



**Washington Metropolitan Area Transit Authority
Inspector General's Semiannual Report to the
Board of Directors, No. 14
January 1, 2014 – June 30, 2014**



2012 New Flyer "Xcelsior" Model Hybrid/Electric Bus

INSPECTOR GENERAL'S MESSAGE TO THE BOARD OF DIRECTORS

August 22, 2014

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, 2014, through June 30, 2014. Our work, highlighted in this report, demonstrates our commitment to promoting accountability, efficiency, and effectiveness in WMATA's programs and operations and keeping the Board of Directors fully and currently informed about deficiencies in WMATA's activities, as well as the necessity for and progress of corrective action.

Over the last six months, OIG issued 20 audit products, including audit reports and attestation reports. We reviewed pricing information in contractors' proposals with a value of \$23,296,364 and suggested \$4,253,366 in net audit adjustments. Among the 20 audit products we issued, three were performance reports entitled, Review of WMATA's Purchase Card Program; Audit of WMATA's Metroconnect Human Capital Management (HCM) Project; and Review of WMATA's Labor Expenditures Charged to Federal Grant Awards. We made recommendations to improve internal controls in all three of these audits.

In addition, we closed 16 investigations and received 177 complaints during this time.

Lastly, I am pleased to report that the Association of Local Government Auditors completed a peer review of our audit organization, and found that our "internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements from May 1, 2011 through April 30, 2014." The conclusion of the peer review validates one of our core values: accountability and compliance with professional standards.

/s/

Helen Lew
Inspector General

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INTRODUCTION

On August 19, 2009, the WMATA Compact was amended to recognize the OIG by statute. Board Resolution 2006-18, approved April 20, 2006, originally established the OIG to conduct and supervise audits, program evaluations, and investigations relating to agency activities; promote economy, efficiency, and effectiveness in WMATA activities; detect and prevent fraud and abuse in WMATA activities; and inform WMATA officials and the Board of Directors (Board) about deficiencies in WMATA activities, as well as the necessity for and progress of corrective action. The OIG follows generally accepted government audit standards for all audits and supervises WMATA's annual independent audit of financial reporting. The Inspector General (IG) reports to the Board through its Audits and Investigations Committee. The IG prepares a Quarterly Report to the Audits and Investigations Committee and a Semiannual Report to the Board.

The OIG began operations on May 14, 2007, when the current IG came on board. A mission statement and core values have been developed for OIG and are provided below.

Mission Statement

The OIG supervises and conducts independent and objective audits, evaluations, investigations, and other activities of WMATA's programs and operations to promote economy, efficiency, and effectiveness, as well as to prevent and detect fraud, waste, and abuse in such programs and operations. We provide advice to the Board and General Manager/Chief Executive Officer to assist in achieving the highest levels of program and operational performance in WMATA.

Our Core Values

Excellence - We have a commitment to excellence in our people, our processes, our products, our impact and in the performance of our mission.

- We value a diverse, educated, and highly trained workforce that reflects independence, initiative, and mutual respect.
- We value operating within an objective code of standards, yet remain open to new innovations.
- We support WMATA's mission to provide safe, equitable, reliable and cost-effective public transit.

Accountability - We insist on high standards of professional conduct from employees at all levels and compliance with professional standards to ensure the Board and management can rely on our products.

- We have confidence in the accuracy of our work and that our results hold up to professional scrutiny.
- We encourage an environment of risk-free communication and promote an open, honest, and respectful exchange of ideas and information.

Integrity - We strive to maintain the highest level of trust and integrity in all of our activities, and the approach we take in accomplishing our mission must reflect fairness, balance, and credibility.

- The personal and professional qualities of our employees include honesty, respect for others, and freedom from bias.
- We value and protect our access to information recognizing that reputations, public confidence, and lives can be affected by our actions.

OIG Staff

OIG is made up of two components — Audits and Investigations. The Audits component is comprised of three audit teams: contracts, internal operations, and information technology. OIG audits examine the performance of WMATA programs and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of WMATA programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout WMATA. OIG audits are performed with OIG's own resources, and OIG oversees audit work done by outside audit firms.

The Investigations component of OIG conducts criminal, civil, and administrative investigations of fraud, waste, and abuse related to WMATA programs and operations. OIG investigations can lead to criminal prosecution, civil penalties, disciplinary action, and/or administrative action. The Investigations component handles the OIG Hotline, including in-take of complaints and determining the appropriate handling of them. Complaints may be investigated by OIG or referred to management, the Audits component for audit consideration, or another agency, as appropriate.

OIG had 31 full-time employees as of June 30, 2014, the majority of whom do audits. Our staff is comprised of auditors, investigators, a computer specialist, an office manager and an administrative assistant with educational backgrounds and degrees in accounting, finance, mathematics, computer science, law, criminal justice, information assurance, and business. Half of the staff have professional certifications as accountants, internal auditors, fraud examiners, information systems auditors, certified information systems security professional, certified information security manager, government financial managers, and inspectors general and/or graduates degrees.

AUDITS

During this reporting period, we issued 20¹ audit products in the form of audit reports and alternative products, such as attestations.

Audit Resolution and Follow-Up

Board Resolution 2006-18 requires us to provide Semiannual Reports (SARS) listing each report for which management has not completed corrective action. Table 1 shows recommendations described in previous SARS on which corrective action has not been completed as of June 30, 2013.

Summary of Audit Reports Issued

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

- Review of WMATA's Purchase Card Program (Internal Operations No. 14-002, issued January 27, 2014). The objectives of the audit were to determine whether the Purchase Card Program effectively and efficiently met its organizational mission, goals, and objectives.

We determined WMATA's Purchase Card program has an internal control process in place to meet organizational mission, goals, and objectives, and for the most part, the program is operating effectively and efficiently. However, we found some Cardholders did not properly follow WMATA's Purchase Card Program policy and procedures. OIG also found WMATA needs to improve oversight of the Purchase Card Program to ensure: the Purchase Card Administrator (PCA) conducts sufficient annual reviews of Cardholders' files, Approving Officials conduct reviews and authorizations of purchase card transactions, Cardholders and Approving Officials complete mandatory training, and the PCA and Approving Officials report fraudulent purchase card activity to OIG. We also noted some Cardholders did not follow procedures for acquiring inventory with the purchase card.

OIG made four recommendations to improve internal controls over the Purchase Card Program to the Deputy General Manager, Administration and Chief Financial Officer (DGMA/CFO). The DGMA/CFO acknowledged the findings and recommendations and submitted a corrective action plan (CAP) detailing actions already taken or planned corrective actions.

- Audit of WMATA's Metroconnect Human Capital Management (HCM) Project – (Information Technology No. 14-001, issued April 28, 2014). The objective of the audit was to determine whether WMATA was effectively and efficiently managing the Metroconnect Project Implementation.

¹ This number includes one audit-related report that was prepared by WMATA's former external auditor, CliftonLarsonAllen, LLP.

We determined that WMATA generally managed the Metroconnect HCM Project Implementation effectively and efficiently during the period of OIG's review.

However, we identified one area where WMATA could have improved its performance. Specifically, WMATA could have updated or amended the Program Management Plan to correspond with the changes made in the implementation methodology. WMATA deviated from the original System Development Life Cycle (SDLC) Methodology without updating the Program Management Plan. We also noted as Other Matters of Concern in the report that WMATA did not adequately follow procurement policies and procedures when establishing the period of performance for a contract and when awarding another contract. Specifically, we found the following: (1) the period of performance was not clearly defined; (2) prior to awarding a contract, WMATA's Office of Procurement and Materials (PRMT) did not obtain and evaluate the vendor's cost for the entire contract period; and (3) PRMT awarded an option period that was not contained in the terms of the Request for Quotation.

OIG made three recommendations to the Deputy General Manager Administration/Chief Financial Officer (DGMA/CFO) to improve controls in the current Metroconnect Project Implementation and/or future information technology implementation projects. Management concurred with the findings and recommendations and provided corrective actions taken and/or planned to address the recommendations.

- Review of WMATA's Labor Expenditures Charged to Federal Grant Awards – (Contract Audit No. 14-002, issued May 5, 2014). The objectives of the audit were to determine whether the Washington Metropolitan Area Transit Authority (WMATA) has effective processes in place to ensure labor expenditures charged to federal grant funds are proper and are in compliance with applicable federal regulations and circulars.

OIG found capital-funded activities reviewed at the Greenbelt Rail Yard Facility and the Bladensburg Chassis Line have good internal controls over reported labor hours, and expenditures were properly charged and in compliance with federal regulations and circulars. However, OIG found WMATA needs to strengthen controls over the recording and charging of labor expenditures at the Carmen Turner Facility (CTF) Heavy Overhaul Maintenance (HOMT) Components Rebuild Shop, the HOMT Paint & Graphics Shop, and the IT Applications Development and Operations Group, to ensure charges to federal grants are accurate and in accordance with federal requirements.

OIG made two recommendations to improve internal controls over the labor expenditures charged to federal grant awards. Management concurred with the recommendations and provided corrective actions taken and/or planned to address the recommendations.

- Financial Related Audit Reports

CliftonLarsonAllen, LLP, Certified Public Accountants (CLA) conducted an audit to fulfill the requirements of the Operations Funding Agreements between WMATA and the 10 participating agencies. OIG performed oversight and monitoring procedures to ensure completion of the audit deliverables. In April 2014, OIG received the audit report – **SmarTrip Regional Partner Comparative Billing Statement of the Regional Customer Services Center, the Regional Software Maintenance Agreement, and the Compact Point of Sale Device Audit Report Years Ended June 30, 2013 and 2012**. CLA made one recommendation to WMATA that unused budget hours be communicated to the participating jurisdictions. Management concurred with the auditors' finding and recommendation and has already implemented a corrective action to address the recommendation.

Summary of Alternative Products Issued

From January 1, 2014, through June 30, 2014, we issued 16 attestation reports.

Our attestation engagements are performed within their stated scope and objective(s) as agreed with management and can cover a broad range of financial and non-financial subjects. They can also be part of a financial audit or performance audit. Because these reports generally 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 appears in Table 2.

Some key types of attestation reports issued by OIG include pre-negotiation, billing rate, 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** (5 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, 2014, through June 30, 2014, we reviewed pricing information with a proposed value of \$15,182,592 and suggested \$4,130,779 in net audit adjustments. Some of the suggested adjustments involved unallowable cost, inflated cost, unsupported cost, etc.

- **Billing Rate Attestation Reports** (2 reports)

At the request of 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.

- **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.

- **Buy America Attestation Report** (1 report)

The Federal Transit Administration (FTA) requires a pre-award and post-delivery certification that the manufacture of the rolling stock-stock vehicles (rail, bus and MetroAccess) 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, 2014, through June 30, 2014, we issued one Buy America Attestation Report.

- **Other Attestation Reports** (2 reports)

We also performed other attestation services as requested by PRMT, which included one rate review of general and administrative, overhead, payroll burden, fringe benefit rates, etc. In addition, we issued one audit waiver in response to a request from contracting officers to waive audit of cost and pricing information when this information is available and considered adequate. In our review of the waiver pricing information with a proposed value of \$8,113,772, we suggested \$122,587 in net audit adjustments.

INVESTIGATIONS

From January 1, 2014, through June 30, 2014, we closed 16 investigations and received 177 complaints. Of the 177 complaints received, 165 complaints were closed, referred to management or referred for investigation. We opened 15 investigations and issued 9 Reports of Investigation. There are 35 items pending at the end of the reporting period. An Investigative Activity Statistical Profile is provided in Table 4.

OTHER OIG ACCOMPLISHMENTS

Other OIG accomplishments during this period included:

- The Association of Local Government Auditors (ALGA) conducted a peer review of the internal quality control system of OIG's Audit component for the period May 1, 2011 through April 30, 2014. In a letter dated, May 22, 2014, the ALGA peer review team stated that "the Washington Metropolitan Area Transit Authority's internal quality

control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements from May 1, 2011 through April 30, 2014. The peer review team also identified two areas OIG excelled—the Office’s Report on the Quality Assurance Review and the Office’s Preliminary Survey process.

- Barbara Jackson Williams, former Audit Manager, Internal Operations Audit Team, gave a presentation on internal controls to the Department of Transit Infrastructure and Engineering Services (TIES) Quality Assurance and Warranty staff on January 13, 2014.
- Leon Langford, Acting Audit Manager, Internal Operations Audit Team, gave a presentation on internal controls to the Office of Treasury, Revenue Collection Facility, on January 27 and January 30, 2014. Mr. Langford also gave internal control presentations to personnel receiving Contracting Officer’s Technical Representative (COTR) training on March 7 and June 17, 2014.
- Claudette Green-Thompson, Senior Auditor, Internal Operations Audit Team, gave a presentation on internal controls to the Office of Treasury, Revenue Collection Facility, on February 6, 2014.
- Isabel Cumming, Assistant Inspector General (Investigations), was named to the Board of Directors of the Capitol Chapter of the Association of Inspectors General in March 2014. Ms. Cumming was the keynote speaker at WMATA’s Annual Toastmaster’s meeting on April 23, 2014. The subject of her keynote address was Lessons in Leadership. She gave a presentation on “Identity Theft and Investigations” at the Calvert County Library Speakers series on March 8, 2014 and to the Rotary Club on June 9, 2014. Ms. Cumming became President of the Calvert County Bar Association on June 12, 2014.
- Inspector General Helen Lew, Assistant Inspectors General Isabel Cumming (Investigations) and Andrew Clemmons (Audits) spoke to a delegation of Indonesian Inspectors General about WMATA OIG’s role and responsibilities on June 4, 2014.

FAREWELLS

- Barbara Jackson-Williams, Audit Manager, retired from OIG in February 2014.
- Clifton Persaud, IT Audit Manager, resigned from OIG in April 2014, to accept a job at the U.S. House of Representatives OIG.

Table 1: Recommendations Described in Previous SARs on Which Corrective Action Has Not Been Completed as of June 30, 2014

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	
Internal Operations Audits						
IO 13-002	Review of WMATA's Closed Circuit Television (CCTV) System (SAR 12, Page 4)	04/04/13		1	4	Apr. 2015*
IO 12-002	Review of Internal Controls over the Collection of Metrorail Cash (SAR 10, Page 7)	02/29/12		1	8	Fall 2014*
Information Technology Audits						
IT 11-001	Review of Emergency Plans for Critical Information Technology Operations and Financial Systems (SAR 7, Page 6)	09/24/10		2	3	Dec. 2014
Contract Audits						
CA 14-001	Review of nMomentum Corporation Contracts and Task Orders (SAR 13, Page 9)	07/26/13		1	5	June 30, 2015*

*Expected Completion Date Changed from Previous Report

Table 2: OIG Audit Reports and Alternative Products on WMATA Programs and Activities (January 1, 2014 through June 30, 2014)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
AUDIT REPORTS					
<u>Internal Operations</u>					
IO 14-002	Review of WMATA's Purchase Card Program	01/27/14			4
<u>Information Technology</u>					
IT 14-001	Audit of WMATA's Metroconnect Human Capital Management (HCM) Project	04/28/14			3
<u>Contract Audit</u>					
CA 14-002	Review of WMATA's Labor Expenditures Charged to Federal Grant Awards	05/05/14			2
<u>External Audits</u>					
	SmarTrip Regional Partner Comparative Billing Statement of the Regional Customer Services Center, the Regional Software Maintenance Agreement, and the Compact Point of Sale Device Audit Report, Years Ended June 30, 2013 and 2012	03/19/14			1
<u>Pre-Negotiation Attestation Reports</u>					
CAA 14-004	Independent Review of Revised Proposal for Contract CQ13062 – Professional Services for Functional Assessment of Persons with Disabilities	01/16/14			
CAA 14-005	Independent Review of Proposal for Contract Modification No. 62 – Equitable Adjustment for Consolidated Delay Claim PCO No. 067 – Claim for Time Extension and Cost Reimbursement for CRCS	03/12/14			
CAA 14-006	Independent Review of Pre-Negotiation Proposal for Contract No. FQ-14049 – Emissions Analysis for WMATA Transit Buses	03/25/14			
CAA 14-007	Independent Review of Sole Source Cost Proposal for Contract FQ14056 – MGM Electronic Air Disc Brake Monitoring System	06/04/14			
CAA 14-008	Independent Review of Proposal for Contract FI5583 – Comprehensive Radio Communication System (CRCS) Material Change Order for GPD Corrective Actions to CRCS Below Ground	06/12/14			
<u>Billing Rate Attestation Reports</u>					
CAM 14-013	Independent Review of Proposed Rates for Contract FQ10218 for Program Management Services Option Year 1 – Overhead Rates and Overhead Rate Schedules	01/09/14			
CAM 14-020	Independent Review of Proposed Rates for Contract CQ9205 – FY 2014 Railcar Engineering Consultant Services	06/09/14			

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
Pre-Award Attestation Reports					
CAM 14-014	Independent Review of Pre-Award Financial Data for Contract No. IFB FQ14003/MR – “Chiller Replacements DC and MD”	01/13/14			
CAM 14-017	Independent Review of Pre-Award Financial Data for Contract No. FQ14001 – “Dry Standpipe Replacement DC MD and VA”	03/24/14			
CAM 14-018	Independent Review of Pre-Award Financial Data for Contract No. IFB FQ14008 – “Railcar Lifts Rehabilitation and Upgrades”	05/06/14			
CAM 14-019	Independent Review of Pre-Award Financial Data for Contract No. FQ13087 “Andrews Federal Center Bus Garage”	06/04/14			
CAM 14-022	Independent Review of Pre-Award Financial Data for Contract No. RFP CQ14062/MDG – “Preventative Maintenance of Dulles 34.5 KV Systems”	06/23/14			
CAM 14-023	Independent Review of Pre-Award Financial Data for Contract No. RFP CQ14062/MDG – “Preventative Maintenance of Dulles 34.5 KV Systems”	06/30/14			
Buy America Attestation Report					
CAM 14-016	Post-Delivery Buy America Certification Audit for Contract No. FQ12269 – For One Hundred Five (105) 42-Foot Hybrid/Electric Buses	01/31/14			
Other Attestation Reports					
CAM 14-015	Independent Review of Rate Information for Contract FQ12165 – 3421 Pennsy Drive	01/16/14			
CAM 14-021	Independent Review for Sole Source Cost and Pricing Waiver for Contract No. RFP-CQ14044 – SmarTrip Sale and Reload Machines	06/20/14			
<p>*For purposes of this schedule, questioned costs include other recommended recoveries.</p> <p>Notes: Description of Alternative Products</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, 2014 through June 30, 2014)**

(None were issued this reporting period)

Report Number	Report Title	Date Issued

**Table 4: Investigative Activity Statistical Profile
(January 1, 2014 through June 30, 2014)**

Statistic	No.
Complaints	
<ul style="list-style-type: none"> • Referred to Management or Other Entity • No Action Taken¹ • Investigations Initiated From Complaints • Closed by Investigation² • Open Matters Pending Further Action³ 	136 22 7 1 <u>11</u>
Total Complaints Received	177
Investigations Opened From Other Means	8
Investigations Closed ⁴	16
Matters Pending at end of Reporting Period (18 Investigations and 17 Complaints)	35

¹ Complaint did not fit criteria for investigation or referral.

² Cases opened and subsequently closed during reporting period.

³ Cases opened during reporting period that remain open pending referral, preliminary review, or assignment for investigation.

⁴ Includes investigations from previous reports.