

August 14, 2009

In accordance with Board Resolution 2006-18, I am pleased to submit to the Board of Directors and stakeholders this Semiannual Report on the activities of the Office of Inspector General for the six (6) month period ending June 30, 2009. This report highlights our work for this period and reflects our strong commitment to assisting WMATA in improving its programs and operations.

I look forward to working with you in furthering OIG's mission and core values.

/s/

Helen Lew  
Inspector General



**Washington Metropolitan Area Transit Authority  
Inspector General's Semiannual Report to the  
Board of Directors, No. 4  
January 1, 2009 – June 30, 2009**



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## **INSPECTOR GENERAL'S MESSAGE TO THE BOARD OF DIRECTORS**

August 14, 2009

We are pleased to provide this Semiannual Report on the activities and accomplishments of the Washington Metropolitan Area Transit Authority (WMATA) Office of Inspector General (OIG), from January 1, 2009, through June 30, 2009. The audits, investigations, and other activities highlighted in this report illustrate our on-going commitment to promoting accountability, efficiency, and effectiveness in WMATA's programs and operations.

Over the last six months, OIG issued 40 audit products, including audit reports, alternative audit products, and audit waivers. We reviewed pricing information with a proposed value of \$19,998,853 and suggested \$4,003,457 in net audit adjustments. We also closed 18 investigations and processed 147 complaints.

I testified before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia of the Committee on Oversight and Government Reform, U.S. House of Representatives, on April 29, 2009, about our work at WMATA. (The Chairman of the WMATA Board of Directors, the General Manager, and a representative of Local 689 of the Amalgamated Transit Union also testified.) I highlighted our work and that of the external auditor we oversee in two of the four areas in the Subcommittee Chairman's request letter—internal controls and capital improvement projects. The Subcommittee members expressed concern about oversight of federal funds to grantees like WMATA under the American Recovery and Reinvestment Act – also known as stimulus funds. I assured them that our office would give priority to review of contracts funded with stimulus money to ensure that WMATA is getting good value and look for any red flags of impropriety. I also pointed out; however, that state and local OIGs like our office did not get any additional resources to use for oversight of stimulus money, unlike some of our federal counterparts. It will be a challenge that we face going forward to leverage our scarce contract audit resources for this task, in addition to continuing to give audit attention to other large, federally funded contracts.

I would also like to commend the General Manager and WMATA employees for their outstanding performance during the days leading up to and including Inauguration Day. Dependence of this region on WMATA was never as clear as on Inauguration Day when ridership reached 1,120,000 trips. I agree with the General Manager's comment that the ridership level on Inauguration Day is an indication of what WMATA can expect in the future. This reinforces the OIG commitment to help ensure that transit resources are used efficiently and effectively and to prevent and detect fraud and abuse.

On a somber note, our hearts and sympathies go out to the families and friends of the nine individuals who were killed and the more than 70 individuals who were injured as a result of the June 22<sup>nd</sup> railcar accident. Although the cause of the accident is still under investigation, this tragic event reinforces our commitment to promoting safety in everything we do.

*/s/*

Helen Lew  
Inspector General

## INTRODUCTION

The Office of Inspector General (OIG) has operated under Board of Directors Resolution 2006-18 since its inception in May 2007, and recently each of the three Compact jurisdictions passed legislation establishing the office under statute. We are now authorized 29 full-time positions for fiscal year 2009, and we had 24 positions filled as of June 30, 2009. We have worked to recruit entry-level auditors, who are expected to be on board shortly. Most of our positions are in OIG-Audit. Our biggest challenge has been to keep up with the demand for attestation reviews requested by management, a demand we expect to increase with the award of federal stimulus funds for capital contracts.

In our first and second Semiannual Reports, which are posted on our office website, [www.wmata.com](http://www.wmata.com)<sup>1</sup>, we set out our Mission and Core Values and described the many areas of our staff's expertise and professional training. We continue to develop our staff, as well as provide training, some of which is required to meet requirements for complying with Government Auditing Standards.

A summary of our audits and investigations, as well as other accomplishments from January 1, 2009, through June 30, 2009, are provided in the following sections of this report.

## AUDITS

During this reporting period we issued 40<sup>2</sup> audit products in the form of audit reports, alternative products, such as attestations and alert memoranda, and audit waivers.

### Audit Resolution and Follow-Up

Board Resolution 2006-18 requires us to provide Semiannual Reports listing each report for which management has not completed corrective action. Table 1 shows recommendations described in the previous Semiannual Report (SARS) on which corrective action has not been completed as of June 30, 2009.

### Summary of Audit Reports Issued

We issued three audit reports during this reporting period. These reports are listed in Table 2 and are summarized below.

- **Audit of the Purchase Card Program** – (Internal Operations No. 09-06, issued June 29, 2009). We reviewed WMATA's Purchase Card Program to assess the adequacy of internal controls. We found that the WMATA Purchase Card Program management controls were functioning as intended. Cardholders were

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<sup>1</sup> Click on the icon button "About Metro," click on "Inspector General", and then click on "semiannual report".

<sup>2</sup> This number includes two financial statement audit-related reports that were prepared by the external auditor.

generally following the Office of Procurement and Materials (PRMT) guidance and making appropriate use of the purchase cards. However, we found a few instances where employees did not comply with the policy instruction. Specifically, we found three cardholders who made split purchases, totaling \$9,152.64. A split purchase is prohibited because it is a method to circumvent purchase card policy and procedures. We also reviewed 97 cardholder training records and identified 5 employees who had not received required annual refresher training.

In the Chief Financial Officer's June 16, 2009, response to a draft of this report, she concurred with all four of our recommendations. She also provided targeted completion dates on when the recommendations are expected to be implemented.

- **Financial Statement Audit-Related Reports<sup>3</sup>** - In October 2008, we received the financial statement report – **WMATA's Basic Financial Statements Years ended as of June 30, 2008 and 2007 with Independent Auditor's Report**. In December 2008, we received **WMATA's Single Audit Report for the year ended June 30, 2008**, which includes the *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards* and the *Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB A-133*. Clifton Gunderson, LLP, Certified Public Accountants & Consultants (CG) conducted the audits, and we performed limited oversight and monitoring procedures to ensure completion of audit deliverables. Management concurred with the auditors' findings and recommendations and proposed corrective actions to address them.

Specifically, WMATA received an unqualified or "clean" opinion on its comparative financial statements. The *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards* contained 11 significant deficiencies<sup>4</sup> in internal controls over financial reporting. The 11 significant deficiencies are capitalization of construction costs (repeat from previous year), capital asset report, salary and hourly pay change documentation, inventory documentation, receivable support and financial statement preparation. The remaining five significant deficiencies related to information technology controls.

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<sup>3</sup> The WMATA Board accepted the reports on January 29, 2009.

<sup>4</sup> A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

## Summary of Alternative Products Issued

From January 1, 2009, through June 30, 2009, we issued 24 attestation reports.

Our attestation engagements are performed within the context of their stated scope and objective(s) and can cover a broad range of financial and non-financial subjects. They can also be part of a financial audit or performance audit. They include the examination, review, or performance of agreed-upon procedures on a subject matter, or an assertion about a subject matter and the reporting on the results. Because these reports involve contractor proprietary information, the reports are not posted on the OIG website and are not publicly distributed. A compilation of our attestation reports/certifications work appears in Table 2.

Some key types of attestation reports issued by OIG include pre-negotiation, billing rate, Buy America, and pre-award reviews. These are described more fully below along with the number of such reports issued this reporting period.

- **Pre-negotiation Attestation Reports** (12 reports). This type of report generally relates to a review and analysis of a contractor's proposal to determine if the pricing information is current, accurate, and complete and ties back to the contractor's accounting systems. During the reporting period January 1, 2009, through June 30, 2009, we issued 12 Pre-negotiation Attestation Reports. We reviewed pricing information with a proposed value of \$19,998,853 and suggested \$4,003,457 in net audit adjustments.
- **Billing Rate Attestation Reports** (2 reports). At the request of WMATA's Office of Procurement and Materials (PRMT), we review the billing rates submitted by contractors and subcontractors to PRMT for approval. The primary objective of this review is to verify the basis of the billing rates and the support for the cost elements (base wage rates and overheads) included in the contractor's proposal and to ensure that the pricing information is current, accurate, and complete. The results of our review are sent to PRMT for use in the negotiation process. During the reporting period January 1, 2009, through June 30, 2009 we issued two Billing Rate Attestation Reports.
- **Buy America Attestation Reports** (3 reports) The Federal Transit Administration (FTA) requires a pre-award and post-delivery certification that the manufacture of the rolling stock-stock vehicles (rail and bus) is in compliance with the FTA Buy America Act regulations. The pre-award audit is conducted prior to the contract award and the notice-to-proceed. The post-delivery audit is conducted prior to delivery of the rolling stock vehicle. At the end of the reviews, certifications are issued stating whether the manufacturer is in compliance with the FTA Buy America regulations. During the reporting period January 1, 2009, through June 30, 2009, we issued three Buy America Attestation Reports.



- **Pre-award Attestation Reports** (6 reports). Prior to the final determination of a contract award, the Contracting Officer sends financial data (Income Statements, Balance Sheets, Retained Earnings Statements, Source and Application of Funds and related notes), submitted by the prospective contractor to the OIG for evaluation. We conduct an agreed-upon procedure review to determine if the contractor has adequate financial resources (going concern) and whether the contractor meets the applicable standards for a responsible prospective contractor. During the period January 1, 2009, through June 30, 2009, we issued six Pre-Award Attestation Reports.
- **Other Attestation Reports** (1 report). We also performed other attestation services as requested by management PRMT, including Advisory Memoranda on contract issues and attestation reviews of contractor claims. During the period January 1, 2009, through June 30, 2009, we issued one such Attestation Report.

### Other Audit Products

During this reporting period, we issued two Alert Memoranda<sup>5</sup>. (See Table 3) We also issued 11 audit waivers in response to requests from contracting officers to waive audits of cost and pricing information when this information is available and considered adequate.

### INVESTIGATIONS

During the reporting period January 1, 2009, through July 31, 2009, we received a total of 147 complaints through the OIG Hotline, in writing, and in person. We processed 140 matters that included both complaints requiring investigative attention that did not result in an investigation and those referred directly to other complaint resolution processes. We opened 15 investigations and closed 18 investigations (a summary is provided in Table 4).

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<sup>5</sup> These pertain to matters that are either outside the objectives of an on-going audit or are identified while engaged in work not related to an on-going assignment and require immediate management action.

## OTHER OIG ACCOMPLISHMENTS

Other OIG accomplishments during this reporting period include:

- Inspector General Lew testified before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia of the Committee on Oversight and Government Reform, U.S. House of Representatives on April 29, 2009, about our work at WMATA. (See IG's message above).
- Inspector General Lew gave a presentation, entitled "WMATA—Challenges Ahead," before the Greater Washington Society of CPAs on May 21, 2009, in Washington, D.C. She discussed four challenges that WMATA faces now and into the future—financial challenges amidst a struggling economy, the challenges of an aging infrastructure, the challenges of surging ridership, and the challenges of increased federal oversight.
- Leon Langford, an OIG Senior Auditor, conducted a training course on "Internal Controls" to managers and supervisors on March 5, 2009, and June 4, 2009, in the Carmen Turner Facility, as part of the Department of System Safety and Risk Management safety training.
- From January to June 2009, OIG management continued to participate in weekly New Employee Orientation training to acquaint recently hired employees of the role and mission of the OIG and to provide them with contact information.

**Table 1: Recommendations Described in Previous SARs on Which Corrective Action Has Not Been Completed as of June 30, 2009**

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations		Latest Target Date (Per WMATA Corrective Action Plan)
				Open	Complete	
<b>Internal Operations</b>						
OIG 08-002	Review of Internal Controls Related to Accounts Payable (SAR 1, page 3)	12/28/07		2	2	April 2009
OIG 08-005	Review of Trapeze the Bus Rail Scheduling and Dispatch System (SAR 2, page 3)	03/25/08		1	4	Dec 2008
OIG 09-004	Internal Control Review of Fare Media Sales (SAR 3, page 3)	12/30/08		1	10	July 2009
<b>Contract Performance</b>						
OIG 08-025	Review of Issues and Concerns on ERG Contract (SAR 2, page 4)	4/28/2008		3	1	Sept. 2009*
OIG 08-053	Review of Issues and Concerns on Cubic Contract (SAR 2, page 4)	2/19/2008		1	1	April 2010
<b>External Audits</b>						
	Single Audit Report Year ended June 30, 2007 (With Independent Auditor's" Report Thereon) (SAR 1, page 4)	9/28/2007		1	4	FY 2012
* Expected completion date changed from previous report.						

**Table 2: OIG Audit Reports and Alternative Products on WMATA Programs and Activities January 1, 2009, through June 30, 2009**

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
<b>AUDIT REPORTS</b>					
<u>Internal Operations</u>					
OIG 09-06	Audit of the Purchase Card Program	06/29/09			4
<b>External Audits</b>					
	Basic Financial Statements Years ended as of June 30, 2008 and 2007 with Independent Auditor's Report	10/28/2008			
	Single Audit Report for the year ended June 30, 2008 which includes the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards and the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB A-133	12/22/2008			12
<u>Contract Audit</u>					
<u>Pre-Negotiation Attestation Reports</u>					
OIG 09-011	Contractor's Proposal, Contract FN505, PCO No. 008 Purchasing Four Cast Coil Transformers and Building Outdoor Enclosures	01/05/09			
OIG 09-012	Contractor's Revised Proposal Contract CO5136 & C44444 Forward Pricing Rates for FY 2009 Through FY 2012	02/26/09			
OIG 09-013	Contractor's Proposal, Contract FN5088, PCO No. 058 Reduction in Scope of Work	04/17/09			

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Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
OIG 09-014	Contractor's Revised Proposal Contract C44444, SmarTrip® Program Moving Forward ODBC/0040, Card Replacement and Deployment Support	03/26/09			
OIG 09-015	Contractor's Credit Proposal Contract No. FN5089, PCO No. 063 Reduction in Scope of Work	04/10/09			
OIG 09-016	Contractor's Proposal, Proposal Number: 9-017, Request for Equitable Universal Vendor Alternate Upgrade kit Pilot	04/15/09			
OIG 09-017	Contractor's Proposal Contract FN5059, PCO No. 017 Purchasing Eleven Oil Filled Transformers	05/01/09			
OIG 09-018	Contractor's Proposal Contract FP7029, PCO No. 001 Deletion of Corrosion Inhibitor Coatings at Three Metrorail Stations	05/06/09			
OIG 09-019	Contractor's Proposal RFP CQ9004/NAC Sole Source Procurement of 1200 Escalator Steps	05/29/09			
OIG 09-020	Contractor's Proposal Contract No. FN5059, PCO No. 009 Provide Equipment and Assemble a Training Substation	06/05/09			
OIG 09-021	Contractor's Proposal Contract No. FI5583 Comprehensive Radio Communication System Portable Radios & Accessories	06/08/09			
OIG 09-022	Contractor's Proposal Contract No. C05136 Conversion of Vendors to Express Vendors	06/25/09			
<b><u>Billing Rate Attestation Reports</u></b>					
CA 09-025	Review of Proposed Billing Rates, Contract CO5034 – CYs 2008 & 2009, Regional Customer Service Center Additional Staffing	06/05/09			

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Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
CA 09-026	Review of Proposed Billing Rates, Contract FO5167/MJ, Real-Time Bus Customer Information System	06/26/09			
<u>Buy America Attestation Reports</u>					
CA 09-016	Post Delivery Buy America Certification Audit Contract No. TC-6000 6000 Series Rail Cars Procurement Base Contract 62 Rail Cars, Optional 120 Rail Cars and Early Exercise Option Two Rail Cars	02/02/09			
CA 09-020	Post Delivery Buy America Certification Audit, Contract FK-0154 Rehabilitation of 364 Breda Series 2000 & 3000 Heavy Rapid Transit Cars	03/18/09			
CA 09-023	Post Delivery Buy America Certification Audit, Contract FP7038 for Low Floor Thirty-seven Foot (20 buses), Forty Two Foot (161 buses), and Sixty Two Foot (22 buses) Hybrid/Electric Transit Buses	05/21/09			
<u>Pre-Award Attestation Reports</u>					
CA 09-015	Evaluation of Pre-Award Financial Data, RFP-CQ9023 Supply of Various Lubricants	02/02/09			
CA 09-017	Evaluation of Pre-Award Financial Data, RFP No. FN8041 Manufacturing & Installation of Rail Lift Systems	02/24/09			
CA 09-018	Evaluation of Final Invoice Contract CQ9068 Inaugural Day Charter Bus Parking Services	02/25/09			
CA 09-019	Evaluation of Pre-Award Financial Data, RFP-CQ9039, Replacement of Paint Booth	03/06/09			
CA 09-021	Evaluation of Pre-Award Financial Data, Contract JD7000 Design and Construction of the Glenmont Station Parking Structure	03/30/09			
CA 09-022	Evaluation of Pre-Award Financial Data, Contract CQ9110 Voltage Detector Devices	04/23/09			

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Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
<u>Other Attestation Reports</u>					
CA 09-024	Advisory Memorandum, Travel Costs Incurred for Pre-Award and Post-Delivery Buy America Audits of Rolling Stock Purchases	05/28/09			
<p>* For purposes of this schedule, questioned costs include other recommended recoveries.</p> <p><b>Notes:</b>  <b>Description of Alternative Products</b></p> <p>Attestation reports convey the results of attestation engagements performed within the context of their stated scope and objective(s). Attestation engagements can cover a broad range of financial or non-financial subjects and can be part of a financial audit or performance audit. They include examination, review or performance of agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting results.</p> <p>Pre-award audit services are provided by OIG in response to requests by WMATA's contracting or program office staffs. These normally include making an assessment of an offeror's accounting system and financial capability to perform the contract.</p>					

**Table 3: Other OIG Reports on WMATA Programs and Activities  
January 1, 2009, through June 30, 2009**

Report Number		Report Title	Date Issued
<u>Internal Operations – Alert Memorandum</u>			
OIG 09-05	Distribution of Obama SmarTrip No Value (OBN) and Obama SmarTrip \$10 Value (OBS)		01/28/09
<u>Information Technology– Alert Memorandum</u>			
IT 004-09	Availability of Private Information		02/11/09
* Alert Memoranda are not publicly distributed.			

**Table 4: Investigative Activity Statistical Profile  
January 1, 2009, through June 30, 2009**

Statistic	No.
Complaints Received	<b>147</b>
Investigations Opened	<b>15</b>
Investigations Closed	<b>18</b>
Complaints Closed and Referred <sup>6</sup>	<b>140</b>
Matters Pending at end of Reporting Period (Investigations and Complaints)	<b>23</b>

<sup>6</sup> Includes both complaints requiring investigative attention that did not result in an investigation and those referred directly to other complaint resolution processes.