held, and set a tone regarding the importance of ethical conduct in all official acts. While new MWAA employees receive an introduction to the ethics code at orientation, they do not sign an acknowledgment that they received, read, and understand MWAA’s ethics policy. Beyond this initial orientation, the only training MWAA provided at the time of our review was one course that discussed part-time jobs and gifts, among other topics, for supervisory employees.⁵² All other employees, including senior executives and Vice Presidents, were exempted. Without a strong,

⁴⁹ Of the 129 employees required to file financial interest forms between 2009 and 2011, we selected 50 employees to review, of which 49 employees were randomly selected and 1 employee was selected based on employee interviews. This amounted to a review of 125 financial interest forms from the 50 sampled employees.

⁵⁰ This statement reads, “If I have not completed any of the earlier parts of this form, I certify that neither I nor any member of my Immediate Family has a financial interest, as defined in the Code, in any entity currently doing business with the Airports Authority.”

⁵¹ Specifically, the former CEO’s disclosure form was missing the page that identifies businesses in which employees or their immediate family members have an ownership interest or an actual or potential liability.

⁵² This course was offered throughout October through December 2010.

comprehensive employee ethics training program, it is difficult for MWAA to hold its employees accountable to its ethics requirements or take disciplinary action against violators.

MWAA LACKS HIRING AND COMPENSATION POLICIES AND PRACTICES TO ENSURE SUFFICIENT OVERSIGHT AND ACCOUNTABILITY

Significant deficiencies in MWAA's hiring and compensation practices call into question the integrity of the Authority's management and the qualifications of the Authority's workforce. MWAA senior officials made questionable hiring decisions by circumventing key components of MWAA's hiring process to bring on or promote preferred candidates, regardless of their background check results or qualifications. In addition, managers authorized excessive salaries, unjustified hiring bonuses and cash awards, and ineligible benefits. Moreover, several of these questionable decisions occurred within the Office of Human Resources, despite its responsibility for setting hiring and compensation standards and ensuring sound management practices for the Authority. This lack of accountability, oversight, and controls has created a culture of favoritism at MWAA that has negatively impacted employee morale and exposed the Authority to legal complaints.

Senior Officials Made Questionable Hiring Decisions by Circumventing Key Components of MWAA's Hiring Processes

While MWAA has a standard hiring process it generally follows for filling employment vacancies or creating new positions, this process has not been formally documented as an official policy, despite the recommendations of an external governance consultant to do so.⁵³ This lack of an official policy made it easier for certain MWAA senior officials to circumvent MWAA's standard hiring process to place candidates they desired into new or existing positions, regardless of their qualifications or their ability to pass a background check.

MWAA Did Not Follow Competitive Hiring Practices for Some Positions

Under MWAA's standard hiring process, applicants typically undergo a competitive interview process by a panel, which makes a recommendation to the hiring official based on the candidates' qualifications. However, in multiple instances, MWAA officials either circumvented or ignored the competitive interview process in order to place a candidate they preferred into a position.

- For one job opening for a contracting specialist, MWAA held competitive interviews for the position, and the interview panel recommended a candidate who was deemed best qualified for the position. However, the Vice President

⁵³ This recommendation was made in an organizational study that was contracted by MWAA in September 2010.

of Business Administration disregarded the panel's recommendation and hired a different individual without a clear justification for the selection. Subsequently, the candidate who had been recommended by the interview panel filed a discrimination complaint, and MWAA hired an outside law firm to review the hiring process for the position. The outside firm's review substantiated the complaint, and, as a result, MWAA offered a settlement to the candidate, including moving the candidate into the position.

- To fill a key management vacancy in Labor Relations, the Chief Operating Officer (COO) instructed the Vice President of Human Resources to convene a selection panel to review candidates qualified for the position. However, the position remained open for more than a year due to a series of internal disputes over the qualifications of the panel assembled by the Vice President, his desire to hire a personally preferred candidate, and an Equal Employment Opportunity (EEO) complaint filed by a seemingly qualified candidate who was not offered an interview. A year later, the position was filled with an MWAA employee who proved not to have the experience needed for the position and was subsequently transferred elsewhere. Ultimately, the key position was filled by one of the original candidates—16 months after the position originally opened.
- One executive assistant was promoted to a new position that had not been opened for internal or external competition. To fill the now-vacated executive assistant position, MWAA did not follow a standard hiring process but rather promoted a candidate to the position who had not applied for the job.

MWAA Disregarded Its Internal Procedures for Creating New Positions

In at least two cases, senior executives created new positions designed with certain people in mind and did not follow standard processes to create and fill these positions. Typically, MWAA's process for creating a new position includes establishing a comprehensive job description and minimum and preferred qualifications for applicants, subjecting the position to a thorough review by MWAA's compensation department (located within the Office of Human Resources), and then holding a fair and open recruitment to attract the best candidates. Yet, the MWAA CEO and COO created new positions without completing these steps. These decisions not only limited employment opportunities for potentially qualified candidates, but raised questions regarding the qualifications of the employees placed in these positions—as well as the necessity of the positions for MWAA's operations. For example:

- The CEO created an advisory position for a former Board member without specifying what the job entailed or establishing market salary and benefits. In February 2012, the former Board member was hired by MWAA 1 day after

resigning from the Board. The compensation for this advisory position included a salary of \$180,000. Subsequently, key MWAA stakeholders questioned the appointment, and the former Board member was terminated—with a year's severance pay.

- At the request of a Board member, the COO directed the appointment of a specific individual into an entry-level position. The individual, who was an immediate family member of the Board member's close friend, was placed at one of the airport warehouses, which put this department into overstaffed status at the objection of its Vice President. Moreover, the individual was not given any clearly defined job duties. This position was originally labeled temporary, but it was not until almost 5 years later—when the position was converted to permanent status—that a job description with performance expectations was established.

MWAA Used Its Student Program To Circumvent the Standard Hiring Process for Certain Employees

MWAA officials, including the Vice President of Human Resources, intentionally allowed employees who were not students to be hired into and continue employment at MWAA via its student program. MWAA's student program is a partnership between the Authority and local high schools and universities that simultaneously provides valuable work experience to students and staffing assistance to MWAA. To participate in the program, a student must be enrolled in a high school or an accredited college or university, maintain at least a 2.3 grade point average, and be at least 17 years old. However, the appointing official for four student employees acknowledged that they did not meet the basic requirement of being enrolled in a high school or an accredited college or university during their time in the program.

According to the Vice President of Human Resources, hiring these employees into the student program was justified because they were needed to help manage the program itself, and due to limited funds in MWAA's regular budget, it was necessary to pay the employees from available student program funds. However, personnel documentation was prepared that falsely showed student status; compensated the employees using the student pay scale; and/or correlated "not to exceed" dates to the term limits imposed by the student program, which are based on school semesters.⁵⁴ The four temporary employees have received pay increases ranging from approximately 10 percent to 60 percent since their initial hire date at MWAA. In addition, the Vice President indicated that the arrangement was temporary, but one employee retained false student status for about 2 and a half years until being transferred out of the program.

⁵⁴ Student program timeframes have limits on the number of hours workable during each term.

MWAA Hired Some Employees Without Completing Background Checks

Under MWAA's standard hiring process, an applicant's appointment is contingent on his or her ability to pass a background check conducted by MWAA's Office of Public Safety. These background checks provide an important internal control in MWAA's hiring process by verifying that candidates do not have undisclosed criminal records, significant flaws in their previous employment histories, any false statements or significant omissions, or other issues that might render them unsuitable for a position at MWAA. However, our review revealed a number of issues with MWAA's background check process:

- **Disregarding Background Check Results.** MWAA managers allowed some job candidates to begin work prior to the completion of their background checks. In one case, a candidate had been working at MWAA for 3 weeks when the Vice President of Public Safety recommended against hiring the candidate based on the results of the background check, which indicated that the candidate made false statements and had a poor credit history. In this case, the Vice President of Human Resources chose to ignore the recommendation and allowed the candidate to remain in the position.
- **Weak Oversight of Background Investigators.** In one notable case, a 24-year veteran of MWAA who conducted background checks through the Office of Public Safety deliberately misrepresented that background checks of new employees were completed. Specifically, the investigator misused his authority to sign off on background checks without completing—or in some cases, initiating—background investigations and without the Vice President of Public Safety's concurrence.⁵⁵ After discovering the investigator's abuse—the full extent of which is unknown—the Office of Public Safety made immediate changes to its process, and stated that it plans to re-check all employees whose background checks were conducted under the responsibility of the negligent investigator. The investigator resigned in April 2012.
- **Poor Coordination To Ensure Completion of Background Checks.** Because the Office of Public Safety does not have access to candidates' names and other hiring information, such as employment applications and other job-related data, it depends on the Office of Human Resources to provide the information needed to initiate a background check. However, both departments

⁵⁵ Prior to this discovery, investigators were given the authority to stamp the Vice President's signature on the memorandum provided to the Office of Human Resources to indicate that a candidate cleared his or her background check. Under this practice, investigators were required to obtain the supervisor's concurrence with the results of their investigation prior to signing off on the document.

lack a formal process to ensure investigators receive information on all candidates.⁵⁶

Background checks for temporary and student employees have been particularly problematic. Temporary employees generally did not undergo background checks, and in cases where background checks were requested by the Office of Human Resources the checks were not always completed. A background check of one temporary employee—who did not fully disclose prior criminal convictions on the employment application—was never completed; yet, the investigator cleared this employee for hire. The employee held a management position in the Office of Human Resources at MWAA for more than a year—with an annual salary of nearly \$135,000 and access to sensitive and personal information—before being terminated. Two other contractor-provided⁵⁷ temporary employees with prior criminal charges (including charges of misdemeanor assault and drug possession with intent to distribute) worked at MWAA for at least a year. However, these employees did not receive a background check until they were transitioning into full-time permanent positions in MWAA, at which point they were subjected to MWAA’s standard background checks. The Vice President of Public Safety eventually recommended against hiring them as permanent employees.

Background checks on potential student employees were also limited. MWAA’s student program has placed student employees in positions throughout the Authority that have allowed them access to security sensitive and personal information, including official personnel folders. Past student positions include finance clerk, maintenance trainee, budget clerk, procurement technician, clerk typist, and human resources assistant. Despite their access to sensitive information and student program guidance stating that all program participants need to “successfully complete an in-depth background investigation,” student employees’ background reviews were essentially a credit history check.

Throughout the course of our audit, we communicated issues we identified to MWAA. As a result of our observations, the Office of Public Safety has now begun to conduct background checks for students and plans to check certain contracted temporary employees, as well as screening for additional issues such as nepotism.

⁵⁶ The July 2011 organizational study also recommended that MWAA offices prepare service level agreements to increase teamwork initiatives between departments.

⁵⁷ This contractor was the same as the one referred to as Contractor A in the procurement section of this report (see table 2).

Senior MWAA Officials Authorized Excessive Salaries, Hiring Bonuses, Cash Awards, and Ineligible Benefits

MWAA management has also made questionable decisions regarding employee salaries, hiring bonuses, cash awards, and benefits, raising concerns that MWAA may be overcompensating unqualified employees. These decisions demonstrate a significant lack of oversight over employee compensation and have led to the appearance of a culture of favoritism at the Authority.

MWAA Managers Overruled Pay Setting Reviews To Offer Higher Salaries to Some Employees

MWAA senior officials disregarded or overruled internal controls to award higher salaries to certain employees. MWAA's compensation department conducts pay setting reviews for new and existing positions to ensure that compensation is in line with local market comparisons. This allows MWAA to remain competitive in recruiting and retaining employees while maintaining its financial efficiency. However, MWAA senior officials have circumvented this process by hiring or promoting employees into positions with unclassified duties,⁵⁸ which bypasses the compensation department because there are no clearly specified job descriptions to review. In some cases, senior officials disregarded the compensation department's review and awarded higher salaries. For example:

- One secretary was hired at a salary that was 20 percent higher than the newest employee in a similar position at the Authority and 36 percent higher than the secretary's previous earnings as a contract employee for MWAA. The Vice President of Human Resources stated that the increased salary was warranted due to the employee's education and prior experience qualifications, which were greater than required for the position. However, after reviewing the position, MWAA's compensation department stated the salary was "unjustifiably inflated" and therefore could not be supported. Despite the compensation department's assessment, the Vice President awarded the employee the higher salary.
- One senior official approved an employee's salary that was above the threshold that requires further approval by a higher-level official. However, the senior official never obtained the required signature for the employee's compensation, and there are no internal controls to ensure that this higher-level approval is received. Moreover, because human resources documentation listed the position as having unclassified duties, MWAA's compensation department did not perform a review. As a result, the employee remained in the position without any review to justify that the salary was appropriate.

⁵⁸ "Unclassified duties" is a category MWAA uses on official personnel forms when a person is hired without a job description or clearly defined duties and without an officially defined title and pay grade.

- One executive assistant in the Office of the Board of Directors, who had a prior employment relationship with a former Board member, was hired as a temporary employee with unclassified duties and then converted to a regular full-time MWAA position. This conversion included a two-step pay grade promotion amounting to a \$15,000 raise (30 percent) after being employed for only 5 months. However, there was no documentation to justify the promotion and the salary level beyond a statement that the salary was set by the Board of Directors.⁵⁹

Hiring and Other Bonuses Were Awarded Without Justification

MWAA occasionally awards hiring bonuses to new employees for recruitment purposes for positions that are unique or difficult to fill. However, MWAA lacks a formal policy requiring appointing officials to justify why candidates should receive a bonus. In addition, there is no oversight to verify that new employees merit the bonus based on an urgent recruitment need. For example, one MWAA employee received a \$10,000 pay increase and a \$10,000 hiring bonus for moving into a new position at the Authority after working for MWAA for only 7 months. In another case, MWAA awarded a \$5,000 hiring bonus for a position that had not been difficult to fill.

MWAA managers and senior officials also did not adequately justify cash bonuses awarded to employees. MWAA's employee recognition program, "I Made a Difference," allows managers to reward employees for exceptional accomplishments or actions that contribute to the Authority's mission and initiatives. Ranging between \$50 and \$2,500 per award, the awards require the approval of a senior official, but there are no limits for the number of awards or a maximum dollar amount an employee can receive in a given period. One Human Resources manager received awards in 4 consecutive years, including two \$2,500 awards within a 7-week period in December 2010 and January 2011, with little indication of meritorious achievements in the written justification for the awards. For example, the manager received a \$2,500 award for "outstanding assistance" to external consultants hired by MWAA, but the justification for the award does not describe the specific actions and resulting impact that warrant the award. Another employee in a different department received \$5,000 in multiple awards in less than 1 year (including three awards within 1 month totaling \$3,000). While award programs can play an important role in recognizing accomplishments and retaining exceptional employees, misusing these awards can create a climate of favoritism that actually risks lowering employee morale.

⁵⁹ While the Board of Directors has the authority to approve managerial positions reporting directly to the President and CEO, this was an executive assistant position and therefore not subject to Board approval.

MWAA Managers Authorized Employee Benefits That Violated Eligibility Requirements

Managers also abused MWAA's benefits program to award benefits to individuals who were not eligible. For example:

- One Human Resources manager arranged for a former MWAA employee to continue to receive pay and leave benefits by delaying the former employee's employment separation paperwork and fraudulently submitting a time card that claimed sick leave for the employee. The fraud was uncovered by an employee, and the manager was disciplined for time card fraud, which included a 3-day suspension.
- Two MWAA employees—the Vice President of Audit and a Human Resources manager—inappropriately added ineligible individuals to their medical benefits. According to MWAA's medical benefits policy, employees must be a legal guardian of a dependent to include the dependent in their benefits. While the two employees claimed that they were the legal guardians of the individuals they claimed as dependents, this was not the case. Moreover, the Benefits and Retirement Manager approved the benefits without verifying the individuals' eligibility.

Senior Officials Made Questionable Hiring and Compensation Decisions for the Same Employees

Overall, senior officials made many of the questionable hiring and compensation decisions for the same employees. We identified 21 employees who were hired with multiple hiring and compensation deficiencies, including 2 who were hired with all 5 deficiencies (see table 4).

Ultimately, these cases of multiple deficiencies involving specific employees suggests favoritism, a lack of accountability, and serious oversight lapses within MWAA's overall hiring and compensation practices.

Table 4. Hiring and Compensation Deficiencies for Selected Employees

Employee	Temporary Employee Status	Related to Another Employee or Board Member	Questionable Hiring or Promotion	Incomplete or Questionable Background Check	Questionable Compensation and Benefits
1			X		X
2	X			X	X
3	X		X	X	X
4				X	
5	X		X	X	X
6	X		X	X	X
7	X	X	X	X	X
8			X	X	X
9	X		X	X	X
10	X		X	X	X
11	X		X	X	X
12	X		X	X	X
13		X	X	X	X
14	X		X	X	X
15	X		X	X	
16					X
17			X	X	X
18	X	X	X		
19			X	X	X
20	X		X	X	X
21	X	X	X	X	X

Source: OIG analysis, based on a judgmental sample of 21 out of 34 employees provided through interviews.

MWAA'S POLICIES AND PROCESSES DID NOT ENSURE ACCOUNTABILITY AND TRANSPARENCY FOR ITS BOARD OF DIRECTORS

Weak ethics and travel policies, a lack of oversight, and significant gaps in transparency have greatly diminished the Board's accountability. Since the start of our audit and continuing after the release of our May 15, 2012, interim letter, MWAA's Board has taken steps to improve its accountability and transparency, such as revising its travel policy and providing more information about its meetings and decisions online. However, some issues remain to be addressed, such as regulating Board spending on its guests during business meetings and meals.

Board Policies Have Not Been Sufficient To Prevent Potential Conflicts of Interest, but Effectively Implementing New Policies May Prevent Future Unethical Behavior

Because MWAA's Board members are not bound to Federal, State, or local ethics and financial disclosure laws,⁶⁰ the Board must rely on the strength of its internal policies and processes to ensure Board integrity. However, MWAA's Code of Ethical Responsibilities for its Board members—which is separate from that for MWAA employees—has lacked the rigor needed to identify and evaluate potential conflicts of interest and ensure Board decisions are objective. A lack of oversight has further undermined efforts to promote ethical conduct. Following the publication of our interim letter, the Board Chairman stated that revisions to MWAA's Board's ethics policy will be made to address our ongoing concerns. MWAA recently approved a new code of ethics for its Board, which will be effective December 1, 2012. While these revisions are an important step to improve the Board's accountability, effective implementation and oversight will be critical to ensuring ethical behavior among Board members.

At the time of our audit, MWAA's financial disclosure process for its Board of Directors only required Board members to identify the employers of their immediate family members and to disclose their financial interests in entities that are either currently involved with or seeking a contract with the Authority.⁶¹ In addition, MWAA's policies have been vague regarding when and how Board members must recuse themselves from proceedings due to a conflict of interest. MWAA has also lacked guidelines to screen a Board member from involvement in any matter from which the Board member is recused. In contrast, Federal employees who are subject to disclosure requirements reveal all financial interests and other affiliations, with some exceptions,⁶² as well as liabilities, gifts, arrangements and agreements for employment, outside positions, stock holdings (above a low threshold), and travel reimbursements. Federal ethics officials use this information to identify potential conflicts and advise employees on how to avoid potential conflicts. Further, Federal ethics guidelines recommend a system that implements screening practices to ensure that employees comply with their recusal obligations. An effective system actively screens for matters that may relate to a Board member's interests and refers any potential matters to the appropriate parties to ensure that they are addressed. MWAA's financial disclosure system fails to include such proactive steps.

⁶⁰ Although Board members may file a Federal or State disclosure file as part of the appointment process, MWAA does not review them or use them as part of its ethics program.

⁶¹ MWAA provides Board members with a list of these entities, and Board members are required to report any interests they may have with the listed entities.

⁶² Exceptions include those interests that fall within well-defined categories that have been found unlikely to create a conflict of interest (for example, ownership of a diversified mutual fund).

As with MWAA employees, MWAA encourages Board members to seek counsel if they believe a potential conflict of interest exists. However, MWAA has not provided the oversight needed to ensure Board members understand the importance of and comply with its ethical standards. Further, MWAA did not provide formalized training on ethics or on the financial disclosure process to Board members. Although Board members are ultimately responsible for identifying and disclosing any potential conflicts of interest, oversight and regular ethics training can play a critical role in reinforcing ethical guidelines and emphasizing steps Board members should take to avoid potential conflicts of interest.⁶³

Perceived conflicts of interest with Board members have already damaged MWAA's credibility. For example, one Board member's recommendation led MWAA to initiate a \$100,000 contract with a law firm that employed the member's spouse—creating at least the appearance of a conflict of interest. Although MWAA's policy states Board members may not participate in any Board decision or Authority action when a conflict of interest or the appearance of one arises, MWAA awarded the contract to the Board member's recommended firm.

MWAA's code of ethics for its Board contained other weaknesses. Notably, at the time of our audit, it did not include a provision against nepotism as its code for employees does. An ethics policy that clearly delineates the types of relationships that are and are not acceptable between Board members and hired MWAA employees is key to ensuring relatives and friends of Board members do not receive preferential treatment. For example, MWAA hired the grandchildren of two Board members. In particular, one Board member had at least two grandchildren working at MWAA. The same Board member also insisted that MWAA hire an immediate family member of his close friend. MWAA's recently revised Board code of ethics contains a new provision preventing this type of influence.

MWAA Recently Revised Its Travel Policies To Help Ensure Board Travel Expenses Are Reasonable

When we began our review, MWAA's policies for Board travel lacked clarity and oversight in key areas, including spending thresholds for meals and travel class. In addition, there was little to no oversight of travel expenses, even those that the Board Chair was supposed to approve under MWAA's policy. These weaknesses created the risk that Board travel expenditures could be perceived as excessive by stakeholders and the public. We identified several costly meals and expensive plane tickets that MWAA reimbursed, including \$238 for two bottles of wine

⁶³ When the new Board ethics code is implemented, effective December 1, 2012, it will require both initial and recurrent ethics training for Board members.

purchased during a meal and \$9,200 for an international business-class air ticket to Europe purchased only 10 days prior to the trip.⁶⁴

Since we issued our interim letter, MWAA has taken actions to address weaknesses in its Board travel policies. Most significantly, on September 5, 2012, the Board voted to revise its policies with new provisions that notably strengthen MWAA's guidelines and internal controls for travel and meal expenses. In particular, the Board voted to consolidate both the Board travel and MWAA employee travel policies—which were previously separate documents—into one overarching MWAA travel policy. Other improvements to the policy include requiring a preauthorization form to be completed and approved prior to travel in order for expenses to be reimbursed,⁶⁵ prohibiting alcoholic beverages from reimbursement, more clearly specifying and limiting when travelers may travel any class other than economy class, establishing a fixed per diem rate for meals and incidentals during travel, and requiring an annual review of all travel expenses by the Office of Audit.

These additions and revisions—if effectively implemented—will go far in enhancing the Board's accountability for its travel expenses. However, some gray areas remain. For example, while the new policies “encourage” travelers to find “reasonable rates” for hotel rooms, they do not clearly specify or define what makes a hotel rate “reasonable” or require Board members to comply with the reasonable rate. As a result, this particular provision may be difficult to enforce and audit.

In addition, MWAA's current policy does not address instances where Board members may need to entertain business associates to conduct or advance MWAA's business relationships—such as by clearly defining and placing spending thresholds on when meals for MWAA guests are reimbursable. Given that Board entertainment expenses were some of the most exorbitant reimbursed travel vouchers in the sample we reviewed, some further delineation for the approval of these expenses will be critical to help ensure that all costs reimbursed are necessary and in the best interests of the Authority.

MWAA Recently Enhanced Its Board's Transparency, but Some Key Proposed Changes Have Yet To Be Implemented

Early in our review, we also identified opportunities for MWAA to enhance the transparency of Board decisions, activities, and processes. Transparency is critical for ensuring accountability and for keeping the public, Congress, and other stakeholders informed of major decisions that impact residents of the Washington,

⁶⁴ For more details on these and other expenses, see our interim letter, available on our Web site at www.oig.dot.gov.

⁶⁵ The Board Office (which includes Board members, the Vice President and Secretary, and Board staff) are not subject to this preauthorization requirement for travel to Board and Committee meetings and any function, meeting, or event other than conferences for which the invitation has been extended to all Directors or Directors on the same Committee.

DC, metropolitan region. Largely as a result of our discussions with MWAA as well as our interim letter, MWAA has implemented or begun implementing several actions to improve its Board's transparency. These include the following:

- **Freedom of Information Policy.** In February 2012, the Board revised its bylaws to require that meeting announcements, agendas, minutes, and other key information be posted to MWAA's Web site. In July 2012, MWAA revised its internal Freedom of Information Policy, clarifying what information is not available for public release and requiring more public information to be posted online. However, one weakness in the policy is the absence of recourse for individuals who are denied access to information beyond an internal appeal process. In contrast, Federal law allows for an external judicial review in cases where a requester is denied information.
- **Opening audit committee meetings to the public.** Unlike other similar transportation boards,⁶⁶ MWAA has held its audit committee meetings in closed session—an especially significant gap in transparency considering the nature of the committee, which discusses issues related to policy and oversight. As we reported in our interim letter, this practice denied the public and stakeholders, such as airlines, the opportunity to learn of MWAA's internal audit findings and recommendations. Since the publication of our letter, MWAA's Board Chair has stated that he intends to allow for the audit committee to meet in regular open session when appropriate. In June 2012, MWAA held a portion of its audit committee meeting in open session for the first time. However, subsequent meetings have not been held in open session, and the Board has yet to revise its bylaws with this change, nor has it adequately defined what topics are appropriate for open session.
- **Limiting use of executive sessions.** MWAA's Board Chair has also pledged to limit the number of executive sessions used by the Board. Like other public entities, MWAA's Board holds a portion of its discussions behind closed doors in executive session to allow for confidential discussion of matters such as personnel changes or ongoing litigation. Although these sessions are a necessary and common part of doing business, their excessive use could obscure vital information and processes from the public. The risk of inappropriate executive sessions is heightened by the fact that MWAA is not

⁶⁶ For example, as part of our review, we visited the Port Authority of New York and New Jersey and Dallas-Fort Worth International Airport to gain an understanding of their Boards' functions and activities, with a focus on accountability and transparency practices. We chose these entities based on their many similarities to MWAA, such as size and makeup of board.

subject to Federal or State guidelines or potential penalties for any abuse of these sessions, unlike other major transportation boards.⁶⁷

CONCLUSION

As an independent public body subject to few Federal and State laws, MWAA must rely on the strength of its policies and processes to ensure credibility in its management of two of the Nation's largest airports and a multibillion-dollar public transit construction project. However, MWAA's ambiguous policies and ineffectual controls have put these assets and millions of Federal dollars at significant risk of fraud, waste, and abuse and have helped create a culture that prioritizes personal agendas over the best interests of the Authority. While MWAA is taking positive steps to correct the deficiencies we identified—including revising its travel policies and suspending contracts with former Board members—significant weaknesses remain that leave the Authority vulnerable to criticism for its contracting practices and governance. Enhanced policies, strong internal controls, and robust oversight in the areas of hiring and compensation, ethics, transparency, and procurement will be critical to maintaining and improving the Authority's operations and restoring public trust in the soundness of its current and future activities.

RECOMMENDATIONS

We recommend that the Office of the Secretary direct MWAA to take the following actions to promote integrity and accountability in the Authority's management and governance. We also recommend that the Office of the Secretary consider devising and adopting enforcement mechanisms to ensure that these actions are followed.

1. Provide quarterly acquisition reports to the Board of Directors and to DOT. These reports should include the following: (a) contracts awarded, dollar value, and the extent of competition; (b) name of contracting officer or delegated official who entered into the contract; (c) contract modifications and task orders issued, including dollar value; (d) contract actions approved by the Board during the quarter; (e) planned procurements for the next quarter; and (f) employees with contracting warrants and delegations and any limits to their authorities.

⁶⁷ In contrast, similar entities, such as the Board of Directors of the Dallas-Fort Worth International Airport, must follow Texas State law and guidelines related to ethics, transparency, and procurement, and willful failure to comply can be punishable by imprisonment and fines. For example, a willful violation of the Texas open meetings law is a misdemeanor punishable by up to 6 months in prison and a fine of up to \$500. Under Virginia law, which MWAA is not subject to, a willful violation of the open meetings law is a \$500 to \$2,000 civil penalty for a first offense and \$2,000 to \$5,000 for a second and any subsequent offense.

2. Implement a plan with milestones to revise contracting policies and procedures to reflect Federal and other best practices, including the following:
 - a. Publicly announce intent to award sole source contracts.
 - b. Minimize categorical exceptions to full and open competition and explicitly state the conditions under which an exception can be used.
 - c. Limit the involvement of the Board of Directors and individual Board members in contracting and prohibit their ability to bypass contracting officers.
 - d. Ensure fair opportunity in the awarding of task orders under multiple-award contracts and ensure contracting officers adequately justify their selections of contractors.
 - e. Limit and monitor delegations of procurement authority.
 - f. Require program offices to prepare annual forecasts of their acquisition needs.
3. Clarify and enforce its current contracting policies and procedures, including the following:
 - a. Obtain Board approval for sole source awards over \$200,000 and all contracts other than fully competed construction contracts over \$3,000,000.
 - b. Ensure justifications for the use of categorical exceptions are adequate per MWAA's Contracting Manual.
 - c. Ensure justifications for the use of task orders over \$200,000 are adequate per MWAA's Contracting Manual.
 - d. Prohibit adding out-of-scope work to contracts and authorizing work prior to contract award.
 - e. Ensure technical evaluation committees do not include both supervisors and a subordinate as voting members when possible.
4. Define and assess the size and skills of the acquisition workforce and implement an appropriate acquisition certification program, including acquisition and ethics training.
5. Establish policies and procedures for procurement integrity, including the following:
 - a. Safeguard non-public and sensitive procurement information.
 - b. Restrict prior Board members' and employees' eligibility for MWAA contracts and prohibit them from receiving compensation from contractors who were awarded contracts, modifications, or task orders of significant

value after serving as a contracting officer, program manager, or other related positions.

6. Fully implement formal ethics policies and procedures for Board members and MWAA employees to ensure the following:
 - a. Nepotism is detected and prevented.
 - b. Board members and employees disclose debts, obligations, and holdings—regardless of whether the interests currently conduct or are seeking to do business with MWAA—and gifts on their financial interest forms.
 - c. All contracting officers and COTRs certify that they do not have financial interests in the contracts they award or administer.
7. Ensure that the review process for financial interest forms emphasizes verification and documentation of the following:
 - a. All Board members and employees completed and submitted required financial interest forms.
 - b. Any Board members and employees who have a conflict of interest or potential conflict of interest are counseled.
8. Fully implement a formal, robust ethics training program that ensures the following:
 - a. All employees receive initial training.
 - b. Recurrent training is based on employees' level of responsibility.
 - c. MWAA employees involved in contracting receive training in procurement integrity procedures.
9. Establish priorities for implementing the new Board and MWAA employee ethics codes, including developing procedures to oversee and enforce the new codes. Develop and implement a process to measure the effectiveness of the codes and the oversight and enforcement procedures, and revise or update as necessary.
10. Implement and enforce human resources policies and practices, including the following:
 - a. Implement a competitive hiring and compensation policy and process that competes positions, whether newly created positions, vacancies, or promotions. All positions should be based on a specific job description with a set salary range.
 - b. Verify that candidates and current employees meet and maintain program eligibility requirements for the student employment program.

- c. Complete background checks on all new employees prior to their start date through a formal communication and coordination process between the Offices of Human Resources and Public Safety.
 - d. Establish a list of acceptable justifications to override a no-hire recommendation from the Office of Public Safety.
 - e. Establish a policy to administer and oversee hiring bonuses and cash awards, including more stringent requirements for justifying and approving awards an employee can earn in a certain period of time.
 - f. Verify eligibility prior to authorizing and continuing pay and/or benefits.
11. Revise its travel policy to further define what constitutes a “reasonable lodging expense” for Authority-related travel and to require that travelers do not exceed the defined amount.
12. Further enhance the accountability and transparency of the Board of Directors, including the following:
- a. Further revise the Board’s bylaws to incorporate what actions the audit committee may take in closed session.
 - b. Develop a Board-specific policy that establishes guidelines for entertaining business contacts, including spending thresholds and reimbursement prohibitions for items such as meals, alcohol, and entertainment.
 - c. Include a mechanism for external review in the Freedom of Information Policy when a requester is denied information.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided OST with our draft report on October 3, 2012, and received its formal written comments on October 18, 2012. OST’s response is included in its entirety as an appendix to this report. In its response, OST stated that the Department will formally transmit the final report to MWAA with a clear expectation that the Authority produce a detailed response within 30 days addressing each of our recommendations and specific sub elements.

OST emphasized that the Department is exercising the full extent of its authority to help MWAA address the serious problems raised in our report. According to OST, the Department has been working with MWAA over the last several months to ensure that it swiftly adopts needed reforms. In particular, the Department appointed an Accountability Officer to provide guidance to MWAA as it rewrites its policies and procedures.

As we recognize in our report, MWAA has already taken several actions to begin addressing issues raised in our audit. OST also stated that the Federal Accountability Officer has worked with MWAA to take further actions to address some of the issues in our report, such as initiating action to revise the contracting manual and delegations of authority, and planning revisions to Human Resources policies. In addition, OST stated that, looking ahead, MWAA is taking action to:

- Plan 35 ethics training sessions on the newly adopted policies for all MWAA staff, as well as one session for Board members and Board Office staff, to be completed between October 25 and November 23, 2012. Annual ethics training will now also be required for all MWAA personnel.
- Establish a database of contractors, potential contractors, and other potential prohibited sources with which to compare to financial disclosure forms and conflict of interest analyses.
- Initiate development of standard operating procedures and forms relating to ethics and travel, so that the new policies can be successfully implemented.
- Establish an internal control group to track all internal and external audits that would identify open issues and track issue and recommendation resolution. The group will also track and test all systems and policy implementation.

We acknowledge that these planned actions may improve MWAA's contracting, ethics, and transparency. However, since these actions have not yet been implemented, we have not had the opportunity to assess MWAA's execution of them. Additionally, while MWAA's planned actions represent positive steps, our audit report identifies 12 recommendations and 30 specific sub-recommendations that remain open and unresolved, pending MWAA's detailed response to the Department.

We also recommended that OST consider devising and adopting enforcement mechanisms to ensure that our recommended actions are followed. In its response, OST indicated that the Department will continue to hold MWAA accountable and is pursuing an amendment to its lease with MWAA to ensure greater oversight and enforcement. Ultimately, vigilant oversight is needed to ensure that MWAA institutes the reforms necessary to regain the public trust.

ACTIONS REQUIRED

In accordance with Department of Transportation Order 8000.1C, we request that you provide a response within 30 days to this report that indicates how MWAA will resolve the recommendations in this report.

We appreciate the courtesies and cooperation of the Metropolitan Washington Airports Authority and Department of Transportation representatives during this

audit. Please feel free to contact me at (202) 366–1959 or my Deputy, Ann Calvaresi Barr, at (202) 366–6767 if we can be of further assistance.

If you have overall questions concerning this report, please contact Lou E. Dixon, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366–1427. For specific questions on contracting, please contact Mary Kay Langan-Feirson, Assistant Inspector General for Acquisition and Procurement Audits, at (202) 366–5225. For specific questions on governance and accountability, please contact Jeffrey B. Guzzetti, Assistant Inspector General for Aviation and Special Program Audits, at (202) 366–0500.

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cc: General Counsel Robert Rivkin
Chief of Staff Joan DeBoer
DOT Audit Liaison

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted this performance audit from June 2011 through October 2012 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. The objectives of our audit were to determine whether (1) the policies and processes under which MWAA operates comply with the terms of the law and lease between DOT and MWAA, and (2) MWAA's policies and processes are sufficient to ensure accountability and transparency of its Board's activities. Specifically, we assessed (1) MWAA's contract award and procurement practices, including compliance with relevant laws; (2) its code of ethics for its employees; (3) its hiring and compensation practices; and (4) the accountability and transparency of its Board of Director activities.

We reviewed the Metropolitan Washington Airports Act of 1986, which created MWAA; the lease of 1987, as amended, between MWAA and the U.S. Department of Transportation through the Secretary (OST); and the District of Columbia and Virginia Commonwealth statutes covering MWAA. To test MWAA's compliance with the lease's payment requirement, we selected a statistical sample of 10 of 48 semiannual MWAA lease payments to the Federal Aviation Administration (FAA) from December 1987 to June 2011.

To gain an understanding of how MWAA operates, we met with the CEO, COO, Chief Financial Officer, managers of both Dulles International and Ronald Reagan Washington National Airports, all MWAA Vice Presidents, the Office of Business Administration, the Office of Human Resources, and the Office of Public Safety. We also reviewed internal audit reports prepared from November 2007 through June 2011. Further, to understand OST's role at MWAA, we also met with OST's liaison to MWAA and its recently appointed Accountability Officer.

To assess MWAA's contract award and procurements practices, we interviewed a range of MWAA staff, including contracting officers, COTRs, legal staff, and MWAA management. We reviewed MWAA's Contracting Manual, the Airports Purchasing Policies and Procedures Manual, prior GAO reports, MWAA's internal audit reports, MWAA's procurement staff training documents and financial interest forms, and other MWAA documents. We also reviewed Federal policies, such as the FAR, and State and local contracting policies for best practices.

In addition, we reviewed a total of 125 MWAA contracts. To select the contracts for review, we obtained contracting data from MWAA's Procurement and

Exhibit A. Scope and Methodology

Contracts Department for (1) contracts awarded between January 2009 and June 2011 and (2) all active contracts as of June 2011. We then selected two statistical samples and 69 contracts based on risk. Figure 3 details our contract selections. Further, we reviewed a nonrepresentative sample of contract modifications and task orders from sample 2, and reviewed MWAA's contract files to assess whether the contract award and administration practices complied with the Airports Act, the lease, and MWAA's Contracting Manual.

Figure 3. Sample Selection of MWAA Contracts

Sample 1 (statistically selected, basis of a projection)					
Number of Contracts In Universe	Value of Contracts in Universe	Range of Fiscal Years of Contracts In Universe	Number of Contracts Reviewed	Value of Contracts Reviewed	Range of Contract Award Years of Contracts Reviewed
165	\$519 million	2009-2011	32	\$251 million	2009-2011
Sample 2 (statistically selected, basis of a projection)					
Number of Contracts In Universe	Value of Contracts in Universe	Range of Fiscal Years of Contracts In Universe	Number of Contracts Reviewed	Value of Contracts Reviewed	Range of Contract Award Years of Contracts Reviewed
343	\$2.8 billion	1987-2011	24	\$2.2 billion	1989-2009
Sample 3 (selected based on risk, results cannot be generalized)					
Number of Contracts In Universe	Value of Contracts in Universe	Range of Fiscal Years of Contracts In Universe	Number of Contracts Reviewed	Value of Contracts Reviewed	Range of Contract Award Years of Contracts Reviewed
No universe because contracts were selected based on risk			69	\$52 million	2006-2011

To assess the effectiveness of MWAA's employee code of ethics for preventing conflicts of interest, we met with personnel from the Office of General Counsel and interviewed employees, and reviewed the Code of Ethics for MWAA Employees, dated May 2004, revised November 2009, and most recently approved on September 19, 2012 and effective January 1, 2013. Also, we reviewed all 125 certificates of financial interest filed by 50 employees in 2009, 2010, and 2011. Forty-nine employees were statistically selected from a universe of 129, and 1 was received from employee interviews.

To evaluate MWAA's hiring and compensation practices we interviewed personnel from the Office of Human Resources and the Office of Public Safety; as well as, employees from various other departments. We obtained 34 official personnel records of employees whose names were either provided through employee interviews or that we identified in the course of our review as having irregularities during the hiring or compensation process. We reviewed 23 files from the Office of Public Safety pertaining to background checks. In addition, we reviewed MWAA Directives. We also reviewed MWAA job classification reports

Exhibit A. Scope and Methodology

and pay scales from 2006 to 2012; and analyzed employee complaints from 2009 through 2011, legal reviews, internal investigations, and portions of various organizational studies.

To evaluate the accountability and transparency of Board of Director activities, we interviewed current and past Board Directors and the Board Secretary; attended all MWAA Board monthly and nine Committee meetings from September 2011 through July 2012, with the exception of November 2011; and reviewed Board meetings minutes from December 2008 through March 21, 2012. We also assessed MWAA's Board bylaws as amended April 20, 2011, and later revised February 15, 2012; the "Code of Ethical Responsibilities for Members of the Board of Directors" as amended December 3, 2003; the "Code of Ethics for Members of the Board of Directors" as approved September 19, 2012, and effective December 1, 2012; the "Travel and Business Expense Guidelines for Board of Directors" as approved in 2008 and a related May 7, 2008, memorandum; and the revised "MWAA Travel Policy" as approved and effective September 5, 2012. In addition, we reviewed a statistical sample of 44 of 144 Board of Directors' travel vouchers for expenses incurred January 2010 through March 2011; and all Statements of Employment and Financial Interests filed by the Board of Directors for January 2008 through January 2011. We also reviewed MWAA's Web site to determine what information was available to the public. To obtain comparisons for transparency and accountability, we visited the Port Authority of New York and New Jersey and the Dallas-Fort Worth International Airport, attended their Board meetings, interviewed Board members and staff, and reviewed their respective Web sites.

Exhibit A. Scope and Methodology

EXHIBIT B. ORGANIZATIONS VISITED OR CONTACTED**MWAA Board**

- MWAA Board of Directors
- Board Counsel
- Secretary to the Board of Directors

MWAA Officers, Offices, and Airports

- President and Chief Executive Officer
- Executive Vice President and Chief Operating Officer
- Office of Air Service Planning and Development
- Office of Audit
- Office of Business Administration
- Office of Engineering
- Office of Finance
- Office of General Counsel
- Office of Human Resources
- Office of Information and Telecommunications Systems
- Office of Public Safety
- Ronald Reagan Washington National Airport
- Washington Dulles International Airport

Other Stakeholders

- Airports Council International-North America
- Federal Aviation Administration
- Federal Transit Administration
- Office of the Secretary of Transportation
- U.S. Government Accountability Office
- Virginia Department of Transportation

Comparable Organizations to MWAA

- Port Authority of New York and New Jersey
- Dallas-Fort Worth International Airport Board

APPENDIX. OST COMMENTS

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THE DEPUTY SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

OCT 16 2012

MEMORANDUM TO: Calvin L. Scovel III
Inspector General

FROM: John D. Porcari
Deputy Secretary

SUBJECT: Office of Inspector General Draft Report on Metropolitan
Washington Airport Authority Management Accountability

We have reviewed the Office of Inspector General (OIG) draft report, completed in response to a Congressional request from Representatives Wolf and Latham, and remain deeply concerned and frustrated by the nature and extent of the deficiencies uncovered by your office. The OIG draft report identifies a wide range of problems relating to how the Metropolitan Washington Airport Authority (MWAA) hires and trains its staff, obtains goods and services, and conducts business. We are troubled by the report's description of an organization that routinely failed to adopt and adhere to strong policies and procedures for its officials and staff. This failure resulted in numerous ethical and fiscal lapses, including the frequent award of contracts without free and open competition, cases of nepotism, and instances where employees accepted favors and gifts in the ordinary course of business. This pattern of conduct is simply unacceptable for a public body entrusted with the management and operation of important Federal assets. This way of doing business cannot continue.

The Department of Transportation is exercising the full extent of its authority to help MWAA address the serious problems raised in the report. In particular, the Secretary, along with the Governors of Virginia and Maryland, and the Mayor of the District of Columbia, sent a letter to MWAA demanding that it overhaul its policies and procedures, bringing them in line with best Federal practices. Over the last several months, the Department has been working with MWAA to ensure that it swiftly adopts the type of top-to-bottom reforms that are essential for restoring the public trust.

The Department has taken the extraordinary measure of appointing a Federal Accountability Officer to provide guidance to MWAA as it rewrites its policies and procedures. Since late July, the Federal Accountability Officer has made considerable progress in working with MWAA to address the issues identified in your interim report and the letter to MWAA signed by the Secretary. To date, the Federal Accountability Officer has worked with MWAA to:

Appendix. OST Comments

- Issue a new travel policy, consistent with Federal law and regulation, for both the MWAA board and MWAA's employees that included a cap on daily expenditures, requirement for prior travel approval, allowable classes of expenditures, and prohibition on reimbursement for alcohol;
- Issue a new ethics policy, consistent with Federal law and regulation, for both the MWAA Board and MWAA's employees that addressed ethics training, financial disclosure, gifts, nepotism, conflicts of interest, enforcement, and established the role of an Authority-wide Ethics Officer;
- Terminate sole source contracts with former Board members;
- Initiate action to revise the contracting manual and delegations of authority; and
- Plan revisions to HR policies and the MWAA bylaws to enhance transparency.

MWAA has already taken action to address some of the issues in the report, including the termination of employees who had accepted favors and the elimination of certain categorical exceptions that may have contributed to sole-source contracting for professional services. It would be constructive for the OIG final report to ensure that it presents a full accounting of actions MWAA has taken to date. Looking ahead, MWAA is taking action to:

- Plan 35 ethics training sessions on the newly adopted policies for all MWAA staff and one session for Board members and Board Office staff to be completed between October 25 and November 23, 2012. Annual ethics training will now also be required for all MWAA personnel.
- Establish a database of contractors, potential contractors and other potential prohibited sources to compare to financial disclosure forms and conflict of interest analyses.
- Initiate development of standard operating procedures and forms relating to ethics and travel so that the new policies can be successfully implemented.
- Establish an internal control group to track all internal and external audits that would identify open issues and track issue and recommendation resolution. The group will also track and test all systems and policy implementation.

These actions are intended to ensure that MWAA has a complete set of policies and procedures that meet the highest standards of public accountability. We are pleased with the level of cooperation that the Federal Accountability Officer has received over the last few months from the MWAA Board and Executive leadership and look forward to continued cooperation, and I would ask that the final report include these important reforms.

Appendix. OST Comments

As this work continues, it is vitally important that strong oversight and internal controls are established to ensure MWAA adheres to its new policies. To ensure greater oversight and enforcement, the Department is pursuing an amendment to the current lease with MWAA.

As established by statute, MWAA is a public entity with considerable autonomy. While the Department will continue to hold MWAA accountable in its management and operation of vitally important Federal assets, it is primarily incumbent on MWAA to institute the reforms needed to regain the public's trust.

Upon issuance of the OIG final report, the Department will formally transmit the document along with a clear expectation that MWAA produce a detailed response within 30 days that addresses each of the OIG report's 12 recommendations including and all 31 specific sub elements.

We appreciate the extensive and detailed work by the OIG on this matter.

Appendix. OST Comments

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

**Board of Directors**

November 14, 2012

Michael A. Curto *
Chairman

Honorable Thomas M. Davis III *
Vice Chairman

Earl Adams, Jr. *

Richard S. Carter *

Lynn Chapman °

Frank M. Conner III °

Honorable H.R. Crawford +

Shirley Robinson Hall +

Barbara Lang +

Elaine McConnell °

Caren Merrick °

Michael L. O'Reilly °

Warner H. Session +

Todd A. Stottlemeyer °

Appointee of:

* United States

+ District of Columbia

* Maryland

° Virginia

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

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

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

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

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

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

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

The Honorable Ray LaHood
November 14, 2012
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Over the past 25 years, the Airports Authority has successfully financed and developed significant improvements to Ronald Reagan National and Dulles International Airports, expanding the availability and quality of air service in the greater Washington region and significantly contributing to the regional economy. I believe that sound judgment, effective management and organizational integrity were required for this success, and that these values continue to guide the Authority's work today. It is clear, however, that past actions and decisions, as described in the Inspector General's interim and final reports, have cast doubt upon the transparency, fairness and integrity of the Authority's administration of valuable regional assets, and have served to overshadow the quality service that Authority employees provide each day to the region's travelers. It is equally clear that the Authority must act, meaningfully and convincingly, to remedy the organizational deficiencies suggested by those actions and decisions in order to regain your trust, as well as that of the public.

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

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

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

Status

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

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

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

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

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

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g. Finally, to address IG Recommendation 10(f) regarding the timely verification of employee eligibility for compensation and benefits, procedures providing for such verification will be adopted and implemented during the first quarter of 2013. In addition, these procedures will ensure that benefits will not be authorized or provided following the termination of an employee's employment for reasons other than retirement.

3. In the area Finance, the following actions have been taken or are in process:³

a. An Internal Controls and Compliance Division has been established in the Office of Finance under the direction of the Chief Financial Officer. This division is responsible for monitoring and testing Authority-wide remediation of the Inspector General's findings, for monitoring the status of all audit findings, for periodically validating operational compliance with established Authority policies and processes, and, where lack of compliance or adequate internal controls are found, for providing the action required to bring about such compliance or sufficient controls.

B. *"Terminate all existing contracts with former Board members and former employees that were not competitively bid."*

Status

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

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

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

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

Status

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

D. *"Adopt post-employment restrictions for Board members and employees that meet Federal standards."*

Status

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

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

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

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

Status

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

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these provisions has been given during current ethics training (*see* para. 4 below);

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

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

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

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

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

- F. *"Tighten travel procedures to eliminate wasteful spending. These procedures should be consistent with Federal requirements."*

Status

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

⁷ This new travel policy is enclosed as Enclosure F.

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

Status

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

⁸ The revised bylaws are enclosed as Enclosure G

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

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

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

Status

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

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

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

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

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

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

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

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

Sincerely,

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

Michael A. Curto
Chairman

Enclosures

Enclosure A

Memorandum Suspending Use of Certain Categorical Exceptions
(August 2012)

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY



M E M O R A N D U M

To: Airports Authority Employees

From: John E. Potter

Subject: Full and Open Competition

Date: August 10, 2012

As a result of recent audits by the Department of Transportation Office of the Inspector General, we are taking several positive steps to change our procurement procedures. In the future, the Contracting Manual will be revised to reflect these changes. However, some changes will be put into effect before the Contracting Manual is formally revised.

Effective August 10, 2012, we are suspending the use of certain categorical exceptions to full and open competition presently allowed by section 1.2.1 of the Contracting Manual. These consist of the categorical exceptions for the procurement of legal, financial, audit, or legislative representation professional services. Any exceptions to this suspension must be approved by me.

From this date forward, these services must be procured using full and open competition. Therefore, sufficient lead time should be allotted to allow the procurement process to be completed by your need date. If there are any questions, please contact Fred Seitz of the Procurement and Contracts Department at extension 7-8674.

Thank you in advance for your attention and compliance.

JEP:klm

Enclosure B

Recommendations from Inspector General
November 1, 2012, Final Report

Office of Inspector General

Audit Report

**MWAA'S WEAK POLICIES AND
PROCEDURES HAVE LED TO
QUESTIONABLE PROCUREMENT
PRACTICES, MISMANAGEMENT, AND A
LACK OF OVERALL ACCOUNTABILITY**

Metropolitan Washington Airports Authority

*Report Number: AV-2013-006
Date Issued: November 1, 2012*



subject to Federal or State guidelines or potential penalties for any abuse of these sessions, unlike other major transportation boards.⁶⁷

CONCLUSION

As an independent public body subject to few Federal and State laws, MWAA must rely on the strength of its policies and processes to ensure credibility in its management of two of the Nation's largest airports and a multibillion-dollar public transit construction project. However, MWAA's ambiguous policies and ineffectual controls have put these assets and millions of Federal dollars at significant risk of fraud, waste, and abuse and have helped create a culture that prioritizes personal agendas over the best interests of the Authority. While MWAA is taking positive steps to correct the deficiencies we identified—including revising its travel policies and suspending contracts with former Board members—significant weaknesses remain that leave the Authority vulnerable to criticism for its contracting practices and governance. Enhanced policies, strong internal controls, and robust oversight in the areas of hiring and compensation, ethics, transparency, and procurement will be critical to maintaining and improving the Authority's operations and restoring public trust in the soundness of its current and future activities.

RECOMMENDATIONS

We recommend that the Office of the Secretary direct MWAA to take the following actions to promote integrity and accountability in the Authority's management and governance. We also recommend that the Office of the Secretary consider devising and adopting enforcement mechanisms to ensure that these actions are followed.

1. Provide quarterly acquisition reports to the Board of Directors and to DOT. These reports should include the following: (a) contracts awarded, dollar value, and the extent of competition; (b) name of contracting officer or delegated official who entered into the contract; (c) contract modifications and task orders issued, including dollar value; (d) contract actions approved by the Board during the quarter; (e) planned procurements for the next quarter; and (f) employees with contracting warrants and delegations and any limits to their authorities.

⁶⁷ In contrast, similar entities, such as the Board of Directors of the Dallas-Fort Worth International Airport, must follow Texas State law and guidelines related to ethics, transparency, and procurement, and willful failure to comply can be punishable by imprisonment and fines. For example, a willful violation of the Texas open meetings law is a misdemeanor punishable by up to 6 months in prison and a fine of up to \$500. Under Virginia law, which MWAA is not subject to, a willful violation of the open meetings law is a \$500 to \$2,000 civil penalty for a first offense and \$2,000 to \$5,000 for a second and any subsequent offense.

2. Implement a plan with milestones to revise contracting policies and procedures to reflect Federal and other best practices, including the following:
 - a. Publicly announce intent to award sole source contracts.
 - b. Minimize categorical exceptions to full and open competition and explicitly state the conditions under which an exception can be used.
 - c. Limit the involvement of the Board of Directors and individual Board members in contracting and prohibit their ability to bypass contracting officers.
 - d. Ensure fair opportunity in the awarding of task orders under multiple-award contracts and ensure contracting officers adequately justify their selections of contractors.
 - e. Limit and monitor delegations of procurement authority.
 - f. Require program offices to prepare annual forecasts of their acquisition needs.
3. Clarify and enforce its current contracting policies and procedures, including the following:
 - a. Obtain Board approval for sole source awards over \$200,000 and all contracts other than fully competed construction contracts over \$3,000,000.
 - b. Ensure justifications for the use of categorical exceptions are adequate per MWAA's Contracting Manual.
 - c. Ensure justifications for the use of task orders over \$200,000 are adequate per MWAA's Contracting Manual.
 - d. Prohibit adding out-of-scope work to contracts and authorizing work prior to contract award.
 - e. Ensure technical evaluation committees do not include both supervisors and a subordinate as voting members when possible.
4. Define and assess the size and skills of the acquisition workforce and implement an appropriate acquisition certification program, including acquisition and ethics training.
5. Establish policies and procedures for procurement integrity, including the following:
 - a. Safeguard non-public and sensitive procurement information.
 - b. Restrict prior Board members' and employees' eligibility for MWAA contracts and prohibit them from receiving compensation from contractors who were awarded contracts, modifications, or task orders of significant

value after serving as a contracting officer, program manager, or other related positions.

6. Fully implement formal ethics policies and procedures for Board members and MWAA employees to ensure the following:
 - a. Nepotism is detected and prevented.
 - b. Board members and employees disclose debts, obligations, and holdings—regardless of whether the interests currently conduct or are seeking to do business with MWAA—and gifts on their financial interest forms.
 - c. All contracting officers and COTRs certify that they do not have financial interests in the contracts they award or administer.
7. Ensure that the review process for financial interest forms emphasizes verification and documentation of the following:
 - a. All Board members and employees completed and submitted required financial interest forms.
 - b. Any Board members and employees who have a conflict of interest or potential conflict of interest are counseled.
8. Fully implement a formal, robust ethics training program that ensures the following:
 - a. All employees receive initial training.
 - b. Recurrent training is based on employees' level of responsibility.
 - c. MWAA employees involved in contracting receive training in procurement integrity procedures.
9. Establish priorities for implementing the new Board and MWAA employee ethics codes, including developing procedures to oversee and enforce the new codes. Develop and implement a process to measure the effectiveness of the codes and the oversight and enforcement procedures, and revise or update as necessary.
10. Implement and enforce human resources policies and practices, including the following:
 - a. Implement a competitive hiring and compensation policy and process that competes positions, whether newly created positions, vacancies, or promotions. All positions should be based on a specific job description with a set salary range.
 - b. Verify that candidates and current employees meet and maintain program eligibility requirements for the student employment program.

- c. Complete background checks on all new employees prior to their start date through a formal communication and coordination process between the Offices of Human Resources and Public Safety.
 - d. Establish a list of acceptable justifications to override a no-hire recommendation from the Office of Public Safety.
 - e. Establish a policy to administer and oversee hiring bonuses and cash awards, including more stringent requirements for justifying and approving awards an employee can earn in a certain period of time.
 - f. Verify eligibility prior to authorizing and continuing pay and/or benefits.
11. Revise its travel policy to further define what constitutes a “reasonable lodging expense” for Authority-related travel and to require that travelers do not exceed the defined amount.
12. Further enhance the accountability and transparency of the Board of Directors, including the following:
- a. Further revise the Board’s bylaws to incorporate what actions the audit committee may take in closed session.
 - b. Develop a Board-specific policy that establishes guidelines for entertaining business contacts, including spending thresholds and reimbursement prohibitions for items such as meals, alcohol, and entertainment.
 - c. Include a mechanism for external review in the Freedom of Information Policy when a requester is denied information.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

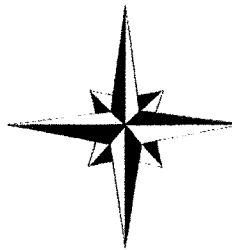
We provided OST with our draft report on October 3, 2012, and received its formal written comments on October 18, 2012. OST’s response is included in its entirety as an appendix to this report. In its response, OST stated that the Department will formally transmit the final report to MWAA with a clear expectation that the Authority produce a detailed response within 30 days addressing each of our recommendations and specific sub elements.

OST emphasized that the Department is exercising the full extent of its authority to help MWAA address the serious problems raised in our report. According to OST, the Department has been working with MWAA over the last several months to ensure that it swiftly adopts needed reforms. In particular, the Department appointed an Accountability Officer to provide guidance to MWAA as it rewrites its policies and procedures.

Enclosure C

Code of Ethics for Members of
Airports Authority Board of Directors
(September 2012)

Metropolitan Washington Airports Authority



**CODE OF ETHICS FOR
MEMBERS OF THE BOARD OF DIRECTORS**

DATE: December 2012

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY**CODE OF ETHICS
FOR
MEMBERS OF THE BOARD OF DIRECTORS****1. PURPOSE AND POLICY**

The Board of Directors of the Metropolitan Washington Airports Authority (the "Authority") recognizes that community and industry support of the Authority's programs is dependent, in large part, upon community and industry trust in the Directors of the Authority. The Board finds and declares that the community and the industry are entitled to be assured that the judgment of the Directors of the Authority will not be compromised or affected by conflicting interests. Directors, Board leadership and Authority management are responsible for fostering high ethical standards for the Authority and its employees, thereby strengthening public confidence that the business of the Authority is being conducted with impartiality and integrity. Toward this end, this Code prescribes standards of ethical conduct and reporting requirements for members of the Board of Directors.

2. DIRECTORS' BASIC DUTY

Directors are expected to act in the best interests of the Authority in carrying out their duties as members of the Board, and to not knowingly engage in conduct that would violate the standards of this Code or bring discredit upon the Authority. Regardless of whether specifically prohibited by this Code, Directors must endeavor to avoid conflicts of interest or even the appearance of a conflict of interests, refrain from using the position of Director for private gain, refrain from giving undue preferential treatment to any person or entity, avoid compromising independence or impartiality, refrain from making Authority decisions outside of official channels, and avoid any other action that is likely to adversely affect the confidence of the public in the integrity of the Authority.

3. CONFLICTS OF INTERESTS

(a) *Actual and Apparent Conflicts.* An actual conflict of interests arises whenever a Director or member of the Director's Immediate Family:

- (i) has a Substantial Financial Interest in an Interested Party; or
- (ii) has a Substantial Financial Interest in any other Business or Property which may realize a reasonably foreseeable benefit or detriment as a result of an action or decision of the Authority.

An apparent conflict of interests arises whenever a Director or member of the Director's Immediate Family has any other personal interest of which the Director is aware that could reasonably appear to conflict with the fair and objective performance of the Director's official duties.

(b) ***Recusal; Declaration.*** Directors are expected to recuse themselves from participating in any Authority matter in which they have an actual conflict of interests. Directors are also expected to recuse themselves from participating in any Authority matter in which they have an apparent conflict of interests, unless the Director believes and publicly declares in the manner described below that the Director is able to participate in the matter fairly and objectively in the interest of the Authority notwithstanding the appearance of a conflict. When a Director is recused from a matter, a written disqualification and recusal agreement is to be executed.

(i) ***Recusal Procedures.*** A Director shall not vote on, or at any time Participate in, attempt to Participate in, or discuss with other Directors or Authority personnel, any matter from which the Director is recused from participating. (Directors may, however, consult the Ethics Officer or General Counsel regarding compliance with the provisions of this Code at any time.) The Director may remain present for any public portion of a meeting at which the matter is considered, provided the Director does not remain at the Board or committee table or dais during the discussion and consideration. The Director may not attend any portion of an executive session closed to the public at which the matter is considered. The Director shall promptly notify the Chairman of the conflict of interests and recusal, and shall cause the Board's official records to reflect the Director's recusal from participating in the matter. Additionally, the fact of the conflict of interests and recusal shall be publicly announced at any meeting of the Board or Board committee at which the matter is considered.

(ii) ***Declaration Procedures.*** If a Director believes that the Director is able to participate in a matter fairly and objectively in the interest of the Authority notwithstanding an apparent conflict of interests, the Director shall declare: (1) the nature of the Director's personal interest in the parties or matter before the Authority, and (2) that the Director is able to participate in the matter fairly and objectively in the interest of the Authority. The Director shall make the declaration orally at any meeting of the Board or Board committee at which the matter is considered. In any other circumstance, the Director shall file a signed written declaration with the Secretary of the Board, who shall cause the declaration to be included in the Board's official records and shall make it available for public inspection.

(c) ***Prohibited Interests.***

(i) ***Prohibited Interests Existing at Time of Appointment; Exceptions.*** To qualify for appointment, a prospective Director and members of the prospective Director's Immediate Family may not hold a Substantial Financial Interest in an Interested Party. Exceptions to this prohibition may be made by the appointing official at the time of appointment if the interest is disclosed to the appointing official and the Director does not participate in any Authority matter affecting such Interested Party.

(ii) ***No Acquisition of Certain Interests during Term of Service.*** No Director or member of the Director's Immediate Family shall knowingly acquire any interest in an Interested Party during the Director's term of service. This shall not preclude, however, acquisition of interests in one or more diversified mutual funds, employee benefit plans, or

other investment plans holding interests in an Interested Party that are administered by an independent party without participation by the Director or his or her Immediate Family members in the selection or designation of financial interests held by the fund or plan.

(iii) *Prohibited Contracts and Employment with the Authority during Term of Service.* No Director or member of a Director's Immediate Family shall be employed by the Authority during the Director's term of service. In addition, no Director, member of the Director's Immediate Family, or Business that is wholly or substantially owned or controlled by a Director or a member of the Director's Immediate Family shall be a party to a contract with the Authority during the Director's term of service. For purposes of this section, a Business will be considered "substantially" owned or controlled if the Director or a member of the Director's Immediate Family singly or in combination owns or controls more than fifty percent (50%) of the Business (i.e., by value or voting power).

(d) *Authority Procedures for Facilitating Compliance with Conflict of Interests Restrictions.* In order to facilitate compliance with the conflict of interests provisions of this section, Authority management, on no less than a quarterly basis, shall supply to Directors a current list of all Authority Interested Parties and other Businesses or Property that may be affected by a Board or committee decision on particular matters at a future Board or committee meeting. In addition, at least one week prior to any meeting of the Board or committee, management shall supply to Directors a list of Interested Parties and other Businesses or Property that may be affected by a Board or committee decision on a particular matter for consideration at the upcoming meeting. Directors are entitled to rely on the accuracy of information supplied to them by the Authority pursuant to this subsection. Directors shall review the information at the time it is supplied against their current holdings, and shall, as necessary, recuse themselves from participating in any matter in which they have a conflict of interests or, in the case of an apparent conflict, make the declaration described in subsection (b)(ii) with regard to the matter. Authority management shall also collect information from Businesses seeking a contract or agreement with the Authority that will facilitate compliance with this Code, which may include a requirement for such Businesses to identify whether, to the Business's knowledge, any Director or member of the Director's Immediate Family has a Substantial Financial Interest in the Business (including a parent entity of the Business).

(e) *Definitions.* For purposes of this Section and throughout this Code:

(i) *Business* means a sole proprietorship, corporation, partnership, company, joint venture, association, joint stock company or any other form of entity recognized by law which is engaged in trade, commerce or the transaction of business, and any parent entity of the foregoing. For purposes of this Code, an entity will be considered a "parent" of a Business if the entity owns or controls more than fifty percent (50%) of the Business (i.e., by value or voting power).

(ii) *Immediate Family* includes a Director's spouse, domestic partner, any dependent children within the meaning of Section 152 of the Internal Revenue Code living in the Director's household, and any other person over whose financial affairs the Director has substantial legal or actual control.

(iii) ***Interested Party*** means any Business that has or is seeking a contract or agreement with the Authority or is an aeronautical, aviation services or airport services enterprise that otherwise has interests that can be directly affected by decisions or actions of the Authority.

(iv) ***Participate*** means approving, disapproving, making, undertaking, influencing or attempting to influence an action or decision of the Authority.

(v) ***Property*** means real property, including land, together with any structures or improvements thereon, and any rights or interests in land and/or improvements.

(vi) ***Substantial Financial Interest*** means:

(1) ***Ownership of Interest in a Business.*** Ownership interest (e.g., shares of stock or other securities) in a Business that exceeds three percent (3%) of the total equity of the Business, has a fair market value greater than \$15,000 or yields more than \$1,000 in annual income.

(2) ***Ownership of Interest in Property.*** Ownership interest in Property that has a fair market value greater than \$15,000 or yields more than \$1,000 in annual income.

(3) ***Ownership of Interest in or Employment by a Business Receiving Income from an Interested Party.*** Employment by or ownership (as defined above in subparagraph (1)) in a Business receiving revenues from an Interested Party of at least \$10,000 or three percent (3%) of the Business's gross income for its current or preceding fiscal year, whichever is greater.

(4) ***Income.*** Income in any form (whether or not deferred) from a Business or Property, including, but not limited to, wages, salaries, fringe benefits, interest, dividends or rent that exceeds or may reasonably be expected to exceed \$1,000 annually. Income also includes the prospect of income arising, for example, from an upcoming job or offer of employment with a Business.

(5) ***Pledge or surety.*** Personal liability (incurred or assumed) on behalf of a Business that exceeds the lesser of three percent (3%) of the asset value of the Business or \$1,000.

(6) ***Loan or debt.*** Personal indebtedness of \$1,000 or more to a Business, *except* a debt incurred in the ordinary course of business on usual commercial terms (e.g., a mortgage liability secured by a personal residence of the Director or the Director's spouse; a loan liability secured by a personal motor vehicle, household furniture or household appliances; a personal revolving line of credit or capital contribution loan liability; a debit, credit or other revolving charge account liability).

(7) **Personal Representation.** Personally representing or providing professional services to a Business, including legal, audit, accounting, financial and consulting services, regardless of the specific subject matter of the representation or amount of compensation received.

(8) **Fiduciary Duty.** The duty owed to a Business by a director, officer or general partner of the Business, even without financial remuneration from the Business.

(9) **Exclusions.** The following financial interests are excluded from "Substantial Financial Interests": checking or savings accounts; money market accounts and other demand deposits; government bonds; certificates of deposit; and diversified mutual funds, pension plans, employee benefit plans, trusts, estates and other similar funds, plans and entities administered by an independent party without participation by the Director or the Director's Immediate Family members in the selection or designation of financial interests held by the fund, plan or entity.

(10) **Imputed Interest.** The financial and other interests in a Business or Property held by the members of a Director's Immediate Family are imputed to the Director for purposes of this Code.

4. POST-SERVICE RESTRICTIONS

(a) **No Contracts or Employment with the Authority for Two Years.** No Director or member of a Director's Immediate Family shall be employed by the Authority for two years following the conclusion of the Director's term of service. In addition, no Director, member of the Director's Immediate Family, or any Business that is wholly or substantially owned or controlled by a Director or a member of the Director's Immediate Family shall be a party to a contract with the Authority for two years following the conclusion of the Director's term of service. For purposes of this section, a Business will be considered "substantially" owned or controlled if the Director or member of the Director's Immediate Family singly or in combination owns or controls more than fifty percent (50%) of the Business (i.e., by value or voting power).

(b) **No Representation of Third-Parties before the Authority for Two Years.** No Director, within two years of the conclusion of the Director's term of service, shall knowingly make, with the intent to influence, any communication to or appearance before the Board of Directors or any Director, officer or employee of the Authority on behalf of a Business or person other than the Authority in connection with a particular matter that the former Director knows or reasonably should know was pending during his or her term of service.

5. USE OF AUTHORITY POSITION

(a) **General Rule.** Directors shall not use their position with the Authority for their own personal financial gain, for the endorsement of any product, service or enterprise in which they have a financial interest, or for the private financial gain of friends, relatives, or individuals or entities with which they are affiliated, including nonprofit organizations of which they are officers or members, or with which they have or seek employment or business relations.

Notwithstanding the foregoing, based on personal knowledge, a Director may: (i) refer to the Authority President individuals other than relatives (as defined below in subsection 5(d)) who may be suitable candidates for employment and individuals and entities which may be able to provide products or services of potential interest to the Authority; following such referral, the Director shall take no action to influence a decision or action by Authority management to employ or contract with such individuals or entities; and (ii) respond to a request for an employment recommendation or character reference for individuals other than relatives who are being considered for Authority employment.

(b) *Confidential Information.* Directors shall not engage in financial transactions using proprietary, sensitive or confidential information of the Authority, allow or cause the improper use of such information to further any private interest, or allow or cause such information to be disclosed to unauthorized persons or in advance of the time prescribed for its authorized disclosure, except where and to the extent necessary to fulfill the Director's responsibility as a member of the Board of Directors and where required by law.

(c) *Solicitation of Political or Charitable Contributions.* Directors shall not solicit any support or financial assistance from the Authority or from any Authority employee for any political party, candidate or political committee, or for any charitable purpose. The Authority shall not give any support or financial assistance solicited in violation of this Code.

(d) *Influence with regard to Relatives.* A Director shall not participate in, address or discuss, or attempt to influence in any manner a decision by the Board or Authority management to hire, appoint, employ or promote, or to enter a contract with a person who is a relative of the Director. For the purposes of this subsection, the term "relative" means the following: husband, wife, domestic partner, father, mother, grandfather, grandmother, son, daughter, stepson, stepdaughter, granddaughter, grandson, brother, sister, uncle, aunt, nephew, niece, father-in-law, mother-in-law, daughter-in-law, son-in-law, sister-in-law or brother-in-law.

6. COMPENSATION AND REIMBURSEMENT OF EXPENSES

Directors do not receive compensation for serving as a Director of the Authority. Directors may, however, be reimbursed by the Authority for reasonable, authorized and properly documented expenses incurred in connection with the discharge of their official duties, in accordance with and to the extent permitted under the Authority's expense reimbursement policies. Directors are expected to exercise prudence when incurring expenses in connection with official duties.

7. GIFTS

(a) *Definitions.*

(i) *Gift.* A gift is any gratuity, favor, discount, entertainment, hospitality, loan, forbearance, or other item having monetary value for which the recipient does not pay market value. A gift therefore includes, but is not limited to, cash, a meal, merchandise, services, admission to a sporting event, admission to a theatrical, musical or other spectator

event, admission to an event or activity in which persons are participants (e.g., a conference or golfing event), travel, transportation and lodging. It does not matter whether a gift is provided to the recipient in kind or in the form of a ticket, a payment in advance or a reimbursement of an expense that has been incurred; in all these cases, the item provided is considered a gift.

(ii) **Prohibited Source.** A Prohibited Source is:

- (1) an "Interested Party" as defined in Section 3(e)(iii) of this Code;
- (2) a Business or individual whose interests may be substantially affected by the performance or non-performance of the Director's duties; and
- (3) a Business or individual where it is clear that the gift would not have been offered or given were the Director not a member of the Authority Board of Directors.

For purposes of this Section 7, "Business" includes the officers, employees and agents of the Business.

(b) **Solicitation of Gifts.** A Director shall not solicit a gift, regardless of its value, from a Prohibited Source or from any Authority employee, except as specifically permitted pursuant to the exception set forth in Section 1 of Appendix A to this Code.

(c) **Acceptance of Gifts.**

(i) **General Rule.** Directors shall not accept any gift, directly or indirectly, from a Prohibited Source, except as specifically permitted pursuant to the exceptions set forth in Section 2 of Appendix A to this Code.

(ii) **Direct and Indirect Acceptance.** A gift is accepted "directly" when it is provided to and accepted by the Director. A gift is accepted "indirectly" when (1) with the Director's knowledge and acquiescence, it is provided to and accepted by the Director's parent, spouse, domestic partner, sibling, child or dependent relative (as defined in Section 5(d) of this Code), whether or not living in the same home, because of that person's relationship with the Director, or (2) is provided to and accepted by any other person, excluding a charitable organization or other charitable recipient approved by the Ethics Officer, on the basis of a designation, recommendation or other specification made by the Director.

(iii) **Limitations notwithstanding the General Rule.** Directors should not accept gifts, even though permitted pursuant to an applicable exception, on such a frequent or regular basis that a reasonable person could be led to believe they are using their position with the Authority for personal gain or are not performing the duties of their position in an impartial manner.

(iv) *Seeking Advice.* Directors are encouraged to seek the advice of the Ethics Officer when attempting to determine whether a particular offer of a thing of value may constitute a gift that may not be accepted under this Section 7.

(v) *Remedies.* A Director who has received a gift that may not be accepted under this Code shall do one of the following: pay the giver the gift's market value; return the gift to the giver; or in the case of perishable items delivered not by the giver but by a third party (e.g., Federal Express) deliver the gift to the Ethics Officer, who will make proper disposition of it. Market value may be estimated by reference to the retail cost of similar items or services of like quality. The Ethics Officer should be consulted when estimating the market value of a gift. Subsequent reciprocation of the giver by the Director does not constitute payment of the market value of a gift.

(d) *Disclosure.* Directors shall disclose to the Ethics Officer any gift solicited or accepted (directly or indirectly) from a Prohibited Source pursuant to an applicable exception of this Code. Gifts shall be disclosed in writing at the time of solicitation or acceptance (or as soon as possible thereafter). The disclosure shall briefly describe the gift, state its value and identify its source. Gift disclosures shall be maintained by the Ethics Officer for compilation and filing with each Director's Annual Disclosure Statement.

8. DISCLOSURE OF FINANCIAL INTERESTS AND OTHER MATTERS

(a) *Annual Disclosure.* Directors shall file a disclosure statement with the Ethics Officer on a form provided by the Authority within 30 days of assuming a position as Director, and by January 31 of each year thereafter for the duration of the Director's term of service ("Annual Disclosure Statement"). The Annual Disclosure Statement shall disclose:

(i) any Substantial Financial Interest in an Interested Party, Business or Property held by the Director or any member of the Director's Immediate Family at the time of filing, except for "personal representation" interests as defined in Section 3(e)(vi)(7) of this Code;

(ii) any positions of employment held by the Director or any member of the Director's Immediate Family during the prior calendar year, whether on a full- or part-time basis;

(iii) any outside positions held by the Director or any member of the Director's Immediate Family during the prior calendar year as a director, officer, general partner or trustee of any Business or other entity (including nonprofit, labor and educational organizations or institutions, although positions held in any religious, social, fraternal or political organization need not be disclosed);

(b) *Reimbursements and Gifts.* The following information shall be compiled by designated Authority personnel from Authority records for each Director, and filed with the Director's Annual Disclosure Statement:

(i) all reimbursements received from the Authority during the prior calendar year; and

(ii) all gifts accepted (directly or indirectly) from a Prohibited Source which had an aggregate value of \$350 or more, including a brief description of such gifts, their aggregate value and the identity of their source.

(c) **Continuing Disclosure Obligation.** Whenever a Director or a member of his or her Immediate Family acquires a disclosable Substantial Financial Interest in an Interested Party, Business or Property not previously disclosed, the Director shall notify the Ethics Officer, in writing, within 10 calendar days of the acquisition and its details, and such statement shall be maintained in the same file as the Director's most recent Annual Disclosure Statement.

(d) **Public Availability.** All statements required by this Section 8 shall be available for public inspection at the Authority offices at Ronald Reagan Washington National Airport.

9. ETHICS OFFICER

(a) **Designation.** The President, with approval of the Board, shall designate an Authority employee to serve as the Authority Ethics Officer, who will have and perform the responsibilities assigned to such officer in this Code of Ethics. An employee's designation as the Ethics Officer shall continue until rescinded by the President.

(b) **Duties.** The Ethics Officer is charged with fostering the highest ethical standards for the Authority and its Directors and employees, thereby strengthening public confidence that the business of the Authority is conducted with impartiality and integrity. Specifically, the Ethics Officer is responsible for the following:

- (i) distributing copies of the Ethics Code to Directors;
- (ii) distributing, receiving and reviewing Annual Disclosure Statements submitted by Directors;
- (iii) discussing potential conflicts of interest with Directors;
- (iv) advising Directors about the application of this Code to specific questions or situations presented by Directors, and documenting when ethics advice has been provided;
- (v) arranging for the preparation and delivery of ethics training materials and sessions;
- (vi) serving as primary support staff to the Board's Ethics Review Committee (defined in Section 11(b) of this Code); and
- (vii) receiving allegations of violations of this Code, conducting preliminary investigation into all such allegations, and reporting all allegations to the Ethics Review Committee with a recommendation for or against further inquiry based on the preliminary investigation.

(c) *Opinion of Ethics Officer.* No Director may be found to have violated this Code if the alleged violation followed from the Director's good faith reliance on a written opinion from the Ethics Officer that was made after a full and accurate disclosure by the Director of all material facts.

(d) *Role of General Counsel.* The Ethics Officer shall consult with the Authority's General Counsel, as necessary, in connection with carrying out the above-described duties.

10. TRAINING

Directors are provided with a copy of this Code of Ethics upon assuming their position as Director. Within 30 days of receiving the Code, Directors shall provide the Ethics Officer with a written certification that they have read and will comply with the Code. The Ethics Officer will arrange for all Directors to receive verbal ethics training and accompanying training materials within four weeks of the start of their term and thereafter on no less than an annual basis.

11. ENFORCEMENT

(a) *Enforcement Responsibility; Interpretation.* The Board is responsible for enforcing the provisions of this Code. It may seek general guidance regarding interpretation of the Code from the Ethics Officer and General Counsel.

(b) *Receipt and Review of Allegations.* Allegations of violations of this Code may be reported to the Board Chairman or to the Vice Chairman if the allegation pertains to the Board Chairman. The Board Chairman and Vice Chairman shall report any allegations received by them to the Ethics Officer for preliminary investigation. The Ethics Officer shall report all allegations to a Committee comprised of Directors and designated by the Board (with at least one Director from each appointing jurisdiction) with responsibility for ethics matters ("Ethics Review Committee"), with a recommendation for or against further inquiry based on the preliminary investigation. The Ethics Review Committee shall review all reports and recommendations received from the Ethics Officer and may conduct further inquiry or refer any matter to the Board of Directors for further action as the Committee deems appropriate.

(c) *Sanctions.* Disinterested members of the Board of Directors may hold a hearing regarding any ethics matter referred by the Ethics Review Committee. A Director whose alleged conduct is the subject of Board review shall be given notice and an opportunity to be heard, in writing and in person. If, following such hearing, the Board determines that a Director has knowingly violated this Code, the determination shall be made publically available, and the Board may take the action it determines to be appropriate, which may include but is not limited to any or all of the following:

- (i) issuing a public reprimand;
- (ii) giving notice of the violation to the Director's appointing authority; and

(iii) taking appropriate action regarding any contract or agreement that is related to the violation (e.g., voiding or cancelling a contract), to the extent permitted by law.

12. REVIEW OF POLICY

The Ethics Officer, in consultation with the Board Secretary and General Counsel, shall review this Code on an annual basis and report to the Board regarding any recommendations for amending the Code or its implementing policies and procedures.

Effective December 1, 2012

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY**CODE OF ETHICS
FOR
MEMBERS OF THE BOARD OF DIRECTORS****APPENDIX A – GIFT RULE EXCEPTIONS**

Solicitation or acceptance of gifts from Prohibited Sources is permitted only under the following circumstances:

1. SOLICITATION EXCEPTION.

When authorized by the Board Chairman and Ethics Officer and acting on behalf of the Authority, Directors may solicit donations for events sponsored in whole or in part by the Authority.

2. ACCEPTANCE EXCEPTIONS.

(a) *Gifts of \$25 or Less.* Directors may accept a gift (whether given directly or indirectly) other than cash of less than \$25.00, so long as the aggregate market value of individual gifts a Director receives from the same Prohibited Source in a calendar year does not exceed \$50. If the market value of a gift exceeds \$25 (or the aggregate market value of multiple gifts exceeds \$50), a Director may not pay the excess value over \$25 (or \$50) in order to accept the gift.

(b) *Personal Gifts.* Directors may accept a gift (whether given directly or indirectly) that is given under circumstances that make it clear that the gift is motivated by a personal friendship or family relationship rather than the position of the Director. Relevant factors in deciding whether a gift is motivated by a personal friendship or family relationship include the history of the friendship or relationship, and whether the cost of the gift is paid by the individual with whom the friendship or relationship exists or by the individual's employer.

(c) *Widely Attended Gatherings.* Directors may accept a gift of free attendance at a widely attended gathering (defined below), or an appropriate portion of such an event, with the written advance approval of the Ethics Officer that the Director's attendance is in the interest of the Authority because it furthers Authority objectives.

A widely attended gathering can take many forms, including, but not limited to, a reception, a luncheon or dinner event (including with entertainment), a banquet, a conference, and an activity-based event. A gathering is widely attended if it is expected that a large number of persons will attend, and such persons will bring differing interests, perspectives and/or viewpoints to the gathering. A sporting, theatrical, musical or similar spectator event will usually not be deemed to be a widely attended gathering.

The Ethics Officer will determine the Authority's interest in a particular widely attended gathering. Relevant factors that should be considered include the purpose of the gathering, the

relevance and importance of the gathering to the Authority, the identity of expected attendees and the range of interests, perspectives and viewpoints they will bring to the gathering, and the market value of the gift of free attendance.

Free attendance to a widely attended gathering may include the provision of food, refreshments, entertainment, instruction and instructional materials, and activity-based activities (e.g., a round of golf), each of which is furnished to all attendees as an integral part of the gathering. Free attendance may not include the provision of travel or lodgings.

(d) *Speaking Engagements and Events.* Directors may accept a gift of free attendance from the sponsor of an event at which they are speaking, presenting information or otherwise participating on behalf of the Authority. Free attendance may include food, refreshments and entertainment furnished to all attendees as an integral part of the event. Directors' participation in the event on the day of their participation is viewed as a customary and necessary part of the performance of their positions and does not constitute a gift to the Directors or the Authority.

(e) *Inaugural Flights.* Directors may accept a gift of travel, meals and lodging with respect to an inaugural flight to and from Reagan National or Dulles International Airport only if the terms of the gift are fully disclosed in advance to the Board and the public. An inaugural flight is deemed a gift to the Authority and not an individual Director.

(f) *Authority-Sponsored Events.* Directors may accept a gift of free attendance to an event that is sponsored solely by the Authority to recognize one or more Authority officers or employees or an Authority achievement or milestone, or that is sponsored, in whole or in part, by the Authority to raise funds for a charitable organization or cause. Free attendance to such an event may include the provision of food, refreshments and entertainment.

(g) *Gifts to Family Members.* A gift provided to the parent, spouse, domestic partner, sibling or child of a Director may be accepted where the gift results from the business or employment activities of the recipient, and it is clear from the circumstances that the gift is not being offered or given because of the Director's position with the Authority.

(h) *Prizes.* Directors may accept a gift that is a prize given to successful competitors in competitive contests or events or to persons based upon random drawings (including door prizes given randomly). Directors may accept a gift, not addressed in the prior sentence, that is provided as a favor or in recognition of attendance to all attendees at a widely attended gathering or at an event identified in paragraph (d) or (f), so long as the value of the gift is less than \$25.

(i) *Gifts to Authority.* A Director representing or acting on behalf of the Authority may accept and use gifts of property for the Authority. Property accepted under this section and proceeds from that property must be used, as nearly as possible, under the terms of the gift, if any. These include: (i) ceremonial gifts given to Directors (e.g., by representatives of foreign airports or governmental units) while serving as a representative of the Authority that are accepted on behalf of the Authority; and (ii) gifts of food or refreshments provided Directors at events they are attending as representatives of the Authority, where it is clearly in the interest of the Authority that it be present at the event through one or more official representatives. In the

case of ceremonial gifts, Directors are to turn the gifts over as soon as practicable to the Ethics Officer for disposition.

(j) *Gifts of Generally Available Items.* Directors may accept gifts that represent an opportunity or benefit, including favorable air fares, commercial discounts and upgrades of service from air carriers, that is available either to the public (e.g., frequent flyer miles) or to a class of individuals consisting of all Authority employees or all Authority employees working at an airport (e.g., discounts offered airport employees by concessionaires in the terminals). The acceptance of a gift representing an opportunity or benefit, including, for example, an upgrade of air service, that is made available to any other class of Authority employees, including a class of one employee, is not permitted.

(k) *Approved Gifts.* The Board of Directors may, in an open public meeting, approve a Director's acceptance of a gift not otherwise falling within one of the foregoing exceptions if it determines that the acceptance would not be detrimental to the impartial conduct of the business of the Authority.

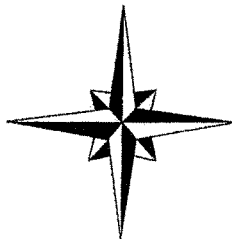
Enclosure D

Code of Ethics for Employees of Airports Authority
(September 2012)

DIRECTIVE

GC-001B

Metropolitan Washington Airports Authority



CODE OF ETHICS FOR EMPLOYEES

DISTRIBUTION: All Employees

OPI: MA-70
DATE: January 2013

CODE OF ETHICS FOR EMPLOYEES
Foreword to 2012 Revised Code

On September 19, 2012, the Board of Directors approved a new Code of Ethics for Employees of the Airports Authority. The revised Code is effective January 1, 2013. The Board has also approved a revised Code of Ethics for the Board of Directors. Both of these revised Codes of Ethics are intended to ensure that actions by employees and directors, both in fact and appearance, are honest, impartial and fair, and are not affected by any interest beyond the "best interest" of the Airports Authority. The Codes accomplish this by defining a range of rules that are applicable to employees and directors in four primary areas: conflicts of interests; disclosure of financial interests; solicitation and acceptance of gifts; and contacts with the Airports Authority following employment or service on the Board.

A number of significant changes have been made in the revised Code of Ethics for Employees.

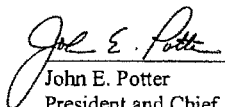
One is the creation of the position of Ethics Officer. Among the officer's responsibilities will be to advise employees on the meaning of the Code and to answer questions regarding its applicability to specific circumstances. An employee who acts in reliance on the advice of the Ethics Officer after making a full and accurate disclosure of all material facts cannot be found to have violated the Code.

Another change is in the area of gifts. The revised Code clarifies and expands the types of gifts that employees may not accept. Also, there are now certain gifts that may be accepted only with the prior approval of the Ethics Officer.

A third significant change affects the annual filing of a financial disclosure form. The number of employees who are required to file a disclosure form has been increased. In addition, the financial interests that must be disclosed have been expanded, and there is a new requirement that gifts above a defined size which have been accepted during the prior year must be disclosed.

All employees will be trained in this new Code of Ethics before it takes effect.

A major goal of the revised Code of Ethics is the achievement of a workplace that reflects the unquestioned integrity of the Airports Authority and of each of its employees. I expect every employee to join me in making the accomplishment of this goal a top priority.



John E. Potter
President and Chief Executive Officer

10/12/2012
Date

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METROPOLITAN WASHINGTON AIRPORTS AUTHORITY
CODE OF ETHICS FOR EMPLOYEES

1. PURPOSE

This document establishes a formal Code of Ethics (Code) for all employees of the Metropolitan Washington Airports Authority (Authority).

2. DISTRIBUTION

This Code of Ethics is distributed to all Authority employees.

3. INTERESTS OF THE AUTHORITY

The Authority expects all employees to act in the best interests of the Authority at all times and to not knowingly engage in conduct that is illegal, dishonest, or a conflict of interests or that brings discredit upon the Authority. Employees must endeavor to avoid any actions that would create even the appearance that they are violating the law or the standards of this Code of Ethics. Whether particular circumstances create such an appearance is to be determined from the perspective of a reasonable person with knowledge of the relevant facts.

For example, there would be an appearance of a conflict if an Authority employee were to administer a contract for which his or her sister was the project manager for the contractor. Even though the employee would not have a Substantial Financial Interest in the matter, such a situation would create the appearance of a conflict of interests. If the Authority employee failed to bring this situation to the attention of management, he or she may be disciplined.

In addition, employees are expected to report violations of this Code of Ethics to the Office of General Counsel. (See the Conduct and Discipline Directive, Section 4, regarding the reporting of other misconduct.)

4. GIFTS

This Section sets forth rules regarding employees' solicitation and acceptance of gifts.

a. *Gift Defined.* The term "gift" is broadly defined for the purposes of this Code and means any gratuity, favor, discount, entertainment, hospitality, loan, forbearance, or other item having monetary value for which the recipient does not pay market value. Therefore, a gift includes, but is not limited to: cash; meals and food; merchandise; services; admission to a sporting event; admission to a theatrical, musical or other entertainment event; admission to an event or activity in which persons are participants (e.g., a conference or golfing event); attendance at a reception; travel; transportation; and lodging. It does not matter whether a gift is provided to the recipient in kind or in the form of a ticket, a payment in advance, or a

reimbursement of an expense that has been incurred. In all these cases, the item provided is considered a gift.

b. *General Prohibition on Solicitation.* Employees shall not solicit a gift, regardless of its value, from a Prohibited Source (defined in subsection (c)) or from any subordinate employee. However, when authorized by the Ethics Officer and acting on behalf of the Authority (or a trade association, business group or similar entity on which the employees represent the Authority), employees may solicit donations from a Prohibited Source for the support of an event sponsored in whole or in part by the Authority (or by the trade association, business group, or similar entity). For example, employees may solicit donations for Dulles Day Plane Pull for the Special Olympics, the United Way silent auction and events sponsored by the American Association of Airport Executives.

c. *General Prohibition on Acceptance.* Except as permitted below in subsection (d), employees shall not accept a gift directly or indirectly from any of the following Prohibited Sources: (i) a Business doing business or seeking to do business with the Authority, (ii) a Business or individual whose interests may be substantially affected by the performance or non-performance of the employees' duties, or (iii) a Business or individual where it is clear that the gift is being given because of the employees' positions with or status as employees of the Authority. For purposes of this subsection, Business includes the officers, employees, and agents of the Business. Employees may not accept any compensation other than that which they receive from the Authority for the performance of their Authority duties.

A gift is accepted directly when it is provided to and accepted by the employee. A gift is accepted indirectly when (i) with the employee's knowledge and acquiescence, it is provided to and accepted by the employee's parent, spouse, domestic partner, sibling, child or dependent relative (as defined in Section 9(a)), whether or not living in the same household, because of that person's relationship with the employee or (ii) is provided to and accepted by any other entity or individual (excluding a charitable organization or other charitable recipient approved by the Ethics Officer) on the basis of a designation, recommendation, or other specification made by the employee.

d. *Exceptions to Prohibition on Acceptance.* Employees are permitted to accept from Prohibited Sources the gifts described in this subsection that otherwise would be prohibited by subsection (c); provided, however, that employees shall not accept these or any other gifts in the following situations: (i) in return for being influenced in the performance of their official duties, (ii) from the same or different sources on a basis so frequent that a reasonable person would be led to believe the employees are using their positions with the Authority for private gain, or (iii) in violation of the law.

(1) *Nominal Value Gifts.* Employees may accept a gift (whether given directly or indirectly) *other than cash* of less than \$25, so long as the aggregate market value of individual gifts an employee receives from the same Prohibited Source in a calendar year does not exceed \$50. Where the market value of a gift exceeds \$25 (or the aggregate market value of multiple less-than-\$25 gifts exceeds \$50), an employee may not pay the excess value over \$25 (or \$50) in order to accept the gift.

(2) *Personal Gifts.* Employees may accept a gift (whether given directly or indirectly) that is given under circumstances that make it clear that the gift is motivated by a personal friendship or family relationship rather than the position of the employee. Relevant factors in deciding whether a gift is motivated by a personal friendship or family relationship include the history of the friendship or relationship and whether the cost of the gift is paid by the individual with whom the friendship or relationship exists or by the individual's employer. However, see subsection (f) *Gifts from Subordinates* below.

(3) *Widely Attended Gatherings.* Employees may accept a gift of free attendance at a widely attended gathering (defined below), or an appropriate portion of such an event, with the written approval of the Ethics Officer where the Officer has determined, in advance of the gathering, that the employees' attendance is in the interest of the Authority because it furthers Authority objectives.

A widely attended gathering can take many forms including, but not limited to, a reception, luncheon or dinner event (including with entertainment), banquet, conference, charity event, and activity-based or participatory event. A widely attended gathering can have many purposes including, but not limited to, instruction or discussion of a subject related to Authority objectives; recognition of an event, organization, or individual; and raising funds for charitable organizations or causes. A gathering is widely attended if it is expected that a large number of individuals will attend and these individuals will bring differing interests, perspectives, or viewpoints to the gathering. A sporting, theatrical, musical, or similar entertainment event will usually not be deemed to be a widely attended gathering.

The Ethics Officer will determine the Authority's interest in a particular widely attended gathering. Relevant factors that will be considered include: the purpose of the gathering; the relevance and importance of the gathering to objectives of the Authority; the identity of expected attendees and the range of interests, perspectives, and viewpoints they will bring to the gathering; and the market value of the gift of free attendance.

Free attendance to a widely attended gathering may include the provision of food, refreshments, entertainment, instruction, instructional materials, and activity-based or participatory activities, each of which is furnished to all attendees as an integral part of the gathering. (See also subsection (d)(7) below.) Free attendance to a widely attended gathering may not include the provision of travel or lodging.

(4) *Speaking Engagements and Events.* Employees may accept a gift of free attendance from the sponsor of an event at which they are speaking, presenting information, participating on a panel, or engaging in a similar activity on behalf of the Authority. Free attendance may include food, refreshments, entertainment, instruction, and instructional materials furnished to all attendees as an integral part of the event. (See also subsection (d)(7) below.) Employees' participation in the event on the day of their participation is viewed as a customary and necessary part of the performance of their duties and does not constitute a gift to the employees or the Authority.

(5) *Authority-Sponsored Events.* Employees may accept a gift of free attendance to an event that is sponsored solely by the Authority to recognize one or more Authority officers or employees or an Authority achievement or milestone, or that is sponsored, in whole or in part, by the Authority to raise funds for a charitable organization or cause. Free attendance at such an event may include the provision of food, refreshments, entertainment, and participatory activities.

(6) *Gifts to Family Members.* A gift provided to the parent, spouse, domestic partner, sibling, child, or dependent relative (as defined in Section 9(a)) of an employee may be accepted where the gift results from the business or employment activities of the recipient and it is clear from the circumstances that the gift is not being offered or given because of the employee's position with the Authority.

(7) *Prizes.* Employees may accept a gift that is a prize given to successful competitors in competitive contests or events or to persons based upon random drawings (including door prizes given randomly). Employees may accept a gift, not addressed in the prior sentence, that is provided as a favor or in recognition of attendance to all attendees at a widely attended gathering or at an event identified above in paragraph (4) or (5), so long as the value of the gift is less than \$25.

(8) *Gifts to Authority.* An employee representing or acting on behalf of the Authority may accept a gift of property for the Authority. Property accepted under this section and proceeds from that property must be used, as nearly as possible, under the terms of the gift, if any. These gifts include: (i) ceremonial gifts given to employees (e.g., by representatives of foreign airports or governmental units) while serving as a representative of the Authority that are accepted on behalf of the Authority, (ii) gifts of food or refreshments provided employees at events they are attending as representatives of the Authority where it is clearly in the interest of the Authority that it be present at the event through one or more official representatives, and (iii) gifts of instruction or training offered to the Authority and provided to employees who have been designated by the Authority. Training provided to employees by a contractor pursuant to and as required by its contract with the Authority, or by a contractor in order to facilitate the Authority's use of products or services the contractor is furnishing under a contract with the Authority, is not considered a gift. In the case of ceremonial gifts, employees must turn the gifts over as soon as practicable to the Ethics Officer for disposition.

(9) *Gifts of Generally Available Items.* Employees may accept gifts that represent an opportunity or benefit, including favorable air fares, reasonable commercial discounts, and upgrades of service from air carriers, where the same opportunity or benefit is being made available to the public (e.g., frequent flyer miles) or to a class of individuals consisting of all Authority employees or all Authority employees working at an airport (e.g., discounts offered airport employees by concessionaires in the terminals). The acceptance of a gift representing an opportunity or benefit that is made available to any other class of Authority employees, including a class of one employee, is not permitted by this

subsection. Thus, for example, an upgrade of air service that is made available to a small group of employees, or a single employee, may not be accepted.

e. *Appearance of Impropriety.* Employees must be mindful of perceptions and appearances that can arise from their acceptance of gifts from a Prohibited Source that are permitted under subsection (d). Consequently, employees should not accept gifts, even though permitted under that subsection, on such a frequent or regular basis that a reasonable person could be led to believe that employees are using their positions for personal gain or are not performing the duties of their positions in an impartial manner.

f. *Gifts from Subordinates.* Employees shall not accept gifts from subordinate employees, except for gifts that are offered for or on the following occasions:

(1) in recognition of special, non-recurring occasions of personal significance, such as marriage, illness, death in the family, and the birth or adoption of a child and

(2) in recognition of the termination of a subordinate-official superior relationship such as retirement, resignation or transfer.

g. *Remedies for Receipt of Improper Gifts; Ceremonial Gifts.* Employees who have received a gift that may not be accepted under this Code must take one of the following steps:

(1) pay to the giver the market value of the gift, whether the gift consists of a tangible (e.g., box of candy, flowers) or intangible (e.g., ticket to a sporting or entertainment event) item. The market value of the gift may be estimated by reference to the retail cost of similar items of like quality. However, when employees intend to retain a gift and pay the giver its market value, they shall consult with the Ethics Officer regarding the market value or

(2) return the gift to the giver; provided, however, that a gift of perishable items which is delivered not by the giver but by a third party (e.g., Federal Express) may, with the concurrence of the recipient employees' supervisors or the Ethics Officer, be given to an appropriate charitable organization, shared within the employees' office or working unit, or destroyed.

In the case of ceremonial gifts, although it is not improper to accept them, employees shall deliver the gifts to the Ethics Officer who will make proper disposition of them.

h. *Consultation with Ethics Officer.* Employees should seek the advice of the Ethics Officer when attempting to determine whether a particular offer of a thing of value may constitute a gift that may not be accepted under this Section. Under certain circumstances, written opinions provided by the Ethics Officer that are relied on by employees will insulate employees from a finding that they have accepted a gift in violation of this Code. (See Section 12(c) below.)

5. MISUSE OF AUTHORITY POSITION

a. Employees shall not use their positions with the Authority for their own financial gain; for the endorsement of any product, service, or business enterprise; or for the private financial gain of friends or relatives (as defined in Section 9(a)) or of any entity or individual with whom employees are affiliated (including nonprofit organizations of which the employees are officers or members) or with whom employees have or are seeking employment or a business relationship. Thus, for example, employees may not ask an Authority contractor or subcontractor to hire or consider hiring a relative or a friend, or inform a contractor that they are referring to the contractor a relative or friend who is seeking employment or work. However, an employee is not precluded by this subsection from responding to a request for an employment recommendation or character reference based upon the employee's personal knowledge of the ability or character of an individual, other than a relative, who is being considered for employment by the Authority.

b. Employees shall not engage in financial transactions using confidential, proprietary, or sensitive information of the Authority or allow or cause the improper use of such information to further any personal or private interest.

6. CONFLICT OF INTERESTS

a. *Definitions.* The following definitions are applicable throughout this Code of Ethics.¹

(1) *Substantial Financial Interest* means:

(a) *Ownership of Interest in Business.* An ownership interest (e.g., shares of stock) in a Business that exceeds three percent (3%) of the total equity of the Business, has a fair market value greater than \$15,000, or yields more than \$1,000 in annual income.

(b) *Ownership of Interest in Real Property.* An ownership interest in Real Property that has a fair market value greater than \$15,000 or yields more than \$1,000 in annual income.

(c) *Income.* Income in any form (whether or not deferred) from a Business or Real Property including, but not limited to, wages, salaries, fringe benefits, interest, dividends, or rent that exceeds or may reasonably be expected to exceed \$1,000 annually. Income also includes the prospect of income arising, for example, from an upcoming job with or an offer of employment from a Business.

(d) *Pledge or surety.* Actual or potential personal liability given on behalf of a Business that exceeds the lesser of three percent (3%) of the asset value of the Business or \$1,000.

¹ The capitalized terms set out in Section 6(a) , along with their definitions, apply throughout this Code.

(e) *Loan or debt.* Personal liability in excess of \$1,000 owed to a Business *except* a debt incurred in the ordinary course of business on usual commercial terms (e.g., a mortgage liability secured by a personal residence of the employee or the employee's spouse; a loan liability secured by a personal motor vehicle, household furniture, or household appliances; a personal revolving line of credit or capital contribution loan liability; or a debit, credit, or other revolving charge account liability).

(f) *Fiduciary duty.* The duty owed to a Business by a director, officer, or general partner of the Business, even without financial remuneration from the Business.

(g) *Exclusions.* The following financial interests are excluded from Substantial Financial Interests: checking or savings accounts, money market accounts, and other demand deposits; government bonds; certificates of deposit; and diversified mutual funds, pension plans, employee benefit plans, trusts, estates, and other similar funds, plans, and entities administered by an independent party without participation by the employee or the employee's Immediate Family members in the selection or designation of financial interests held by the fund, plan, or entity.

(2) *Business* means a sole proprietorship, corporation, partnership, company, joint venture, association, joint stock company, and any other form of entity recognized by law which is engaged in trade, commerce, or the transaction of business and the parent entity of the foregoing. For purposes of this Code, an entity will be considered a parent of a Business if the entity owns or controls more than fifty percent (50%) of the Business (i.e., by value or voting power).

(3) *Immediate Family* of an employee means spouse, domestic partner, any dependent children (under Section 152 of the Internal Revenue Code) living in the same household as the employee, and any other person over whose financial affairs the employee has substantial legal or actual control.

(4) *Participate* means approving, disapproving, making, undertaking, influencing, or attempting to influence an action or decision of the Authority.

(5) *Real Property* means land, together with any structures and other improvements thereon, and includes any rights or interests in land or improvements.

b. *Imputed Interest.* The financial and other interests (see Section 6(a)(1)(a) through (g)) in a Business or Real Property held by the members of an employee's Immediate Family are imputed to the employee for purposes of this Section 6.

c. *Conflict of Interests.* Employees holding a Substantial Financial Interest in a Business or Real Property that may realize a benefit or detriment as a result of an action or decision of the Authority (e.g., a Business holding a contract or lease with the Authority or responding to an Authority solicitation or certain Real Property adjacent to an airport) are considered to have a conflict of interests that may interfere, or be perceived to interfere, with the impartial and conscientious performance of their duties. Employees with a conflict of interests due to

their Substantial Financial Interest in such a Business or Real Property shall not Participate in any transaction or matter that involves or may affect that Business or Real Property (e.g., in a lease or contract negotiation, a solicitation or contract award process, the administration of a lease or contract, or an investment of Authority funds) absent a waiver from the President or Executive Vice President. Any such waiver will be reported to the Board of Directors. Whenever faced with an actual or apparent conflict of interests, employees shall follow the procedure set out in subsection (d) below.

d. *Disqualification and Written Recusal Procedure.* Employees shall bring to the attention of the Ethics Officer any situation they believe presents for them an actual or apparent conflict of interests in relation to a particular Authority transaction or matter (except as otherwise provided in Section 8(c)). The Ethics Officer shall gather and review information relevant to the situation presented by an employee and determine whether there exists a conflict of interests that requires the employee not to Participate in the transaction or matter. If an affirmative determination is made, the Ethics Officer shall execute a written disqualification and recusal agreement with the employee and the employee's supervisor that, among other things, requires the employee to recuse himself or herself from, and not to Participate in, the transaction or matter.

e. *Part-Time Employment.* Employees may acquire a Substantial Financial Interest in a Business by virtue of a part-time or second job with that Business. An employee shall not hold a part-time or second job with a Business where the employee's interest in that job would significantly conflict with the interest of the Authority in the employee's impartial performance of the position he or she holds with the Authority. Such a conflict of interests would exist where, in order to avoid the conflict, the employee would be required to withdraw from performing significant parts of the duties of his or her position, resulting in a material impairment to the employee's ability to perform in that position. Employees considering a part-time or second job with a Business shall consult with the Ethics Officer who will determine whether the job presents a conflict of interests that would preclude the employee from accepting the job. In making that determination, the Ethics Officer should consider whether a reasonable person with full knowledge of the relevant facts would question the employee's impartiality in performing Authority duties. Only if the Ethics Officer determines in writing that there is no conflict of interests may an employee assume a part-time or second job.

f. *Interest in Certain Aviation-Related Businesses.* Absent a written waiver from the President or Executive Vice President, employees identified in Section 8(a), as well as members of their Immediate Families, shall not have any ownership interest in, derive any income from, or owe any liability to any Business that is engaged in the transportation of people or property by aircraft in common carriage or in the provision of aviation or airport services; provided that any ownership interest in, income from, or liability to a fund, plan, or other entity described above in subsection (a)(1)(g) that owns an interest or has an investment in a Business identified in the prior sentence is not prohibited by this subsection (f).

7. COMPENSATION FOR TEACHING, SPEAKING, AND WRITING

a. Employees may accept compensation for teaching, speaking, and writing on matters not pertaining to their official duties.

b. Employees may not accept compensation or any other remuneration for teaching, speaking, writing, or undertaking a similar activity pertaining to their official duties other than that paid by the Authority (i) when the activity is undertaken as part of the employees' official duties or (ii) when the invitation to undertake the activity is extended, directly or indirectly, by a Business having interests that can reasonably be expected to be substantially affected by the employees' performance of their official duties. Nothing in this subsection prevents employees engaging in the activities described in Section 4(d)(4) from accepting the items of "free attendance" identified in that section.

8. DISCLOSURE OF SUBSTANTIAL, FINANCIAL INTERESTS AND OTHER MATTERS; CERTIFICATIONS

a. *Employees Required to Make Annual Disclosure.* To avoid conflicts of interests from arising and to assure the public of their impartiality, the following employees and agents of the Authority shall disclose their Substantial Financial Interests and other matters in accordance with subsection 8(b):

(1) the President, the Executive Vice President, all Vice Presidents, all Deputy and Assistant Vice Presidents, the Police and Fire Chiefs, all employees reporting directly to the President or the Executive Vice President, and all employees reporting directly to the Board of Directors;

(2) all employees and agents working in: the Executive Offices; the Office of General Counsel; the Office of Airport Service Planning and Development; the Office of Audit; the Procurement and Contracts Department, the Accounts Payable Department, and the Treasury Branch within the Office of Finance; the Concessions and Property Development Department within the Office of Business Administration; the Property/Supply Office within the Office of Public Safety; and the Contract Management Division and the Procurement Office at each airport;

(3) the Controller, the Assistant Controller, the Controller's secretary, and the Executive Assistant to the Chief Financial Officer;

(4) the managers of: Air Carrier Relations within the Office of Business Administration; the Planning, Design, Construction and Building Code/ Environmental Departments within the Office of Engineering; Internal Controls, Financial Strategy Analysis and Debt within the Office of Finance; the Administrative Department within the Office of Public Safety; and the Administration Department at each airport;

(5) the manager and deputy manager of Operations and of Engineering and Maintenance at each airport;

(6) the Executive Project Director, the Project Director, and all Deputy Project Directors of the Dulles Corridor Metrorail Project; and

(7) other employees and agents identified by the President.

b. *Content of Annual Disclosure.* Every employee and agent identified in subsection (a) shall disclose and certify by January 31 of each year, on a form provided by the Authority, the following information as of the date of the disclosure:

(1) any Substantial Financial Interest in a Business or Real Property held by the employee or agent or any member of the his or her Immediate Family;

(2) any positions of employment held by the employee or agent or any member of his or her Immediate Family during the prior calendar year, whether on a full- or part-time basis;

(3) any gifts (as defined above in Section 4(a)) accepted, directly or indirectly, by the employee during the prior calendar year from a single Prohibited Source whose aggregate value exceeded \$350 (gifts are to be disclosed whether or not they were permitted to be accepted under Section 4); and

(4) any outside positions held by the employee during the prior calendar year as a director, officer, general partner, or trustee of a Business or other entity including a nonprofit organization, a labor organization, and an educational or other institution of higher learning. Positions held in a religious, social, fraternal, or political entity are not required to be disclosed.

c. *Employees Serving on Procurement Evaluation Committees.* Before beginning the evaluation of proposals submitted in an Authority procurement, each member of the committee evaluating the proposals (whether a voting or advising member) shall certify, on a form provided by the Authority, that the member has no Substantial Financial Interest in any offeror that has submitted a proposal. If, during the committee's deliberations, a member acquires or determines that he or she has a Substantial Financial Interest in a first tier subcontractor to one of the offerors, the member shall notify the Contracting Officer immediately and shall not participate further in the committee's deliberations.

d. *Employees Involved in Administration of Contracts.* Before beginning the administration of a contract, and annually thereafter by January 31 of the year, Contracting Officers, Contracting Officer's Technical Representatives, and their alternates, if any, whether they are employees or agents of the Authority, shall certify, on a form provided by the Authority, that they do not have a Substantial Financial Interest in the contract's prime contractor or in any first tier subcontractor. If, in the course of a year, a Contracting Officer or Contracting Officer's Technical Representative acquires or determines that he or she has a Substantial Financial Interest in the contract's prime contractor or a first tier subcontractor, he

or she shall immediately notify the Ethics Officer and cease performing any role in connection with the contract.

9. NEPOTISM

a. For the purposes of this Code, the term "relative" means the following: husband, wife, domestic partner, father, mother, grandfather, grandmother, son, daughter, stepson, stepdaughter, granddaughter, grandson, brother, sister, uncle, aunt, nephew, niece, father-in-law, mother-in-law, daughter-in-law, son-in-law, sister-in-law, and brother-in-law.

b. An employee shall not participate in the making of a decision to hire, appoint, employ, or promote or in either the making of any other decision or the taking of any action that has the potential to affect a person who is a relative of the employee, including making an attempt to persuade another employee to make a decision or take an action affecting a relative.

c. An employee may not work in or be assigned to a position which will result in a situation where: (i) a relative of the employee directly or indirectly may supervise, control, or influence the work or the employment status of the employee; (ii) the employee directly or indirectly may supervise, control, or influence the work or the employment status of the relative; (iii) the employee or relative may supervise, control, or influence the affairs of the organizational unit in which the other works; or (iv) the employee and relative report directly to the same supervisor.

10. POST-EMPLOYMENT CONFLICTS OF INTERESTS

a. *Permanent Restrictions Relating to Particular Matters.* No employee, after the termination of employment with the Authority, shall knowingly make, with the intent to influence, any communication to or appearance before the Board of Directors or any officer or employee of the Authority, on behalf of an entity or individual other than the Authority, in connection with a particular matter:

(1) in which the Authority is a party or has a direct and substantial interest,

(2) in which the former employee participated personally and substantially as an Authority employee, and

(3) which involved a specific party or specific parties at the time of such personal and substantial participation.

b. *Two-year Restrictions Relating to Particular Matters.* No employee, for a period of two years after the termination of the employee's employment with the Authority, shall knowingly make, with the intent to influence, any communication to or appearance before the Board of Directors or any officer or employee of the Authority, on behalf of an entity or individual other than the Authority, in connection with a particular matter:

(1) in which the Authority is a party or has a direct and substantial interest,

(2) which the former employee knows or reasonably should know was actually pending within an area of the Authority for which the former employee was responsible at any time during the year before the termination of his or her Authority employment, and

(3) which involved a specific party or specific parties at the time it was pending.

c. *One-year "Cooling Off Period" for Certain Authority Employees.* No employee identified in Section 8(a)(1), for a period of one year after the termination of the employee's employment with the Authority, shall knowingly make, with the intent to influence, any communication to or appearance before the Board of Directors or any officer or employee of the Authority on behalf of any other entity or individual.

d. *One year "Cooling Off Period" for New Authority Employees.* No employee, for a period of one year after starting employment with the Authority, shall participate in a matter that is likely to have a direct effect on an interest of a Business for which the employee, during the year prior to the start of the employee's Authority employment, served as a director, officer, trustee, general partner, agent, attorney, contractor, or employee.

11. ROLE OF AUTHORITY MANAGEMENT AND GENERAL COUNSEL

Authority management is responsible for fostering high ethical standards for the Authority and its employees thereby strengthening public confidence that the business of the Authority is being conducted with impartiality and integrity. The General Counsel is responsible for regularly reviewing and, when necessary, recommending revisions to this Code of Ethics, for providing training on this Code to new employees within four weeks of the start of their employment, for providing training on the Code to other employees on an annual basis, for overseeing the preparation and filing of annual disclosures required by the Code, and for assisting the Ethics Officer, including when the officer is advising employees about the application of the Code to specific questions or situations presented by employees.

12. ROLE OF ETHICS OFFICER

a. The President shall designate an Authority employee to serve as the Authority Ethics Officer who will have and will perform the responsibilities assigned to such officer in this Code of Ethics. An employee's designation as the Ethics Officer shall continue until rescinded by the President.

b. The Ethics Officer is responsible for carrying out the duties defined and assigned to the officer in this Code. The Ethics Officer is also responsible for assisting the General Counsel in the performance of the responsibilities described in Section 11.

c. No employee will be found to have violated this Code if the alleged violation followed from the employee's good faith reliance on a written opinion from the Ethics Officer that was made after a full and accurate disclosure by the employee of all material facts. (See Section 4(h).)

13. NO RIGHTS CREATED IN THIRD PARTIES

A violation by an employee of any provision of this Code of Ethics shall not create any right or benefit, substantive or procedural, enforceable by law, contract, or otherwise by any entity or individual against the Authority, its officers, or its employees or against any other entity or individual.

14. ENFORCEMENT AND PENALTIES

a. Employees shall be subject to discipline, including termination of their employment with the Authority, for violations of the provisions of this Code of Ethics. Guidelines regarding the level of discipline that may be imposed for violations of this Code are set forth in Appendix A of the Conduct and Discipline Directive.

b. Any alleged violation of this Code by the President shall be processed and enforced under Section 11 of the Code of Ethics for Members of the Board of Directors.

Enclosure E

Draft Financial Disclosure Form for
Airports Authority Board of Directors
(October 2012)

MWAA Board of Directors Financial Disclosure Form

Reporting Individual's Identification

Last	First	Middle
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General Instructions

Step 1: Read the instructions for Parts I and II on the following pages.

Step 2: For each statement below, check Yes or No to describe your situation:

I have reportable Substantial Financial Interests. ☐ Yes ☐ No

I have reportable Employment and Outside positions. ☐ Yes ☐ No

Step 3: If you selected Yes for any statement above, you must describe the reportable interests that you have in the corresponding Part of the form. Attach additional pages as necessary, labeled with your name and the Part of the form to which the additional pages correspond.

Step 4: Sign and date the form.

Step 5: Submit the completed form to the Ethics Officer.

Certification and Signature

I CERTIFY that the statements I have made on this form and all attached schedules are true, complete, and correct to the best of my knowledge.	
Signature of Reporting Individual	Date (Month, Day, Year)

Part I—Substantial Financial Interests

Part I—General Instructions

1. Covered Persons. Report the required information for:

- yourself,
- your spouse or domestic partner,
- your dependent children living in your household, and
- any other person over whose financial affairs you have substantial legal or actual control.

2. Important Definitions.

Business: A sole proprietorship, corporation, partnership, company, joint venture, association, joint stock company, or any other form of entity recognized by law which is engaged in trade, commerce, or the transaction of business AND any *parent* entity that owns or controls more than fifty percent of any of the foregoing entities.

Immediate Family: Your spouse, domestic partner, dependent children living in your household, and any other person over whose financial affairs you have substantial legal or actual control.

Interested Party: The following are Interested Parties:

- Any Business that has or is seeking a contract or agreement with the Authority; or
- An aeronautical, aviation services or airport services enterprise that otherwise has interests that can be directly affected by decisions or actions of the Authority.

Property: Real property, including land, together with any structures or improvements on the land.

3. Interests Not Required to Be Reported. Report the required information in each category identified below, except for the following interests, which do not need to be reported:

- Checking or savings accounts, money market accounts, other demand deposits
- Government bonds
- Certificates of deposit
- Diversified mutual funds
- Pension plans
- Employee benefit plans
- Trusts or estates
- Other funds, plans, or entities administered by an independent party without participation by you or a member of your Immediate Family in the selection or designation of financial interests held by the plan, fund, or entity
- Any liability granted in the ordinary course of business by a financial institution or other Business on usual commercial terms, including the following:
 - Mortgage liability secured by a personal residence of you or your spouse
 - Loan liability secured by a personal motor vehicle, household furniture, or household appliances
 - Personal revolving line of credit or capital contribution loan liability
 - Debit, credit, or other revolving charge account liability

Reporting Individual's Name	Page 3 of 6
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Part I—Reportable Interests

Ownership Interests in a Business or Property. Report for yourself or any member of your Immediate Family any interests in a Business or Property held at the time of filing:

- ✓ exceeding 3% of the total equity of the Business;
- ✓ having a fair market value greater than \$15,000; or
- ✓ yielding more than \$1,000 in annual income.

Business or Property Name and Address	Type of Interest Held (e.g., stock, bond, partnership interest, real property, etc.)
1.	
2.	
3.	
4.	

Income. Report for yourself and any member of your Immediate Family any sources of income you or your Immediate Family member has at the time of filing from a Business or Property that exceeds or may be reasonably expected to exceed \$1,000 per year. Also report any prospective sources of income from an upcoming job with or offer of employment from a Business.

Income Source Name and Address	Income Description (e.g., salary, wages, interest, dividends, rent, etc.)
1.	
2.	
3.	
4.	

Pledges or Sureties. Report for yourself and any member of your Immediate Family any pledge or surety given on behalf of a Business, which gives rise to actual or potential personal liability as of the time of filing, that exceeds the lesser of:

- ✓ 3% of the asset value of the Business; or
- ✓ \$1,000.

Business Name and Address	Type of Liability (e.g., pledge, surety, guaranty, etc.)
1.	
2.	
3.	
4.	

Reporting Individual's Name	Page 4 of 6
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Liabilities. Report for yourself and any member of your Immediate Family any reportable personal liabilities in the form of loans or debts in excess of \$1,000 owed to a Business held at the time of filing.

Creditor Name and Address	Type of Liability
1.	
2.	
3.	
4.	

Fiduciary Positions. Report for yourself and any member of your Immediate Family any position held with a Business as a director, officer, or general partner at the time of filing.

Business Name and Address	Type of Business	Position
1.		
2.		
3.		
4.		

Reporting Individual's Name	Page 5 of 6
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Part II—Employment and Outside Positions

Part II—General Instructions

1. **Reporting Period.** Report the required information for the calendar year preceding your filing of this form.
2. **Covered Persons.** Report the required information for:
 - yourself,
 - your spouse or domestic partner,
 - your dependent children living in your household, and
 - any other person over whose financial affairs you have substantial legal or actual control.

3. Important Definitions.

Business: A sole proprietorship, corporation, partnership, company, joint venture, association, joint stock company, or any other form of entity recognized by law which is engaged in trade, commerce, or the transaction of business AND any **parent** entity that owns or controls more than fifty percent of any of the foregoing entities.

Immediate Family: Your spouse, domestic partner, dependent children living in your household, and any other person over whose financial affairs you have substantial legal or actual control.

Part II—Reportable Positions

Outside Positions. Report any position held by you or any member of your Immediate Family during the reporting period as a director, officer, general partner or trustee of a Business or other entity, including nonprofit, labor, and educational organizations or institutions. Positions held in a religious, social, fraternal or political organization are not required to be reported.

Organization Name and Address	Type of Organization	Position
1.		
2.		
3.		
4.		

Reporting Individual's Name	Page 6 of 6
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Employment Positions. Report any employment position (whether full, part-time, or temporary) held by you or a member of your Immediate Family during the reporting period.

Organization Name and Address	Type of Organization	Position
1.		
2.		
3.		
4.		

Enclosure F

Airports Authority Travel Policy
(September 2012)

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY



MEMORANDUM

To: All Airports Authority Management Forum Attendees

From: Andrew Rountree, Vice President for Finance and CFO, MA-20

Subject: Airports Authority Travel Policy

Date: September 11, 2012

Attached please find a revised Airports Authority Travel Policy which is effective for all travel that is either authorized or actually occurs after September 5, 2012. The Board of Directors of the Airports Authority approved this new policy which applies to both the Board of Directors as well as to all Airports Authority employees. For Airports Authority employees, the policy does not differ significantly from the previous employee policy; however it should be read carefully as there are changes. One key change is that a daily limit has been set for the amount reimbursable for meals and incidentals while in travel status. I will provide a brief overview of this new policy at the Management Forum on September 17th and will be available to answer any questions you may have about this policy.

Please share and discuss this new Travel Policy with all employees and we will transmit this Policy to all employees directly following the Management Forum.

RTA:dp

cc: Jack Potter, MA-1
 Margaret McKeough, MA-2
 David Mould, MA-10
 Frank Holly, MA-30
 Mark Treadaway, MA-40
 Phil Sunderland, MA-70
 Valerie Holt, MA-80
 Paul Malandrino, MA-100
 Chris Browne, MA-200
 Elmer Tippet, MA-300
 Steve Baker, MA-400
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 Syed Ali, MA-600
 Quince Brinkley, MA-BD

Topic:	Travel Policy	Topic No:	To Be Determined
Function:	General Accounting	Updated:	September 5, 2012
Section:	Cash Disbursements	Owner:	Office of Finance
Applicability:	Airports Authority-wide, including Directors	Status:	FINAL

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1.0 Purpose	The purpose of this Policy is to outline travel procedures for allowability, fiscal responsibility and consistency in control and reporting. The Policy applies to all Travelers, including all Directors, all employees, and non-employees (such as job candidates, external procurement panel members, etc.) traveling on behalf of the Metropolitan Washington Airports Authority (Airports Authority). Any exceptions for a category of Traveler are explicitly noted in the applicable section.
2.0 Distribution	This Policy shall be distributed to all Directors and employees and supersede Airports Authority Directive AC-001B, dated April 15, 2005, and the Travel and Business Expense Guidelines for Board of Directors, dated December 3, 2008. This Policy will be presented to Directors during members' initial orientation and reviewed with Directors annually thereafter and presented to employees during new employee orientation.
3.0 Definitions	<p>3.1. Actual Expenses Payment of authorized actual daily expenses incurred, up to the limit prescribed by Section 9.1.3 of this policy, as appropriate. Entitlement to reimbursement is contingent upon the presentation of receipts for actual expenses.</p> <p>3.2. Approving Official Those authorized to approve Travel Authorizations or Expense Reimbursement Requests. The Approving Official is responsible for ensuring knowledge and compliance with this Policy.</p> <p>3.3. Board Office Includes the Directors, the Vice President & Secretary, and Board staff.</p> <p>3.4. Daily Expenses Actual expenses incurred by the Traveler on a daily basis while in a travel status. Allowable Daily Expenses may include the Traveler's meals and Incidentals, Transportation, lodging (including internet connectivity fees, business center fees, and related expenses), and parking.</p> <p>3.5. Domestic Trips Trips taken within the continental (contiguous) United States (excludes Alaska, Hawaii, and U.S. Territories).</p> <p>3.6. Expense Reimbursement Request The Expense Reimbursement Request is the Traveler's statement to the Airports Authority of costs incurred on behalf of the Airports Authority. The Board Office and non-employees (such as job candidates, external procurement panel members, etc.) submit the Expense Reimbursement Request using the Form AC-13, which is available on Livelink, under MA-20 (Finance), in the Finance Forms folder and in the warehouse at each airport. The Vice President & Secretary shall transmit all documentation to Accounts Payable for the Board Office. Employees submit this form electronically through the Oracle EBS system using the appropriate MWAA Employee Expense Entry template (i-Expense).</p> <p>3.7. Incidentals A Daily Expense that includes: fees and tips given to porters, baggage carriers, hotel staff, and staff on ships.</p>

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3.8. International Trips

Trips taken outside of the continental (contiguous) United States. Trips to Hawaii, Alaska, and U.S. Territories are also considered International Trips.

3.9. Local Travel

Any one-day trip less than 250 miles round trip from the Traveler's work location that does not require an overnight stay. Local Travel may be via personal vehicle, Airports Authority-owned vehicle or public transportation. Use of Airports Authority-owned vehicles is encouraged.

3.10. Mileage Rate

The per mile amount reimbursed to a Traveler when using his/her privately owned owned automobile on official business. Use of a privately owned vehicle is only only authorized for Local Travel or as stated in Section 5.6.5 of this Policy. The Airports Authority follows the rate set by the IRS. The Mileage Rate is the same for Local and non-local Travel. The rate shall be updated as required by the Office of Finance and documentation on the current mileage rate is included in

Attachment 1 – Mileage Rate

TO: Users at CF, Users at DCA; Users at IAD; Users
FROM: Wanda Onafuwa, Accounts Payable Manager
DATE: January 1, 2012
SUBJECT: IRS Mileage Rate

The IRS standard business mileage rate effective January 1, 2012
Please use this rate on all expense reimbursement requests for travel
December 31, 2012.

For all employees the Oracle i-Expense module will reflect the current
non-users of i-Expense we have updated the appropriate Expense
forms found in the MA-20 forms folder on Live Link.

Should you have additional questions please contact me at extens

Thank You.

3.11. Personal Expenses

Expenses not considered necessary to conduct official Airports Authority business. Personal Expenses that may not be reimbursed include expenses for movie rentals, health club costs, sundries, non-business related Local Travel, and alcoholic beverages.

3.12. Personal Travel

Any travel not considered official business.

3.13. Transportation

The means by which a Traveler gets to and from an authorized destination. Transportation may be accomplished by common carrier (e.g. bus, rental car, plane, train, or taxi), privately owned vehicle (if using a car service, only an amount up to a cab fare for an equivalent trip will be reimbursed) and Airports Authority-owned vehicle. Refer to Section 5.6 for Transportation

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guidelines and restrictions.

3.14. Travel Advance

Funds advanced via Form AC-10, Travel Authorization/Advance, to a Traveler prior to traveling on the Airports Authority's behalf. Travel Authorization/Advance forms are available on Livelink, under MA-20 (Finance), in the Finance Forms folder and in the warehouse at each Airport.

3.15. Travel Authorization

Written approval for a Traveler to leave his/her work location and incur expenses on behalf of the Airports Authority. Form AC-10, Travel Authorization/Advance, specifies the dates, places to be visited, department, estimated cost for the trip, and other pertinent information. The Travel Authorization/Advance Form shall be completed and approved before the trip, in accordance with Section 5.1. Travel Authorization/Advance forms are available on Livelink, under MA-20 (Finance), in the Finance Forms folder and in the warehouse at each Airport.

3.16. Travel Authorization Number

A sequential number assigned by the Traveler's office that uniquely identifies each Travel Authorization. The format is 4 letters (always MWAA), followed by 2 digits designating the fiscal year, followed by 3 digits (the MA routing number of the Traveler preceded by zeros if less than 3 digits), followed by a 3-digit trip number. The four elements should be separated by dashes, e.g., MWAA-03-022-010. The person preparing the Travel Authorization/Advance Form is responsible for obtaining the 3-digit trip number from the Traveler's office.

3.17. Traveler

Any person authorized to travel on behalf of the Airports Authority.

4.0 Policy

4.1. General Policy

The Airports Authority shall pay for or reimburse reasonable actual, authorized and properly documented expenses incurred while traveling on official business. Expenses include Transportation, Daily Expenses and other expenses necessary to complete the purpose of the trip in the most expeditious and cost effective manner to the Airports Authority. Expenses claimed that are found to be in violation of this Policy shall be rejected by the Approving Official. If payment or reimbursement occurred and further review by management, accounting staff, or audit determines it was made in error, the Traveler shall be required to make restitution.

4.2. Prudent Use of Travel Funds

Expenses incurred relative to the purpose and location of the travel must be reasonable.

4.3. Trip Summary

When requested by the Approving Official, the Traveler shall provide a written summary describing any event attended, key business-related activities, and the results and benefits to the Airports Authority.

4.4. Travel Reporting

Quarterly, the Airports Authority will deliver to the Board Office a report of all travel activity, which includes the travel of all Directors and employees.

4.5. Annual Audit

The Office of Audit shall conduct an annual audit of all travel expenses and

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present results of the audit to the President and CEO and Executive and Governance Committee of the Board.

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5.0 Travel Authorizations

5.1. Preparing the Travel Authorization/Advance Form

The Travel Authorization/Advance Form (Attachment 2 – Form AC-10 (Travel Authorization/ Advance)) shall be prepared to provide an estimate of the cost of non-Local Travel for budgetary purposes.

The Traveler's office must maintain a copy of the Travel Authorization/Advance Form until it has been submitted to Finance.

5.2. Approving Officials for Travel Authorizations

If the Traveler is...	Approval must be made in advance by...
Chairman of the Board	Vice-Chairman of the Board
Board Office (other than Chairman)	Chairman of the Board
President and CEO ("CEO")	CFO
Executive Vice President and COO ("COO")	CEO
Vice President	CEO or COO
Air Service Planning & Development Staff	Vice President
Staff or other Traveler not listed above	<u>Domestic Trips:</u> Vice President <u>International Trips:</u> Vice President, and Either the CEO or COO

Travel Authorization approval by the Chairman of the Board or Vice Chairman of the Board shall be applied consistently and shall not be unreasonably withheld.

The Board Office is not required to obtain a Travel Authorization for travel to Board and Committee meetings and any function, meeting, or event other than conferences for which the invitation has been extended to all Directors or Directors on the same Committee. If there is a vacancy or extended unavailability of an Approving Official on the Board, the Chairman of the Board or other Board Officer shall submit a Travel Authorization to the Board Secretary for approval.

5.2.1. Responsibility of Approving Officials for Travel Authorizations

It is the responsibility of the Approving Official to ensure, prior to authorizing travel, that the requested travel is reasonable, in compliance with this Policy, and that sufficient funds for travel are available in the department budget.

5.2.2. Appeal of Denied Travel Authorization

If a travel request for the Board Office is declined, the Traveler may appeal the decision to the Executive and Governance Committee.

5.3. Allowable Costs

Allowable costs include: round trip mileage to and from the point of common carrier Transportation, standard parking (not including valet parking, unless valet parking is the only option available), taxi fare to and from the point of common carrier Transportation or work location, shuttle bus fares, common carrier Transportation, Daily Expenses, car rental, telephone charges as described hereafter, and conference or meeting fees if appropriate. NOTE:

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Mileage to or from the airport may not be approved on workdays if the Traveler is required to report to work before or after the trip and works at the airport at which the flight is departing or arriving.

5.4. Amending a Travel Authorization/Advance Form

If travel plans change significantly, an amended Travel Authorization/Advance should be prepared. Significant changes are defined as changes that either increase or decrease the number of travel days or vary the estimated cost by 20 percent or more.

A Travel Authorization/Advance may be amended by (a) canceling the original Authorization and preparing a new Authorization using a new Authorization Number; or (b) amending the existing Authorization and initialing the changes; or (c) preparing a new Travel Authorization/Advance with the changes using the same number and stamped or marked "amended". Under "Remarks," the reason for the modification should be explained in detail. The Approving Official shall approve the amended Authorization.

5.5. Business and Personal Travel Combined

If a Traveler desires to combine a business trip with personal time, the Traveler shall indicate that in the appropriate section of the Travel Authorization/Advance Form and annotate the dates of personal leave. Approval to combine Personal Travel with business travel is at the sole discretion of the Approving Official. The Traveler shall reimburse the Airports Authority for the difference the Airports Authority would have paid for the most direct route to the business destination. Allowable expenses, as defined, are only reimbursable for the Traveler for the business portion of the trip.

5.6. Transportation

If a Traveler wants to use tickets that include weekend days to obtain savings on airfare, the Approving Official must concur and specifically note this on the Travel Authorization before their purchase. Evidence of the savings received from a weekend stay shall be provided in the form of dated quotes from the airline, hotel and estimated subsistence for the weekend stay versus the weekday airline ticket round trip cost.

To minimize costs, Travelers are encouraged to book Transportation as early as possible.

5.6.1. Air Travel

Travelers are required to obtain discount fares to the extent possible and purchase economy class tickets. Unrestricted or changeable tickets are allowable. Travelers may upgrade to a different class at their own expense. If travel is outside of the continental (contiguous) United States, the Board Office may purchase the next higher class over economy without prior approval, unless the next higher upgrade results in first class accommodations which must be approved in advance by the Approving Official. Travelers other than the Board Office may request advance approval from the appropriate Approving Official for the next higher class over economy if travel is outside the continental (contiguous) United States. Travelers may, with advance approval from the appropriate Approving Official, purchase other than economy class when necessary to accommodate a medical disability or other special need. Blanket

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authorization of other than economy class transportation accommodations is prohibited; authorizations shall be on an individual trip-by-trip basis.

Baggage fees charged by airlines for checked luggage will be reimbursed for up to two bags.

5.6.2. Train Travel

Travelers are required to purchase economy class or Acela business class tickets for train fares. The appropriate Approving Official may authorize the next higher class or Pullman car fares if the trip is greater than 6 hours or the travel is overnight. Travelers may, with advance approval from the appropriate Approving Official, purchase other than economy class when necessary to accommodate a medical disability or other special need. Blanket authorization of other than economy class transportation accommodations is prohibited; authorizations shall be on an individual trip-by-trip basis.

5.6.3. Car Rental

Car rental shall be authorized only when local Transportation is not practical or would be more expensive. Car rentals, if authorized, are limited to intermediate size vehicles. The Approving Official shall annotate the justification for use of a rental car in the "Remarks or Special Provisions" section on the Travel Authorization/Advance.

To the extent possible, the Airports Authority encourages Travelers to coordinate Transportation services when two or more Travelers are traveling at the same time to the same destination. Travelers shall not utilize the car rental pre-paid gasoline option.

The Airports Authority maintains insurance for Travelers renting automobiles while on official travel. The Airports Authority will not reimburse the Loss Damage Waiver (LDW) and Personal Accident Insurance (PAI) provisions of a rental car agreement. The Traveler shall use personal funds to purchase LDW or PAI or provide personal auto insurance coverage to cover any Personal Travel. The business portion of the rental car expense shall be a ratio of total business days used to total days of the rental car contract.

If the Traveler is involved in an accident while traveling on official business, he/she shall report the accident to the local authorities, the car rental company, their supervisor, or, in the case of a Member of the Board of Directors, the Chairman of the Board, and follow the Airports Authority's procedures as outlined in the Risk Management Claims Procedure Manual.

5.6.4. Private Aircraft

The use of a non-commercial privately owned aircraft is not authorized.

5.6.5. Personal Vehicle

Travelers are not authorized to use their personal vehicle for Airports Authority business, except for Local Travel or when authorized by the Approving Official. The Traveler's insurance policy for his/her personal vehicle shall be the primary policy when that vehicle is used on Airports

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Authority business. The Airports Authority provides coverage for liability in excess of the Traveler's policy.

5.6.6. Travel Routing

Travel shall be arranged by the route and Transportation mode that is most cost effective to the Airports Authority, except when otherwise necessary for Air Service Planning & Development purposes and must be authorized in advance by the Vice President of Air Service Planning & Development. The Traveler shall bear any additional cost incurred as a result of deviation from this route for personal reasons. Travelers shall indicate all calculations clearly on the Expense Reimbursement Request to support the amount claimed. If the Traveler is authorized to use a privately owned vehicle, reimbursement is limited to the lesser of actual expense at the current Mileage Rate or the direct route advance purchase ticket.

5.6.7. Taxis, Shuttle Services and Other Courtesy Transportation

Transportation expenses in the performance of Airports Authority business travel are reimbursable for the usual fare plus tip for use of a taxi, shuttle service or other courtesy transportation.

5.7. Hotel Accommodations

If traveling to an event and a host hotel is provided at a reasonable rate, Travelers should stay at the host hotel unless rooms are sold out at the host hotel rate. If rooms are no longer available at the host hotel rate, the Traveler should make every effort to find a room at a comparable cost.

If purpose of the travel is for a meeting or event that does not include a host hotel, the Traveler should make every effort to find a hotel with reasonable rates.

To minimize costs, Travelers are encouraged to book lodging as early as possible. In addition, the lowest possible (government, conference, corporate) rates at the selected hotel should be obtained when making hotel reservations. Non-standard, premium/deluxe suites or upgrades are acceptable only when there is no additional cost to the Airports Authority. Travelers may upgrade at their own expense. Travelers should provide their credit card information at check in to ensure that they are billed directly for all hotel charges.

6.0 Travel Advances

6.1. General

The Board Office and employees may request Travel Advances to cover their estimated out-of-pocket expenses while traveling on official business. The requested amount of the Travel Advance may not exceed the total cost estimate authorized in the Travel Authorization/Advance request.

6.2. Approval and Submission Requirements

A Traveler may request a Travel Advance by completing Form AC-10, Travel Authorization/Advance Request (Attachment 2 – Form AC-10 (Travel Authorization/ Advance)), and having it approved by his/her Approving Official. To allow sufficient time to process the request, Travelers are encouraged to submit the request at least 10 business days before the start of the trip.

6.3. Payment of Travel Advances

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Generally, Travel Advances will be paid to the Traveler no sooner than 15 business days before travel commences.

Travel Advances shall not be issued through the Agent Cashier.

6.4. Repayment of Travel Advances

Travel Advances must be settled by completing an Expense Reimbursement Request (see Section 9.0). If the amount submitted in the Expense Reimbursement Request is less than the amount of the Advance, the Traveler must send a personal check payable to MWAA routed to Accounts Payable (MA-22B) with the Expense Reimbursement Request. Travel Advances may also be repaid by returning the original check.

6.5. Failure to Repay Advances and Potential Payroll Deduction

The Traveler shall submit an Expense Reimbursement Request within 30 days after returning from the trip. Any Travel Advance still outstanding 45 days after returning from the trip shall be referred to the Controller who shall notify the Traveler and the Traveler's Vice President that the amount will be deducted from his/her next paycheck within 10 days and future requests for Travel Advances to the Traveler will be denied.

7.0 Making Reservations

The Traveler may use the Airports Authority travel agents or his/her personal method of payment. If a Travel Authorization is required as defined in Section 5.2, the Traveler MUST obtain the Approving Official's signature and a Travel Authorization number prior to purchasing any tickets. If it is determined a ticket was purchased or reservation requiring a deposit was made prior to approval and receipt of a Travel Authorization number, the Traveler may have to pay for the items purchased.

7.1. Travel Agent

The Airports Authority has an established contract with a travel agency (Attachment 3). The Traveler may use the travel agent to make airline or train reservations. Hotel reservations, and/or car rental reservations (if authorized) may be made by the travel agent if a personal data sheet completed by the Traveler is on file with the agent. When making reservations with the Airports Authority's travel agent, Travelers should be as flexible as possible on their departure and return dates to take advantage of discount fares. The travel agent charges a fee for the service, which is part of the total cost of the ticket.

In the event of a national security incident, the travel agent will be able to provide vital information on the Traveler's itinerary and/or current location.

7.1.1. Problems with Ticketing or the Travel Agent

The travel agent provides a toll free number to be used during the travel period. The Airports Authority's travel agent and Airports Authority staff making the arrangements can easily remedy most ticketing reservation problems. If a problem cannot be resolved with the travel agent, the details should be reported to Accounts Payable, MA-22B.

7.2. Using the Internet or Contacting Carriers Directly

Travelers may use the Internet or contact carriers directly in an effort to obtain better prices. The Traveler is expected to use/obtain discount fares to the extent possible and purchase only economy class tickets.

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8.0
Local Travel

8.1. Reimbursable Expense for Local Travel

Reimbursable expenses for Local Travel while on Airports Authority business include mileage, standard parking (not including valet parking, unless valet parking is the only option available, public transit (Metrorail), and tolls. Accounts Payable shall reimburse expenses incurred during Local Travel upon receipt of an approved Form AC-13, Expense Reimbursement Request (Attachment 4). Local Travel reimbursements may be signed by the Department Manager or designated official.

Only Travelers on official Airports Authority business on their regular day off shall be reimbursed for meals during normal working hours.

Mileage to and from the workplace on a regularly scheduled day off is not reimbursable if an employee is reporting for work to perform his/her regular duties. Union employees shall refer to their current executed agreement with the Airports Authority.

8.2. Local Travel From Home Versus Work

If Local Travel to a meeting or training is from home rather than work on a normal business day, the normal commuting expenses to and from work shall be deducted from the claim.

8.3. Airports Authority-Sponsored Activities and Events

Travelers shall not be reimbursed for Local Travel expenses or meals incurred while participating in Airports Authority-sponsored activities and events for which attendance is not mandatory.

9.0
Expense
Reimbursements

9.1. Completing the Expense Reimbursement Request

9.1.1. General Guidelines

The requestor must complete an Expense Reimbursement Request to request reimbursement of travel expenses. Expense Reimbursement Requests must be typed and signed by the requestor or submitted electronically through the i-Expense system. The address used on the form should be the requestor's preferred check mailing address or noted electronic funds transfer for direct deposit. The accounting code on the bottom of the form must be the same as that on the Travel Authorization.

9.1.2. Receipts

Requestors shall maintain all receipts related to travel on Airports Authority business. If submitting the Expense Reimbursement Request electronically through the i-Expense system, receipts must be submitted electronically and must be legible. Those not required to submit the Expense Reimbursement Request electronically must attach original receipts to the Expense Reimbursement Request and forward them to Accounts Payable, MA-22B.

Detailed receipts are required for all expenses in excess of \$25.00. For a credit card purchase, the signature page, as well as the detail of the purchase, are required. The requestor shall provide receipts for room/hotel meals that show total daily meal expenses of more than \$25.00 per day. (Hotels will provide this receipt upon request.)

The original itinerary and receipt for airfare shall be provided to document the travel. It is important that the employee's name, method of payment, date, time, airline flight numbers and applicable changes are clearly evident from the documentation provided.

Topic:	Travel Policy	Topic No:	To Be Determined
Function:	General Accounting	Updated:	September 5, 2012
Section:	Cash Disbursements	Owner:	Office of Finance
Applicability:	Airports Authority-wide, including Directors	Status:	FINAL

Requestors may submit a per diem claim up to \$25.00 without receipts for total daily meal and incidentals expenses (including applicable taxes and tips). Reimbursement requests for meals and Incidentals totaling more than the allotted \$25.00 per diem require detailed receipts.

Travelers shall be reimbursed for the actual cost of lodging for the business portion of the trip. The Traveler's lodging receipt must show each night registered. A lump sum billing, covering a number of days, is not acceptable. Online bookings may preclude daily charges from showing on the hotel receipt, however in this event, the Traveler must obtain evidence from the hotel indicating dates of stay. Travelers are discouraged from pre-payment lodging expenses unless clearly documented significant savings is evidenced in the Travel Authorization/Advance and approved in advance by Approving Official. The Traveler may claim Daily Expenses for the business portion of the trip only.

Receipts for gasoline purchases for a rental car are required regardless of cost.

9.1.3. Daily Expenses for Meals and Incidentals

Daily Expenses for meals (including applicable taxes and tips) and Incidentals should be reasonable and must not exceed the authorized limit, as defined in Attachment 5. The Office of Finance shall adjust this limit to remain consistent with federal travel policy.

9.1.4. Allowed Expenses for Travel

Tips in excess of the following amounts may be denied:

- \$2.00 per incident for baggage handlers, porters, shuttle drivers
- 20 percent of bill for meals
- 20 percent of trip charge for taxis

A claim for any expense involving tips will constitute a certification on the part of the requestor submitting the claim that those amounts were actually given to the service provider.

Dry cleaning and laundry expenses are allowed only for trips exceeding six (6) nights and seven (7) days. Rental cars are allowed only if approved on the Travel Authorization/Advance Form. Gasoline purchases incurred while traveling on business purposes shall be reimbursed only with receipts, regardless of cost. Work-related phone calls (e.g., to the office, voicemail, or other necessary business calls) as well as reasonable personal phone calls shall be reimbursed.

Meals provided in the prepaid cost of activities will not be reimbursed if the requestor chooses to obtain his/her meals elsewhere. Exceptions may be granted by the Approving Official.

Mileage is reimbursable to and from the destination at the Mileage Rate set by the set by the IRS per mile traveled for business. See

Attachment 1 – Mileage Rate

TO: Users at CF, Users at DCA; Users at IAD; Users
FROM: Wanda Onafuwa, Accounts Payable Manager
DATE: January 1, 2012

Topic:	Travel Policy	Topic No:	To Be Determined
Function:	General Accounting	Updated:	September 5, 2012
Section:	Cash Disbursements	Owner:	Office of Finance
Applicability:	Airports Authority-wide, including Directors	Status:	FINAL

SUBJECT: IRS Mileage Rate

The IRS standard business mileage rate effective January 1, 2012 is 55.5 cents per mile. Please use this rate on all expense reimbursement requests for travel beginning January 1, 2012.

For all employees the Oracle i-Expense module will reflect the current mileage rate. For non-users of i-Expense we have updated the appropriate Expense Reimbursement forms found in the MA-20 forms folder on Live Link.

Should you have additional questions please contact me at extension 71201.

Thank You.

9.1.5. Personal Expenses

Personal Expenses are not reimbursable.

9.2. Approving Officials for Expense Reimbursement Requests

If the requestor is...	Approval must be made by...
Chairman of the Board	Vice-Chairman of the Board
Board Office (other than Chairman)	Chairman of the Board
CEO or COO	CFO or Designee
Vice President	CEO or COO
Staff or other requestor not listed above	Vice President or Designee

Expense Reimbursement Request approval by the Chairman of the Board or Vice Chairman of the Board shall be applied consistently and shall not be unreasonably withheld.

If there is a vacancy or extended unavailability of an Approving Official on the Board, the Chairman of the Board or other Board Officer shall submit an Expense Reimbursement Request to the Board Secretary for approval.

9.3. Currency Conversion

The Airports Authority will reimburse for out-of-country expenses for approved international travel on the basis of credit card statements and receipts, including currency conversion fees and credit card foreign exchange fees, for business-related transactions. The reimbursement rate is based on the exchange rate used by the Traveler's credit card company in calculating its "local currency" payment. The use of Automated Teller Machines (ATMs) is encouraged to minimize these fees.

9.4. Submission Requirements

The Board Office and non-employees (such as job candidates, external procurement panel members, etc.) submit the approved Expense

Topic:	Travel Policy	Topic No:	To Be Determined
Function:	General Accounting	Updated:	September 5, 2012
Section:	Cash Disbursements	Owner:	Office of Finance
Applicability:	Airports Authority-wide, including Directors	Status:	FINAL

Reimbursement Request using the Form AC-13 (Attachment 4), which is available on Livelink, under MA-20 (Finance), in the Finance Forms folder and in the warehouse of each airport. The Form must be submitted to Accounts Payable (MA-22B) within 30 days after completion of the trip. If a Travel Authorization/Advance is required, a copy should be submitted with the Expense Reimbursement Request.

Employees must submit Expense Reimbursement Requests electronically through the i-Expense system within 30 days after completion of the trip. If a Travel Authorization/Advance is required, a copy should be submitted with the Expense Reimbursement Request. Upon appropriate approvals, the electronic Expense Reimbursement Request will be routed to Accounts Payable.

9.4.1. Cancellation With Charges Incurred

If a trip is cancelled and charges were incurred (e.g., airfare or hotel reservations), an Expense Reimbursement Request shall be prepared and approved by the Approving Official. The Traveler shall provide a brief written explanation for the cancellation, submit the Expense Reimbursement Request with a copy of the Travel Authorization/Advance Form clearly marked "CANCELED," and return any Advance money received to Accounts Payable, MA-22B, within 10 business days of the cancellation.

Topic:	Travel Policy	Topic No:	To Be Determined
Function:	General Accounting	Updated:	September 5, 2012
Section:	Cash Disbursements	Owner:	Office of Finance
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**10.0
Miscellaneous**

10.1. Travel Expenses Paid by Outside Parties

In circumstances when an employee's expenses are eligible for reimbursement by a third party, the employee should submit the Travel Authorization to Accounts Payable (MA-22B) and note on the Travel Authorization the third party reimbursement, including the name and billing contact for the third party. After submitting the Expense Reimbursement Request, Accounts Payable will submit an invoice to the third party directing reimbursement be made directly to the Airports Authority.

10.2. Personal Injury Accidents

A Traveler has the responsibility to seek medical attention if he/she is injured while traveling on official business and to notify his/her immediate supervisor as soon as possible. The Workers' Compensation insurance company shall determine if the injury will be compensable under the Virginia Workers' Compensation Act. The Traveler should follow the Airports Authority's internal reporting procedures as outlined in the *Risk Management Claims Procedure Manual*.

A personal accident policy is also in effect for foreign Travelers. The Traveler shall contact the Risk Management Department prior to foreign travel for current policy information.

**11.0
Exceptions to the
Policy**

Exceptions to this Policy shall be explained in detail on the Expense Reimbursement Request. When circumstances arise that are not directly covered in these written procedures, Travelers are expected to use sound judgment and provide detailed documentation on the reimbursement request in support of variances.

Any exception to this policy requested by the Board Office must be approved in writing by the Chairman of the Board of Directors. If denied, the decision may be appealed to the Executive and Governance Committee.

Any exception to this policy requested by staff must be approved in writing by the CEO or COO.

**12.0
Questions**

Questions regarding this Policy should be directed to Accounts Payable, MA-22B, on (703) 417-8722.

**13.0
Effective Date**

**14.0
Approvals**

Topic:	Travel Policy	Topic No:	To Be Determined
Function:	General Accounting	Updated:	September 5, 2012
Section:	Cash Disbursements	Owner:	Office of Finance
Applicability:	Airports Authority-wide, including Directors	Status:	FINAL

**Attachment 1 –
Mileage Rate**

TO: Users at CF, Users at DCA; Users at IAD; Users at PSD; Users at DCE
 FROM: Wanda Onafuwa, Accounts Payable Manager
 DATE: January 1, 2012
 SUBJECT: IRS Mileage Rate

The IRS standard business mileage rate effective January 1, 2012 is 55.5 cents per mile.
 Please use this rate on all expense reimbursement requests for travel beginning January 1–
 December 31, 2012.

For all employees the Oracle i-Expense module will reflect the current mileage rate . For
 non-users of i-Expense we have updated the appropriate Expense Reimbursement Request
 forms found in the MA-20 forms folder on Live Link.

Should you have additional questions please contact me at extension 71201.

Thank You.

Topic:	Travel Policy	Topic No:	To Be Determined
Function:	General Accounting	Updated:	September 5, 2012
Section:	Cash Disbursements	Owner:	Office of Finance
Applicability:	Airports Authority-wide, including Directors	Status:	FINAL

**Attachment 2 –
Form AC-10
(Travel
Authorization/
Advance)**

Metropolitan Washington Airports Authority		Page 1 of 1																								
TRAVEL AUTHORIZATION ADVANCE																										
NAME: _____		DATE: _____																								
ADDRESS: _____		ROUTING SYMBOL: _____																								
PHONE: _____		DATE/TIME OF TRIP: _____																								
FROM: _____ To: _____ Return To: _____																										
DATE: _____																										
FROM: _____ To: _____																										
<table border="1"> <tr> <td>Transportation</td> <td>\$</td> <td></td> </tr> <tr> <td>Rental Car (paid to provider out)</td> <td>\$</td> <td></td> </tr> <tr> <td>Lodging</td> <td>\$</td> <td></td> </tr> <tr> <td>Meals</td> <td>\$</td> <td></td> </tr> <tr> <td>Other</td> <td>\$</td> <td></td> </tr> <tr> <td></td> <td>\$</td> <td></td> </tr> <tr> <td></td> <td>\$</td> <td></td> </tr> <tr> <td>TOTAL</td> <td>\$</td> <td>0.00</td> </tr> </table>		Transportation	\$		Rental Car (paid to provider out)	\$		Lodging	\$		Meals	\$		Other	\$			\$			\$		TOTAL	\$	0.00	
Transportation	\$																									
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Lodging	\$																									
Meals	\$																									
Other	\$																									
	\$																									
	\$																									
TOTAL	\$	0.00																								
L. Personal time requested _____		Dates of personal time: _____																								
<table border="1"> <tr> <td>L. CHECK</td> <td>Estimated cost of trip (from total Cost Estimate above)</td> <td>\$</td> <td></td> </tr> <tr> <td colspan="4">LESS:</td> </tr> <tr> <td>L. ACH</td> <td>Transportation cost charged to the Authority</td> <td>\$</td> <td></td> </tr> <tr> <td></td> <td>Other costs paid directly by the Authority</td> <td>\$</td> <td></td> </tr> <tr> <td></td> <td>TOTAL</td> <td>\$</td> <td>0.00</td> </tr> </table>		L. CHECK	Estimated cost of trip (from total Cost Estimate above)	\$		LESS:				L. ACH	Transportation cost charged to the Authority	\$			Other costs paid directly by the Authority	\$			TOTAL	\$	0.00					
L. CHECK	Estimated cost of trip (from total Cost Estimate above)	\$																								
LESS:																										
L. ACH	Transportation cost charged to the Authority	\$																								
	Other costs paid directly by the Authority	\$																								
	TOTAL	\$	0.00																							
I, _____, hereby authorize the performance of the travel as indicated above and to be reimbursed for necessary expenses for travel in accordance with Authority policy.																										
TRAVELER'S SIGNATURE	DATE																									
APPROVING AUTHORITY	DATE																									

**Attachment 3 –
Airports
Authority Travel
Agent**

Globetrotter Travel Management Services, Inc.
Phone: (301) 570-0800 (Press 1 for Reservations)
travel@globetrottermgmt.com

Topic:	Travel Policy	Topic No:	To Be Determined
Function:	General Accounting	Updated:	September 5, 2012
Section:	Cash Disbursements	Owner:	Office of Finance
Applicability:	Airports Authority-wide, including Directors	Status:	FINAL

**Attachment 4 –
Form AC-12
(Expense
Reimbursement
Request)**

Metropolitan Washington Airports Authority						Page <u>1</u> of <u>1</u>
EXPENSE REIMBURSEMENT REQUEST 2012						
NAME (Last, First, MI)					EMPLOYEE CLOCK NO.	
ADDRESS (Street, City, State, Zip Code)					ROUTING SYMBOL	
PURPOSE OF MEETING OR CONFERENCE					DAYTIME PHONE NO.	
EXPENSES						
DATE	EXPLANATION OF EXPENSE	MILEAGE	2012 rate \$0.55	OTHER EXPENSE AMOUNT	AMOUNT CLAIMED	
					\$0.00	
					\$0.00	
					\$0.00	
					\$0.00	
					\$0.00	
					\$0.00	
					\$0.00	
					\$0.00	
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					\$0.00	
					\$0.00	
					\$0.00	
					\$0.00	
					\$0.00	
					\$0.00	
ACCOUNTING CODE (Insert 0s for project number and LITO if applicable)					TOTAL CLAIMED	
					\$0.00	
I certify that these expenses were incurred for official business and were not previously reimbursed.						
EMPLOYEE SIGNATURE					DATE	
APPROVING OFFICIAL'S SIGNATURE (Please type/print name below signature)					DATE	
RECEIVED FROM CASHIER					DATE	

**Attachment 5 –
Daily Meals &
Incidentals Limit**

Daily Expenses for meals (including applicable taxes and tips) and Incidentals must not exceed the authorized limit, which is based on §301-11.18 of the Federal Travel Regulation.

As of August 31, 2012, the authorized limit for daily meals and incidentals is \$71.

Enclosure G

Airports Authority Bylaws
(October 2012)



BYLAWS

ARTICLE I

Organization of the Authority

Section 1. Board of Directors. Created on October 18, 1986, by Chapter 598 of the 1985 Virginia Acts of Assembly, as amended, and the Regional Airports Authority Act of 1985, D.C. Law 6-67, as amended, the Metropolitan Washington Airports Authority consists of seventeen Members. All powers, rights and duties of the Authority are thus conferred upon its Members, who are collectively known as “the Board of Directors,” hereinafter referred to as “the Board.” Individual Members of the Authority are known as “Directors.”

a. There are seventeen Directors: seven appointed by the Governor of the Commonwealth of Virginia, four appointed by the Mayor of the District of Columbia, three appointed by the Governor of the State of Maryland, and three appointed by the President of the United States.

b. Directors (i) may not hold elective or full time, non-career appointive public office; (ii) serve without compensation, except that the Directors are entitled to reimbursement of their expenses incurred in attendance at meetings of the Authority or while otherwise engaged in the discharge of their duties, and (iii) reside within the Washington Standard Metropolitan Statistical Area, except that the Directors appointed by the President of the United States are not required to reside in that area, and must be registered voters of states other than Maryland, Virginia and the District of Columbia.

c. Appointments to the Authority are for a period of six years, except as otherwise provided by law for initial appointments.

d. Each Director may be removed or suspended from office only for cause, and in accordance with the laws of the jurisdiction from which he or she is appointed.

e. No Director may serve after the expiration of his or her term, unless reappointed. Any person appointed to fill a vacancy serves for the unexpired term. Each Director is eligible for reappointment for one additional term.

Section 2. Officers. The Board shall annually elect from its membership a Chairman and Vice-Chairman and shall elect from its membership, or elect and employ from its staff, a Secretary and a Treasurer or a Secretary/Treasurer, and prescribe the powers and duties of each officer. It may appoint from the staff an Assistant Secretary and an Assistant Treasurer, or an Assistant Secretary/Treasurer, who shall, in addition to other duties, discharge such functions of the Secretary and Treasurer, respectively, as may be directed by the Board. The Chairman and the Vice-Chairman may use any reasonable titles of their own choosing, such as Chair, Chairwoman, or Chairperson.

Section 3. Term of Office. The term for each elected office is one year, commencing January 1 of the year following the annual meeting. All officers, as long as they continue to serve as a Director or staff, hold office until the next January 1, or until their successors are elected or appointed and qualified, whichever may be the later.

ARTICLE II

Duties of the Board

The Board shall establish policy and provide direction to the President and Chief Executive Officer to acquire, operate, maintain, develop, promote and protect Ronald Reagan Washington National and Washington Dulles International Airports, including the Dulles Corridor, with its Dulles Toll Road and Dulles Metrorail Extension. The Board shall provide world class air transportation facilities with timely improvements at both Airports. The Board shall see that the laws pertaining to the purposes and functions of the Authority are faithfully observed and executed. In carrying out their duties on the Board, Directors appointed by the President shall ensure that adequate consideration is given to the national interest. The Board will employ staff, consistent with Article V, and adopt appropriate procedures to carry out these duties.

ARTICLE III**Powers and Duties of the Officers of the Board**

Section 1. The Chairman. The Chairman is the first among equals and is dedicated to advancing the work of the Board and fostering common ground and consensus to move the Board's work forward in support of the Authority's mission. The Chairman is accountable to the Board, and serves as liaison between the Board and the Chief Executive Officer.

The Chairman presides at all meetings of the Board; establishes and appoints all Committees and the Chairmen thereof; determines the jurisdiction of all Committees; serves as an *ex officio* member of all Committees; executes documents on behalf of the Authority as prescribed by the Board; and performs such other duties as the Board may from time to time direct.

Section 2. The Vice-Chairman. The Vice-Chairman performs the duties and has the powers of the Chairman during the absence or incapacity of the Chairman from any cause. A certification by any seven Directors as to such absence or incapacity from any regular or special meeting is conclusive evidence thereof. Upon the resignation or death of the Chairman, the Vice-Chairman automatically becomes the Chairman for the unexpired term.

Section 3. The Secretary. The Secretary is the custodian of all records and of the Seal of the Authority and keeps accurate minutes of the meetings of the Board and its Committees. The Secretary has the authority to cause copies to be made of all minutes and other records and documents of the Authority and to certify under the official seal of the Authority that such copies are true copies. The Secretary affixes the Seal of the Authority to legal instruments and documents as required. The Secretary gives notice of all meetings of the Authority as required by law or by these Bylaws and distributes the agenda and related materials not less than 48 hours before the regular meetings of the Board. The Secretary is responsible for assuring that the public is fully informed as to the time, place, and agenda of all Board and Committee Meetings, and that records of these meeting are readily available. The Secretary, if a Director, becomes, *ex officio*, the Acting Chairman in the event the offices of the Chairman and Vice-Chairman are both vacant, or in the event that the Chairman and the Vice-Chairman are both unable to perform their duties by reason of absence or incapacity.

Section 4. The Treasurer. Except as may be required in any instrument under which any revenue or other bonds are issued by the Authority, the Treasurer shall have the care and custody of and shall be responsible for all monies of the Authority from whatever sources received. The Treasurer shall be responsible for the deposit of such monies in the name of the Authority in a bank or banks approved by the Board and shall be responsible for disbursements of such funds for purposes authorized or intended by the Board. The Treasurer, and any Assistant Treasurer, shall be bonded in an amount and with surety acceptable to the Board and shall make periodic accounting for all such funds as determined by the Board. The Treasurer's books shall be available for inspection by any Director during business hours.

Section 5. Other Duties. In addition to the duties and powers herein set forth, the Chairman, the Vice Chairman, the Secretary and the Treasurer have the duties and powers commonly incident to their offices and such duties as may be imposed by law or as the Authority may from time to time by resolution specify.

ARTICLE IV

Committees

Section 1. Committee Roster. The Chairman shall prepare a list of Committees, their members, and their jurisdiction.

Section 2. Committee Meetings. Each Committee Chairman schedules the Committee's meetings and sets the agenda. Except for the Audit Committee, all Committee meetings are normally held in public session.

Section 3. Subcommittees. Each Committee Chairman may establish special or *ad hoc* subcommittees that report to the full Committee, with the concurrence of the Chairman.

Section 4. Attendance. Any Director may attend and participate in any Committee meeting, but only members of the Committee count towards a quorum and may vote.

ARTICLE V**Chief Executive Officer, and Other Employees**

Section 1. Chief Executive Officer. The Board shall appoint a President and Chief Executive Officer. He or she shall, except as otherwise provided by the Board, be in charge of management and operations of the Airports and any other activities of the Authority as prescribed by the Board. The President and Chief Executive Officer shall sign documents on behalf of the Authority as prescribed by the Board. The President and Chief Executive Officer shall discharge his or her duties in accordance with delegations of authority, and otherwise as directed by the Board.

Section 2. Chief Operating Officer. The Board shall appoint, upon the recommendation of the President and Chief Executive Officer, an Executive Vice President and Chief Operating Officer, who shall be initially responsible for the operational activities of the Authority, reporting to and exercising authority delegated to him or her by the President and Chief Executive Officer.

Section 3. Employees. The President and Chief Executive Officer shall staff the Authority in accordance with a plan approved by the Board. All selections for managerial positions reporting directly to the President and Chief Executive Officer and the Executive Vice President and Chief Operating Officer are subject to approval by the Board.

ARTICLE VI**Offices, Books and Records**

Section 1. Offices. The Board shall maintain the principal office of the Authority at or near either Ronald Reagan Washington National Airport or Washington Dulles International Airport.

Section 2. Books and Records. Except as may be otherwise required or permitted by resolution of the Board, or as the business of the Authority may from time to time require, all of the books and records of the Authority shall be kept at its principal office. Such books and records shall be available during ordinary

business hours for inspection by any member of the public, in accordance with the Authority's Freedom of Information Policy.

Section 3. Minutes. All approved minutes of Board or Committee meetings shall be open to public inspection during ordinary business hours.

Section 4. Documents Posted on the Authority Website. The Secretary shall post the following documents on the Authority website, with links shown at http://mwaa.com/board_members.htm:

- a. Schedules of upcoming Board and Committee Meetings, for at least six months
- b. Approved Minutes of Board and Committee Meetings
- c. The Roster of Committees, their members, and jurisdiction
- d. The Bylaws
- e. The Code of Ethical Responsibilities for Members of the Board of Directors
- f. Schedules, Agendas and non-privileged documents prepared for the next meetings, after they have been provided to the Directors

ARTICLE VII

Meetings of the Board

Section 1. Meetings Open to the Public. All meetings of the Board and its Committees are open to the public, except during executive sessions.

Section 2. Regular Meetings. A regular meeting of the Board shall be held at the principal office of the Authority on the third Wednesday of every month. When such day is a legal holiday or for any other reason inappropriate as a meeting day, the regular meeting shall be held on such other day as may be determined by the Chairman. The Secretary shall provide notice of a rescheduled meeting at least one week before the rescheduled date.

Section 3. Annual Meeting and Election of Officers. The regular meeting held in the month of November in each year is the annual meeting for the election of a Chairman, Vice-Chairman, Secretary and Treasurer. If the annual meeting is omitted, or the Board fails for any reason to elect a Chairman after repeated ballots, the election shall be on the agenda of each subsequent regular or

special meeting until a Chairman is elected. If a vacancy occurs in any of the four offices, and is not filled under other provisions of these Bylaws, after appropriate notice the Board may at a subsequent meeting elect a successor to complete any unexpired term.

Section 4. Special Meetings. Special meetings may be called at any time by the Chairman. Upon receipt of a written request for a special meeting from any seven Directors, the Chairman shall call a meeting. Written notice of each special meeting, specifying the time and place of the meeting, and the purpose or purposes of the meeting, shall be given to the Directors by the Secretary. Notice is sufficient if sent by mail at least seventy-two hours in advance of the date and time of the meeting or by e-mail or otherwise in writing within twenty-four hours before the time of the meeting, if given to the Directors in person. Formal notice to any person is not required provided all Directors are present or those not present have waived notice in writing, filed with the records of the meeting, either before or after the meeting.

Section 5. Schedule. While Committee meeting schedules may vary because of unpredictable duration, Board Meetings will begin at the advertised time. Any Committee meeting running into the Board Meeting time will suspend its session until the Board Meeting has been adjourned. Executive sessions, if any, shall be scheduled, if possible, before Committee meetings begin or after the last Committee meeting of the day in order to minimize inconvenience to the public.

ARTICLE VIII

Voting

Section 1. Quorum. Nine Directors constitute a quorum for the transaction of all business at a regular or special meeting. A majority of the members of a Committee, not including the *ex officio* member, constitutes a quorum for the transaction of all Committee business.

Section 2. Majority Voting. Action by the Board is by a simple majority vote of the Directors present and voting except where otherwise provided by the Bylaws. Ten affirmative votes are required to approve bond issues, the annual budget of the Authority, and the appointment of a President and Chief Executive

Officer. Ten affirmative votes are required to grant exceptions to competitive procurement procedures for contracts over \$200,000.

Section 3. Participation by Telephone. Directors unable to attend a meeting may participate by telephone, but may not vote.

ARTICLE IX

Transaction of Business

Section 1. Regular, Special and Committee Meetings. Any business of the Authority may be considered at any regular meeting of the Board. Only items of business identified in the agenda distributed by the Secretary forty-eight hours in advance of the meeting may be acted upon at a regular meeting. Other matters may be acted upon if nine or more Directors vote to waive this notice provision. When notice of a special meeting is sent, only matters specified or described in the notice may be considered at the special meeting, except that with the unanimous consent of the Directors present any other matter may be considered. Business within the jurisdiction of a Committee may be considered at any meeting of the Committee. Only items of business identified in the agenda distributed by the Secretary forty-eight hours in advance of the meeting may be acted upon at a Committee meeting. Other matters may be acted upon if a majority of the Members of the Committee vote to waive this notice provision.

Section 2. Order of Business. Unless waived by a vote of seven or more Directors, the order of business at a regular meeting of the Board is:

- a. Approval of the minutes of the previous meeting.
- b. Committee Reports.
- c. Reports of Chief Executive Officer and staff.
- d. Unfinished business.
- e. New business.
- f. Other business and adjournment.

Section 3. Executive Session. All regular, special and committee meetings of the Board shall be open to the public, except that at any time the presiding officer may, without objection, order that the Board or Committee consider a matter or matters in the categories described below in executive session closed to the public. Before an executive session begins, the presiding officer shall announce the matters to be discussed. At the discretion of the presiding officer, others who can contribute to the discussion, including appropriate employees, outside counsel and consultants, may attend an executive session, with the understanding that they are honor bound not to divulge what takes place there. Only the following items or matters may be considered in the executive session:

- a. Personnel matters such as employment, appointment, assignment, promotion, demotion, performance appraisal, discipline, resignation, salaries and benefits, and interviews of Directors, officers, and employees of the Authority, and applicants for the same.
- b. Personal matters not directly related to the Authority's business in order to protect the privacy of individuals.
- c. Existing or prospective contracts, business or legal relationships to protect proprietary or confidential information of the Authority, any person or company; the financial interest of the Authority; or the negotiating position of the Authority.
- d. Financial matters, including the indebtedness of the Authority and the investment of Authority funds, particularly where competition or negotiation is involved. The annual budget may be discussed in executive session in its earliest stages, but should otherwise be dealt with in open session. From time to time certain sections may be considered in executive session, particularly where public discussion could compromise the Authority's relationships with its employees or tenant airlines.
- e. Consultation with legal counsel and briefings by staff, consultants and/or attorneys, pertaining to actual or potential litigation, pending or proposed legislation, compliance with a specific constitutional, statutory or judicially imposed requirement, or other legal matters, and discussions of such matters by the Board without the presence of counsel, staff, consultants, or attorneys.

f. Discussion of security plans and other law enforcement measures for the protection of the public from terrorism and aircraft hijacking.

g. Audit matters.

Section 4. Actions in Executive Session. No resolution, contract, or motion, adopted, passed or agreed to in an executive session, other than a request to the staff for information, is effective unless the Board or Committee, at an appropriate time following such session, reconvenes in public or open session and takes a vote of the Directors on such resolution, contract, or motion, and the subject of the resolution, contract, or motion is reasonably identified in the open session. This shall not be construed to require the Board or Committee to divulge information that is proprietary or actions that are not final.

Section 5. Other Business. After completion of the agenda, the Chairman, Directors, or the President and Chief Executive Officer may, for information purposes, place any matter or matters on the agenda or other business that either deems to require the attention of the Board.

Section 6. Procedure. Roberts Rules of Order, as amended, is the authority for all matters of procedure not otherwise covered by these Bylaws. A point of order as to procedure raised by any Director in the course of a regular, special or committee meeting is resolved by a ruling of the Chairman. The vote of a majority of the Directors present is required to overrule the Chairman. The Secretary serves as parliamentarian.

ARTICLE X

Directives and Regulations

Section 1. General. The Board will adopt, amend and repeal as necessary: 1) internal directives and procedures for operating the Airports, including delegations of authority, and 2) regulations which may have the force and effect of law, pertaining to the use, maintenance and operation of its facilities and governing the conduct of persons and organizations using its facilities.

Section 2. Regulatory procedure. Unless the Board determines that an emergency exists by unanimous vote of all Directors present, the Board shall, prior

to the adoption of any regulation or alteration, amendment, or modification thereof:

a. Make such regulation or amendment thereof in convenient form available for public inspection in the office of the Authority for at least ten days.

b. Publish a notice in a newspaper or newspapers of general circulation in the District of Columbia, Montgomery County and Prince George's County, Maryland, and in the local political subdivisions of the Commonwealth of Virginia where the Authority facilities are located declaring the Authority's intention to consider adopting such regulation or amendment thereof and informing the public that the Authority will hold a public hearing at which any person may appear and be heard for or against the adoption of such regulation or such alteration, amendment, or modification, on a day and at a time to be specified in the notice, after the expiration of at least ten days from the day of the publication thereof; and

c. Hold the public hearing, or appoint a hearing officer to hold a public hearing, on the day and at a time specified in such notice or any adjournment thereof, and hear persons appearing for or against such regulation or amendment thereof.

d. In accordance with the Metropolitan Washington Airports Act of 1986, adoption by the Board of the regulations of the Federal Aviation Administration that governed the Airports at the time the Airports were transferred to the Authority were not subject to this procedure.

Section 3. Inspection of regulations. The Authority's regulations are available for public inspection in the Authority's principal office.

Section 4. Force and Effect of Law. The Authority's regulations relating to

a. Air operations and motor vehicle traffic, including, but not limited to, motor vehicle speed limits and the location of and payment for public parking;

b. Access to and use of Authority Facilities, including but not limited to solicitation, handbilling, picketing and the conduct of commercial activities; and

c. Aircraft operation and maintenance;

have the force and effect of law, as do any other regulations of the Authority that contain a determination by the Board that it is necessary to accord the same force and effect of law in the public interest; provided, however, that with respect to motor vehicle traffic rules and regulations, the Board will obtain the approval of the traffic engineer or comparable official of the local political subdivision in which such rules or regulations are to be enforced.

ARTICLE XI

Miscellaneous

Section 1. Code of Ethics. The Board shall adopt a code of ethics and financial disclosure to assure the integrity of all decisions by the Board and employees of the Authority. The code shall provide that each Director and his or her immediate families may not hold a substantial financial interest in any enterprise that has or is seeking a contract or agreement with the Airports Authority or is an aeronautical, aviation services, or airports services enterprise that otherwise has interests that can be directly affected by the Airports Authority. Exceptions may be made if the financial interest is fully disclosed to the Board and the Director does not participate in decisions that directly affect such interest.

Section 2. Indemnity. The Authority shall indemnify each Director and Officer against all costs and expenses (including counsel fees) the Director actually incurs in connection with or resulting from any action, suit or proceeding, of whatever nature, to which the Director is or shall be made a party by reason of his being or having been a Director or Officer of the Authority, provided (1) that the Director or Officer conducted him- or herself in good faith and (2) reasonably believed that his or her conduct was in the best interest of the Authority. This indemnity shall not apply in actions when the Director or Officer is adjudged liable to the Authority.

Section 3. Minority and women-owned business participation. The Board shall maintain a policy for providing minority and women-owned business participation in the contracts of the Authority, and monitor its implementation.

ARTICLE XII**Amendments**

These Bylaws may be amended or repealed in whole or in part by resolution of the Board adopted by at least ten Directors at any regular meeting or special meeting, provided that notice of intention to present such resolution is given to all Directors at least two days in advance of the meeting at which the motion to adopt such resolution is to be made. Such notice may be given by any Director, or by the Secretary at the request of any Directors, and shall specify the subject matter of the proposed amendment or repeal. The notice of intention to amend or repeal these Bylaws shall include a specific reference to the Article subject to the proposed amendment or repeal, together with the suggested changes, or a “redline” draft showing existing text and suggested changes.

Adopted March 4, 1987

Amended: January 8, 1992; April 1, 1992; September 6, 2000; January 3, 2001; June 5, 2002; August 8, 2007; April 20, 2011; January 4, 2012; February 15, 2012; and October 17, 2012.

Enclosure H

Airports Authority Freedom of Information Policy
(July 2012)

Freedom of Information Policy

The Metropolitan Washington Airports Authority is committed to transparency in all its operations. From the beginning, it has maintained its own Freedom of Information Policy that continued the disclosure rules in force at the two Airports from the enactment of the federal Freedom of Information Act in 1966. All its records are available to the public, except those that are not required to be disclosed pursuant to the exemptions set out in Part 3 below.

Given its commitment to transparency, the Airports Authority encourages anyone interested in its activities to seek information informally. This document is designed to assist in that process, and is divided into three parts.

Part 1 identifies records easy to get from the Authority's website; Part 2 provides contacts for answering questions and help in obtaining other records; Part 3 provides a formal Freedom of Information procedure for obtaining Authority records that are not readily available, and includes standards for the withholding of certain types of records.

Part 1 -- Documents Generally Available

The Airports Authority makes most of its important records readily available, principally through the Authority website, www.mwaa.com, under the "About the Authority", "Business Information" and "News and Publications" tabs. There anyone can read and download many records. The following are among those to be found there:

Board of Directors documents

(About the Authority tab -- Board of Directors -- Meeting Information):

- Calendars and Schedules
- Agendas and Papers prepared for Board and Committee Meetings (Minutes are included with the link for each meeting)

(About the Authority tab -- Board of Directors -- Reference Materials)

- Bylaws
- Committee Membership
- Committee Jurisdiction

- Travel and Business Expense Guidelines
- Resolution No. 01-20 -- General Delegations and Reservations of Authority
- The Code of Ethical Responsibilities for Members of the Board of Directors
- The Lease of the Metropolitan Washington Airports between the United States and the Metropolitan Washington Airports Authority
- Provisions of the District of Columbia Code establishing, jointly with the Commonwealth of Virginia, the Metropolitan Washington Airports Authority
- Provisions of the Commonwealth of Virginia Code establishing, jointly with the District of Columbia, the Metropolitan Washington Airports Authority
- Provisions of the United States Code, authorizing the transfer of Washington National and Washington Dulles International Airports to the Metropolitan Washington Airports Authority, with conditions.
- The Freedom of Information Policy

(About the Authority tab -- Annual Reports)

- Annual Reports from 2000 to present
- Comprehensive Annual Financial Reports from 2000 to present

Business Information

(Business Information tab)

- Contracting Manual and forms
- Construction Opportunities
- Concession Opportunities
- Equal Opportunity Programs

(About the Authority tab -- Regulations and Policies)

- Regulations
- Code of Ethics for Directors
- Code of Ethics for Employees
- Airline Use and Lease Agreement

Other Records

(About the Authority tab -- Financial)

- The Budget
- Comprehensive Annual Financial Reports

- Monthly Financial Statements
- Airline Rates and Charges
- Master Trust Indenture
- Official Statements

Dulles Rail Documents

(Link on the home page, under the Dulles Corridor logo; also Dulles – About Dulles International – Dulles Corridor Information)

- Historical and current documents, including contracts, for the Dulles Corridor Rail Project

Part 2 – Contacts

The Airports Authority maintains its principal corporate offices at 1 Aviation Circle on Ronald Reagan Washington National Airport. Records are kept there, at the airport offices at both Reagan National and Washington Dulles International Airport, and at the Dulles Corridor Metrorail Project office at 1593 Spring Hill Road in Vienna.

To obtain records informally, questions or requests can be directed to any office in the Authority likely to have them. If uncertain which office to call, contact the Secretary's office, 703-417-8740, which will refer you to the right office.

Part 3 – Formal Freedom of Information Procedures

I. Where to file a request – Formal Freedom of Information requests for records located anywhere within the Authority should be addressed to the Freedom of Information Officer, Office of the Secretary, MA-BD, Metropolitan Washington Airports Authority, 1 Aviation Circle, Suite 210, Washington, D.C. 20001-6000. They can also be submitted to [\[FOI@mwaa.com\]](mailto:FOI@mwaa.com). Questions may be directed to the e-mail address or to 703-417-8740.

II. Content of a request – Such requests should identify the records requested or set out as clearly as possible their nature, state the format requested (paper or electronic) and provide a telephone number and/or an e-mail address for clarifying communications.

III. Internal processing – The Freedom of Information Officer will assure a copy of the request is directed to the office holding the requested records, and will respond to a request as soon as possible, but not later than within two weeks of the receipt of the request. The Freedom of Information Officer will keep a docket of all Freedom of Information requests.

IV. Requests sent elsewhere – Copies of written FOI requests submitted to offices other than the Office of the Secretary will be promptly provided to the Freedom of Information Officer.

V. Response – The Authority's written response shall (a) provide the records requested, (b) explain why more time is required to respond, or (c) deny the release of records, in whole or in part, based on the exemptions in paragraph VII below. If denied, the withheld records shall be identified, and reasons shall be provided for their withholding. Responses may not be sent without the concurrence of the Secretary and appropriate consultation with the General Counsel's Office.

VI. Appeal – If a request is denied in whole or in part, or not responded to within two weeks, the requester may appeal to the Chairman of the Legal Committee of the Board of Directors. Such an appeal should be clearly identified as a Freedom of Information appeal, and addressed to the Secretary of the Authority at the address in paragraph I, above. The Committee Chairman's decision will be final.

VII. Reasons for withholding – Records or portions of records in the following categories of exemptions may be, but are not required to be, withheld from disclosure. Records are rarely withheld in their entirety; when an exemption applies to only a portion of a requested record, the rest of the record will be released. Any decision to withhold must set out the reasons for doing so, based on the exemptions stated below:

A. Personal Privacy. Personnel, payroll and financial records containing information concerning identifiable individuals, except that access shall not be denied to the person who is the subject thereof. The name, position and salary of Authority employees, however, are public information.

B. Confidential Business Information.

(1) Confidential business information of the Authority: records containing commercial, financial, or proprietary information which, if disclosed, could harm the competitive or negotiating position of the Authority; and

(2) Confidential business information provided by others and held by the Authority: records containing commercial, financial or proprietary information provided from outside the Authority, if the submitter claims a privilege for the information and gives adequate reasons why protection is necessary, or the information has been identified as exempt in the Authority Contracting Manual.

(3) Confidential procurement records, such as proposals, offers, bids and proposal scoring records, including competitive negotiation proposals, sealed bidding records, cost estimates, and business plans, the withholding of which is specifically addressed in the Authority Contracting Manual.

C. Law Enforcement and Security Records. Records compiled for law enforcement and security purposes, but only to the extent that and as long as the production of such records would (1) interfere with investigative or enforcement proceedings; (2) deprive a person of a right to a fair trial or an impartial adjudication; (3) constitute an unwarranted invasion of personal privacy; (4) disclose the identity of a confidential source and confidential information furnished only by the confidential source; (5) disclose law enforcement and security techniques and procedures not generally known outside the law enforcement community; (6) cause a suspect to flee or evade detection; (7) result in the destruction of evidence; or (8) endanger the life or physical safety of an individual.

D. Privileged Documents. Records subject to a generally recognized privilege, such as the attorney work product privilege and the attorney-client privilege; records that would not be available to a person in litigation with the Authority; and records with respect to matters addressed by the Board of Directors in Executive Session.

E. Pre-Decisional Documents. Records containing analyses and recommendations with respect to matters to be decided by the President and Chief Executive Officer or the Board of Directors, except to the extent the analyses and/or recommendations are disclosed or otherwise addressed in a final decision document. Documents prepared for the Board of Directors and its committees and not otherwise exempt from disclosure under paragraph VII are normally made available at www.mwaa.com before the meeting at which the matters addressed in the documents are to be discussed, but only after they have been provided to the Directors.

VIII. Other Considerations – Only existing records are subject to release. The Authority does not create new records in response to a Freedom of Information re-

quests, including records summarizing data or other information. Only records held by the Authority can be released, paper records in its own files or electronic records on its own servers; this Policy does not reach records held by vendors, contractors, or other third parties. In addition, personal notes, papers and any other records created and maintained by the preparer solely as work papers for personal use are not treated as Authority records.

IX. Fees – Requests for a limited number of readily available records that do not require significant staff resources to locate and produce will normally be answered without charge. More substantial requests will be assessed fees to cover the costs of locating the requested records and in producing and delivering hard or electronic copies of the records. A schedule of such fees will be provided to the requester; if the projected fees exceed \$250, a 50 percent deposit may be required before Authority resources are committed to locating and producing the requested records.

July 18, 2012