
Audit of WMATA's Invoice Certification & Payment Process

Final Report



**Internal Operations No. 16-003
January 13, 2016**

**Washington Metropolitan Area Transit Authority
Office of Inspector General**

M E M O R A N D U M

FINAL AUDIT REPORT WITH RECOMMENDATIONS

Internal Operations No. IO-16-003



SUBJECT: Audit of WMATA's Invoice
Certification and Payment Process

DATE: January 13, 2016

FROM: OIG – Helen Lew /S/

TO: CFO – Dennis Anosike

This **Final Audit Report**, entitled *Audit of The Washington Metropolitan Area Transit Authority's (WMATA) Invoice Certification and Payment Process*, presents the results of our audit. The objective of the audit was to determine if WMATA has effective controls in place to ensure: (1) payments are initiated after receipt of goods and services; (2) controls exist to ensure against duplicative payments; (3) payments are made in accordance with the due dates, and (4) management takes advantage of available discount terms, when available.

BACKGROUND

Several departments within WMATA have developed payment policies and procedures in their respective department manuals. They include the Department of the Chief Financial Officer (CFO), primarily the Office of Accounting (ACCT); Office of Management and Budget Services (OMBS); and Office of the Treasurer (TRES) and the Office of Procurement and Materials (PRMT).

ACCT, Accounts Payable Branch (AP) has the responsibility of ensuring all payments to vendors, third parties, jurisdictions and reimbursements to employees are processed timely, accurately, efficiently and in compliance with the Authority, Jurisdictional and Federal policies and regulations.

PRMT's role in the invoice certification and payment process is to ensure WMATA's contracts terms and conditions provide invoicing instructions to vendors. Additionally, the office provides training to Contracting Officer Technical Representatives (COTRs), Contracting Officers (COs), and project managers about their responsibility for reviewing vendor invoices and supporting documents. PRMT's Vendor Relations group assists vendors who have inquiries about the payment of invoices.

The role of OMBS in the invoice certification process was to conduct pre-payment and post payment reviews of vendor invoices. In December 2014, this function was transferred to the Department of Capital Program Management Office (CPMO) and the Department of Bus Services (BUS). OMBS is also involved in the post payment review of invoice packages to ensure all supporting documents required for Federal Transit Administration (FTA) drawdowns are included for submission to the FTA.

The TRES Office of Cash Management is responsible for the printing and distribution of checks. Checks are usually printed weekly, on Tuesdays and Fridays. The printing process is initiated by the receipt of an email from AP notifying Cash Management the files are loaded on the AP server and PeopleSoft and are available for printing.

JGB Mail Services process and deliver internal and external mail, including vendor invoices.

Prior Review

WMATA's Office of Internal Compliance (OIC) issued a report, entitled *Compliance Review Report: Prompt Payment Review*, dated April 22, 2015. The scope of the review was capital payments processed during the period October 2014 through January 2015. The objective was to determine the adequacy of WMATA controls designed to ensure WMATA is effectively and efficiently adhering to prompt payment requirements. The primary focus was on the policies and procedures within the Accounts Payable Branch. Nine control deficiencies were identified with recommendations. A corrective action plan was submitted by the CFO office to the OIC to remediate the deficiencies.

AUDIT RESULTS

OIG found the PeopleSoft Financial system has controls in place to detect duplicate invoice numbers, i.e. the system does not allow the same invoice numbers to be paid twice. Payments that appeared to be duplicated, during our analysis, were determined to be cancellations and refunds.

However, OIG found operating and capital invoices were not always paid timely. During Fiscal Year (FY) 2014, 37 percent of operating invoices and 51 percent of capital invoices were paid on time. During FY 2015, 16 percent of operating invoices and 24 percent of capital invoices were paid timely. Our analysis did not disclose any discounts offered by vendors.

In addition, OIG found invoice certification policies and procedures have not been updated in three of four departments reviewed. Specifically, the ACCT Procedure Manual, effective February 28, 2014, OMBS Grants Manual, effective July 2014, and TRES Disbursement Office Procedure Manual, revised January 9, 2014, have not been updated and finalized to reflect current invoice review and payment processes. In addition, CPMO and BUS do not have a policy and procedures manual for certifying and processing invoice payments.

Based on the above findings, we made six recommendations to the Chief Financial Officer (CFO).

We provided a draft of this report to management for review and comment on December 9, 2015. In the CFO's December 10, 2015, response to the draft report, the CFO stated the December 22, 2015 submission deadline requested by OIG was not achievable because several priority activities were due in December 2015. In a subsequent December 15, 2015 response to the draft of this report, the CFO stated he will complete a review of the findings and recommendations by March 31, 2016. The complete text of Management's response is included as Attachment 2 and Attachment 3 to this report.

OIG considered the March 31, 2016, date to be unreasonable and granted an extension date of January 8, 2016 for management to indicate whether or not they concur with the findings and recommendations in the draft report. Management did not provide comments to the draft report by this date. According to Government Auditing Standards, Chapter 7, Section 7.38, Reporting Standards for Performance Audits, "If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity". Based on the above reporting standards, OIG issued the Final Report without management's comments.

Details of these findings, which are rated as High¹, Medium², or Low Risk³ and require management corrective actions to strengthen internal processes and provide for more effective and efficient operations follow:

Finding 1 – Vendor Invoices Were Not Always Paid Timely (Risk - High)

OIG found vendors were not always paid on time during FY 2014 and FY 2015. The timeliness of payments varied between operating and capital invoices. OIG defined "timely" as invoices paid within 30 days of the vendor's invoice date. This payment term is established in WMATA's PeopleSoft Financial system, which automatically calculates the payment due date of invoices. OIG's review of WMATA's operating and capital invoices are discussed below.

A. Operating Budget Invoices

Effective January 1, 2015, a new electronic invoice processing system was implemented for operating invoices using a third party contractor. The third party contractor uses OnBase, a document management system to scan, store and retrieve vendor invoices. Vendor invoices and supporting documents are automatically interfaced with PeopleSoft during the invoice review and payment process. As a result of this new automated system, the AP technicians have seen an increase in the number of errors on the managed error report. More invoices are now submitted to OnBase on a daily basis. In many instances, the requestor or project managers did not include the matching receipt in PeopleSoft.

OIG's analysis of operating budget invoices determined vendor invoices were not always paid timely. The data showed there were 42,301 operating invoices (with a value of approximately \$365 million) paid during FY 2014. Of this amount, 15,872 or 37 percent were paid within 30 days of the invoice date, 26,517 or 63 percent were paid after 30 days.

In FY 2015, OIG's analysis showed there were 54,819 operating invoices (with a value of approximately \$360 million). Of this amount 8,670 or 16 percent were paid within 30 days of the invoice date, 46,149 or 84 percent were paid after 30 days.

¹ High - Exception is material to accomplishing organization objectives. Corrective action by appropriate Senior Management is required. Resolution would help avoid loss of material assets, reputation, critical financial information or ability to comply with critical laws, policies or procedures.

² Medium - Exception may be material to accomplishing organization objectives. Corrective action is required and the results are reported to management quarterly. Resolution would help avoid negative impact on the unit's assets, financial information, or ability to comply with important laws, policies, or procedures.

³ Low - Exception has a minor impact on the accomplishment of organization objectives but may result in inefficient operations. Resolution would help improve controls and avoid inefficient operations within the unit.

Our analysis showed there was an increase in the average number of days it took to pay invoices from FY 2014 to FY 2015. The average number of days to pay invoices in FY 2014 was 46 days, and in FY 2015, the average number of days to pay invoices was 61. See Table 1 in Appendix 1.

WMATA's Request for Quotation, Revision 2 07/15, Terms and Conditions of *Purchase Order*, Section 4. Terms of Payment subsection (b) 30-Day Term, "the quote will be automatically subject to a 30 day term of payment, unless the vendor offers a discount."

WMATA's Solicitation Templates, Revision 07/15, Chapter V - Invoices/Payments/Deductions, 1. Billing and Payment (d) states, "The Authority shall remit payment, generally within 30 days of its receipt of an invoice satisfying the requirements of paragraphs (b) and (c), at the prices stipulated in the Contract for Supplies delivered and accepted or Services rendered and accepted, less any applicable deductions."

OIG's analysis of the invoice certification and payment process identified three major phases, (1) the interval (number of days) from the invoice date⁴ to the receipt creation date,⁵ (2) the interval (number of days) from receipt creation date to voucher date,⁶ and (3) the interval (number of days) from voucher date to payment date.⁷ In each phase, there is an office or department that is responsible for completing the phase.

Tables 2, 3, and 4 in Appendix I show aging tables of the number of days it took to complete each phase during FY 2014 and FY 2015.

During the interval from invoice date to receipt creation date, there was an increase in the average number of days it took for receipts to be entered into PeopleSoft Financial during FY 2015 compared to FY 2014. The average number of days for receipts to be created in PeopleSoft Financial in FY 2014 was 23 days and in FY 2015 it was 25 days. This phase generally comprised the most days in the payment process.

During the interval from receipt creation to voucher date, there was an increase in the average number of days it took for receipts to be entered into PeopleSoft Financial during FY 2015 compared to FY 2014. The average number of days for vouchers to be created for receipts in FY 2014 was 15 days and in FY 2015 the average was 27 days.

During the interval from voucher date to payment date phase, there was an increase in the average number of days it took for payments to be completed after the voucher was created. The average number of days to pay invoices after vouchers were created were 8 days in FY 2014 and 9 days in FY 2015.

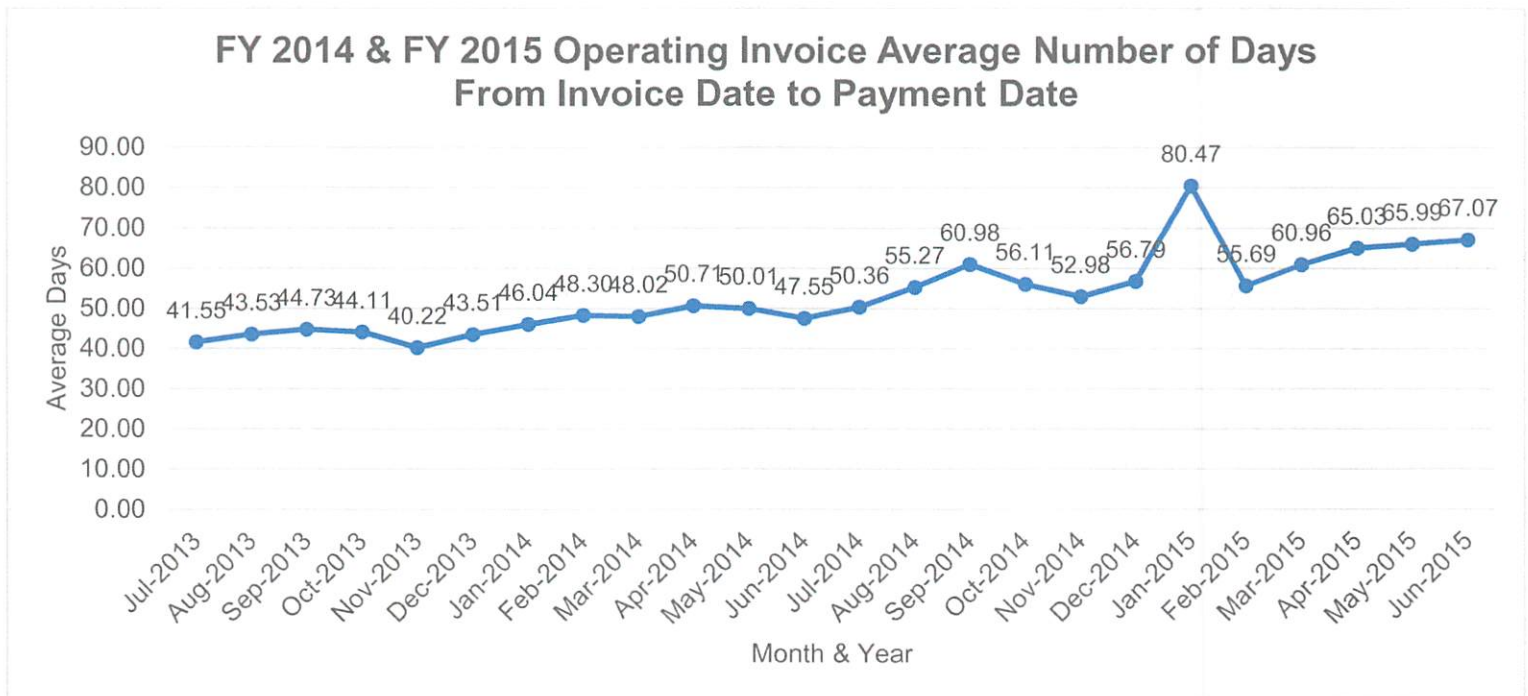
⁴ Invoice Date – the date of vendor's invoice

⁵ Receipt Date – The date that receipts were entered into PeopleSoft by the requestor, project manager/project office.

⁶ Voucher Date – The date AP Technician prepares the payment voucher in PeopleSoft

⁷ Payment Date – The date the payment voucher is processed for payment in PeopleSoft

Exhibit 1: Operating Invoices
Average Number of Days to Pay by Months for FY 2014 & FY 2015 Graph



OIG's analysis of the number of days to pay was based on the invoice date to payment date, which varied from month to month during FY 2014 and FY 2015. A visual pattern is depicted in Exhibit 1 above. The number of days invoices are paid is later than the 30-day term of payment in the PeopleSoft Financial system. The average number of days to process and pay operating invoices started to significantly increase in September 2014. Operating invoices had one major process change that affected the timeliness of payments effective January 2015. This was the introduction of invoice processing using a third-party contractor. There was confusion by some vendors as to where invoices should be sent at the beginning of calendar year (CY) 2015.

According to the Chief Procurement Officer (CPRO) invoices may not be paid timely because WMATA does not have a specific documented prompt payment policy for paying vendors. However, PRMT's normal payment terms are 30 days from invoice date for all purchases. Within PeopleSoft there is a default payment term for the payment of invoices which is 30 days. As discussed below there are numerous other reasons payments were not timely.

Delays in processing vendor payments occurred when AP Accounting Technicians were unable to perform the "three way match" i.e. matching purchase orders with vendor invoices and receipts in the PeopleSoft AP module for invoices submitted for payment. For example, a BMNT vendor was not paid timely because there were costs on the invoice that were not included on the original purchase order.

One of the COTRs we interviewed said a vendor, who is responsible for conducting background checks for the Authority, experienced difficulties in receiving payment from WMATA within the 30-day term of payment. The COTR said the vendor informed him the company submitted invoices to the third party contractor timely, but the company was not paid by WMATA within the 30-day term of payment.

Another factor contributing to late payment of invoices is Contracting Officers do not always provide purchase order (PO) numbers to vendors. The third party contractor, responsible for WMATA's new electronic invoice processing system, informed us their initial payment was delayed because they did not receive a PO number from PRMT.

Vendors were told they should send operational funded invoices to the third party contractor effective January 2015, and to continue to send capital funded invoices to WMATA. According to a COTR, some vendors did not know the funding source of invoices being paid, so they incorrectly submitted capital funded invoices to the third party contractor. In addition, there is no standardized format for vendor invoices submitted to WMATA, sometimes packing slip numbers and shipping numbers were used incorrectly by WMATA employees as the receipt number.

Further, AP Technicians told us automating payment of operating invoices required them to learn new processes quickly. Several of the technicians told us the process of implementing the new system has been a frustrating experience because they found the initial training period too short.

B. Capital Budget Invoices

We reviewed the ACCT AP database that contained all capital budget invoices paid between FY 2014 and FY 2015. Our analysis of capital budget invoices determined vendor invoices were not always paid timely. The data showed there were 7,607 capital invoices (with a value of approximately \$466 million) paid during FY 2014. Also, there were 7,671 invoices (with a value of approximately \$587 million) paid during FY 2015. Of this amount, 3,890 or 51 percent were paid within 30 days of the invoice date, and 3,712 or 49 percent were paid after 30 days.

In FY 2015, 1,814 invoices or 24 percent were paid within 30 days of the invoice date, and 5,857 or 76 percent were paid after 30 days.

Our analysis showed there was an increase in the average number of days it took to pay invoices from FY 2014 to FY 2015. The average number of days to pay invoices in FY 2014 was 43 days and in FY 2015 the average number of days to pay invoices was 77 days. See Table 5 in Appendix II.

WMATA's Request for Quotation, Revision 2 07/15, Terms and Conditions of *Purchase Order*, Section 4. Terms of Payment subsection (b) 30-Day Term, "the quote will be automatically subject to a 30 day term of payment, unless the vendor offers a discount."

WMATA's Solicitation Templates, Revision 07/15, Chapter V - Invoices/Payments/Deductions, 1. Billing and Payment (d) states, "The Authority shall remit payment, generally within 30 days of its receipt of an invoice satisfying the requirements of paragraphs (b) and (c), at the prices stipulated in the Contract for Supplies delivered and accepted or Services rendered and accepted, less any applicable deductions."

As noted earlier, OIG identified three major phases in the invoice certification and payment process, (1) the number of days from the invoice date,⁸ to the receipt creation date,⁹ (2) number of days from receipt creation date to voucher date,¹⁰ and (3) the number of days from the voucher date to payment date.¹¹ In each phase, there is an office or department that is responsible for completing the phase. Tables 6, 7, and 8 in Appendix II show aging tables of the number of days it took to complete each phase during FY 2014 and FY 2015. OIG's analysis also determined that the interval from invoice date to receipt creation date is the phase that took the longest in the payment phase.

OIG determined during the interval from invoice date to receipt creation date, there was an increase in the average number of days it took for receipts to be entered into PeopleSoft Financial during FY 2015. The average number of days for receipts to be created in PeopleSoft Financial in FY 2014 was 30 days and in FY 2015 it was 46 days.

OIG determined during the interval from receipt creation to voucher date, there was an increase in the average number of days it took for vouchers to be created into PeopleSoft Financial during FY 2015. The average number of days for vouchers to be created for receipts in FY 2014 was 7 days and in FY 2015 was 26 days.

OIG determined during the interval from voucher date to payment date, there was a decrease in the average number of days it took for payments to be completed after vouchers were created. The average number of days to pay invoices after vouchers were created were 5 days in FY 2014 and 5 days in FY 2015

⁸ Invoice Date – the date of vendor's invoice

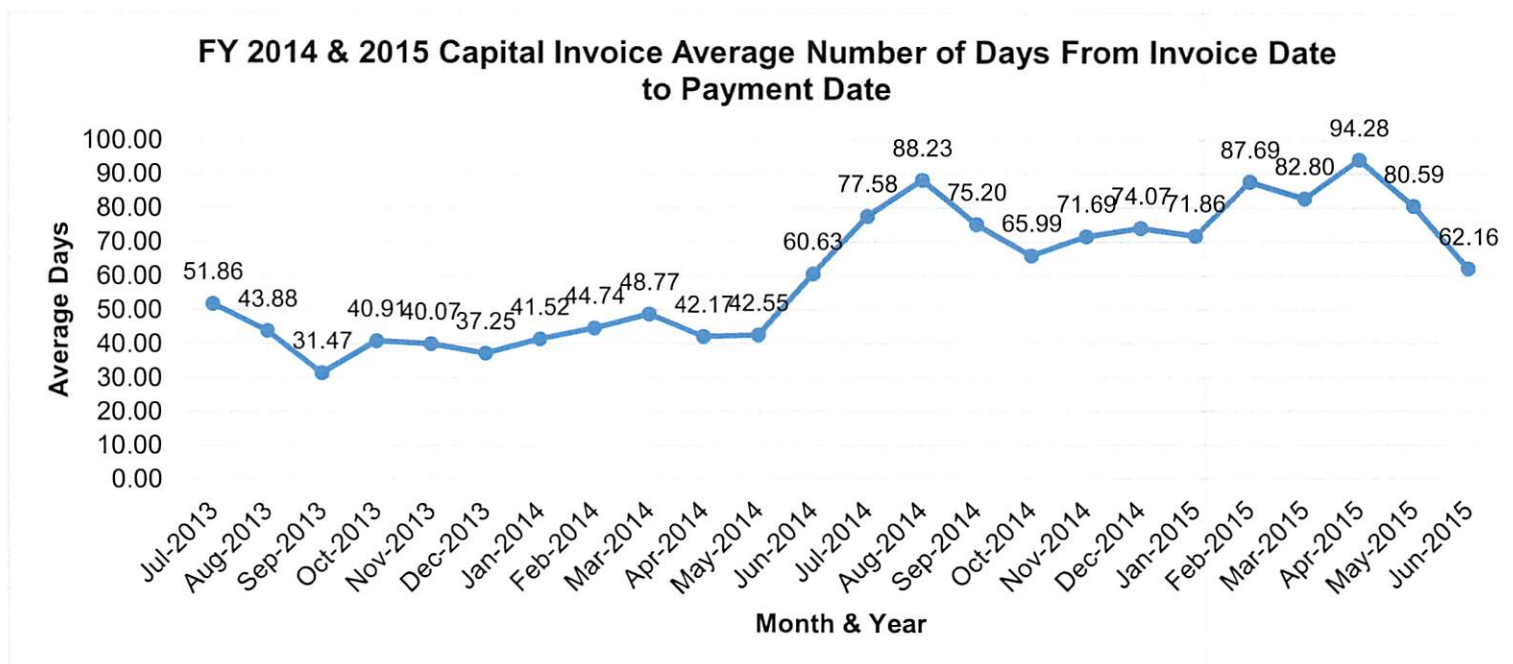
⁹ Receipt Date – The date that receipts were entered into PeopleSoft by the requestor, project manager/project office.

¹⁰ Voucher Date – The date AP Technician prepares the payment voucher in PeopleSoft

¹¹ Payment Date – The date the payment voucher is processed for payment in PeopleSoft

Exhibit 2: Capital Invoices

Average Number of Days to Pay by Months for FY 2014 & FY 2015 Graph



OIG's analysis of the intervals from invoice date to payment date disclosed the average number of days varied from month to month. A visual pattern is depicted in Exhibit 2. The graph above shows the average number of days it took to pay capital invoices from the invoice date to payment date for each month during FY 2014 and FY 2015.

The average number of days it took to pay capital invoices is greater than 30 days from the vendor invoice date, which is the payment terms established in the ACCT AP PeopleSoft Financial system. There were no major events affecting the timeliness for vendor payments up to May 2014. Effective June 2014, we observed the average days to process invoices increased significantly. This contributed to changes in the timeliness of invoice payments. During the audit scope period, we identified the following events that increased the length of time it took to pay vendor invoices:

- The release of the FMO Final Report issued June 10, 2014
- OMBS established the Pre-Payment Processing Division beginning June 2014
- OMBS transferred the Pre-Payment Processing Division to CPMO/BUS December 10, 2014

OIG also identified several other reasons why invoices are not paid within 30 days. There are several departments involved in the invoice certification and review process. There does not appear to be a single department or process owner who has ultimate responsibility for the entire process. As a result, there is no performance monitoring of the process from the receipt of an invoice to the actual payment of an invoice. There is no monitoring of the efficiency and effectiveness of the review and payment process to minimize delayed payments to vendors.

Discussions with AP Branch, CPMO and OMBS employees disclosed vendors and project offices contributed to the delays in invoice payments when all the supporting documents are not included in the packages. CPMO management said payment packages were returned to project managers and project offices when the packages did not include all the supporting documents required to meet federal guidelines for reimbursement. Packages were also returned when the amounts on Partial Payment Authorizations (PPAs) did not match invoice and receipt amounts.

Some capital vendor invoices are delivered by Mail Services; however, Mail Services does not date stamp first class mail, which makes it difficult to track the date vendor invoices are delivered to the Authority and to project offices before invoices are reviewed for payment.

There were also occasions where the Capital Improvement Program (CIP) project did not support the scope of work; if the scope of work is unclear, project managers are required to provide additional information. CPMO management said "invoice calculations must be accurate, PPA amounts must agree with invoice amounts and receipts amounts in PeopleSoft must be accurate. Rounding calculations were the most common issue for returning invoices to project offices by CPMO analysts."

In addition, CPMO management informed us the late payment of vendor invoices were also due to purchase orders going into "budget errors" in PeopleSoft Financial at the end of each fiscal year.

Budget errors occurred when there were projects and grant errors, such as the budget status beginning and ending dates, projects exceeded the budget tolerance or budgets did not exist for projects. When this occurred, purchase orders needed to be fixed by project offices and resubmitted to OMBS. The IT department is responsible for working with project offices, OMBS and the AP Branch, to fix budget errors that occurred in PeopleSoft Financial.

One project manager located in TIES said "since the FMO review, there has been confusion about the prepayment review process. He said there are no standards established or training provided to determine what project offices are to look for when they are reviewing invoices. The project manager said when OMBS established the prepayment review unit, the department did not develop anything to communicate to project offices. In addition, he said invoices are also paid late because OMBS did not approve the budget requested by the project office for the project. The project manager said "the amount approved by OMBS was insufficient to get the work done during the fiscal year. He also stated at the end of the fiscal year, there are budget errors and issues with purchase requisitions, resulting in project offices having to request reprogramming of funds to pay vendors."

OMBS management said there are project offices that prepared purchase requisitions, but did not wait until requisitions were approved before contractors were given permission to start the work. As a result, when these contractors submitted invoices for payment, there was no money in the budget, thus resulting in errors. To mitigate the problem, project offices have to contact PRMT and request ratification of the contract, and the ratification has to be approved by COUN. One project manager in TIES informed us he currently manages a project where approved requisitions were eliminated because the FY 2015, budget for the office was

reduced. As a result, various purchase requisitions which were previously approved, were eliminated to align with the reduction in the budget. When negotiations were completed on some change orders, they could not be fully processed because of the reduction or elimination of purchase requisitions. However, during FY 2016, money was made available for the project and new purchase requisitions could be generated and approved.

Discussions with PRMT management disclosed "some of the major issues resulting in the late payment of vendor invoices included: (a) the lack of receiving reports for items and services delivered resulting in receipts not entered into PeopleSoft by storeroom clerks; (b) insufficient funds to pay invoices because there is no formal process in place for the commitment of dedicated funds to pay operating and capital invoices.

Paying invoices in excess of 30 days also stems from WMATA's inability to get drawdowns from the FTA in a timely manner. Since the FMO audit report was issued, OMBS has to submit vendor invoices and supporting documents to the FTA before the Authority can access drawdown on federal grant funds. Since 2014, WMATA has relied in some cases, on short-term borrowing to fund capital projects.

Failure to pay vendors on time results in poor customer service. Several vendors have contacted the OIG complaining about late payment of invoices by WMATA. A TIES project manager informed us a vendor also filed a complaint with the FTA about the Authority's failure to pay his company. The complaint has now been elevated to a claim.

Some vendors' businesses are at risk when they are unable to get their invoices paid timely. WMATA's Disadvantaged Business Enterprise (DBE) Branch provided OIG with the names of six DBE vendors who were not paid by contractors. One prime contractor said WMATA had outstanding invoices that were past due to his company dating from May 2015, amounting to approximately \$712,824. Of this amount \$69,448 was owed to the DBE. The subcontractor (DBE) said he had to withdraw some of his workers from the project because he was unable to subsidize the prime contractor. WMATA's policy is the prime contractor is to pay the DBE within 10 days of receiving payment.

Project managers stated the Authority is unable to attract the best companies for contracts that are out for bid because of WMATA's reputation for not paying vendor invoices timely.

Also, vendor invoices cannot be paid if purchase requisitions and purchase orders are not approved in accordance with PRMT and OMBS policies and procedures. Additionally, invoices cannot be paid if responsible employees fail to enter receipts and purchase order numbers into PeopleSoft to facilitate the 3-way match required for paying invoices.

Recommendations:

We recommend the CFO:

- 1.1 Monitor invoice processing timelines for each interval of the invoice certification and payment process and assess its efficiency and effectiveness and make recommendations for improvement. (Risk - High)

- 1.2 Develop a written prompt payment policy to ensure vendor invoices are paid timely. (Risk - High)
- 1.3 Coordinate with PRMT to instruct COTRS/COs and project managers to inform contractors not to begin work on projects without an approved purchase order and a Notice to Proceed document. (Risk - High)
- 1.4 Coordinate with DGMO and BUS to develop adequate standard operating procedures to ensure capital invoice review processes are followed during the prepayment review. (Risk - High)
- 1.5 Coordinate with the Chief Human Resources Officer to instruct Mail Room Services to time-date stamp all first class mail to establish date of receipt. (Risk - High)

Finding 2 – Invoice Certification Policies and Procedures have not been updated (Medium Risk)

We found three of four offices reporting to the CFO (OMBS, TRES and ACCT) and having responsibilities for WMATA's invoice certification and payment processes have not updated and finalized their Policies and Procedures Manuals.

Interviews were conducted with management and staff of the four departments who are currently involved, or who were previously involved in the invoice certification and payment process. Although OMBS is no longer responsible for the prepayment review of capital invoices, the Grants Management Manual has not been updated on this process.

During December 2014, OMBS transferred the Pre-Payment Division to the CPMO, formerly the Department of Planning and Energy (PPLE), which is now responsible for reviewing capital invoices prior to payment. CPMO recruited capital program analysts to be responsible for completing the review. However, CPMO has not developed policies and procedures for the Pre-payment division.

BUS is responsible for conducting prepayment reviews of BMNT and BUS Planning capital invoices. However, written policies and procedures have not been developed documenting BUS's role in the review process.

Section 7 in the ACCT Procedures Manual effective February 28, 2014, outlines established policies and procedures to administer how vendor invoices are submitted, certified and paid.

Section 100 - Grants Management Procedures Manual, Chapter 1, effective July 2014 outlines a broad framework for the policies and procedures that were developed and issued for the review and processing of vendor invoices.

Discussions with AP Branch management disclosed new business processes were implemented during the last two fiscal years. The AP Branch Manager stated OMBS transferred the Pre-payment Division to CPMO in December 2014. ACCT management is in the process of updating policies and procedures to include the new processes implemented. The expected completion date for updating the ACCT manual is December 2015.

TRES Disbursement Office Procedure Manual revised January 9, 2014, outlines procedures for the printing and distribution of AP checks. The Director of Treasury Operations provided us with the Policy/Instruction (P/I) 5.6/45 Execution of Warrants & Checks. The expected completion date for finalizing the P/I is December 2015.

CPMO management also informed OIG that CPMO and BUS started prepayment reviews effective in December 2014. They are in the process of drafting and finalizing policy and procedures for payment review for CPMO and BUS departments. The expected completion date for completing CPMO policies and procedures Manual is December 2015.

Internal Control Integrated Framework the Committee of Sponsoring Organizations of the Treadway Commission (COSO), integrated framework provides guidance for the implementation of internal control in an organization. Internal control helps an organization to achieve important objectives and sustain and improve performance. COSO broadly defines internal control as a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the (1) effectiveness and efficiency of operations, (2) reliability of financial reporting and (3) compliance with applicable laws and regulations. COSO internal control framework consists of five interrelated components (1) Control Environment (2) Risk assessment, (3) control activities, (4) information and communication and (5) monitoring activities.

Failure to implement policies and procedures contributes to ineffective and inefficient operations and increases the risk of fraud, waste and mismanagement.

Recommendation:

We recommend the CFO:

- 2.1 Coordinate with DGMO to ensure policies and procedures relating to the invoice certification and payment process are updated and appropriately carried out.
(Risk - Medium)

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of the audit was to determine if WMATA has effective controls in place to ensure: (1) payments are initiated after receipt of goods and services; (2) controls exist to ensure against duplicative payments; and (3) payments are made in accordance with the due dates, and (4) management takes advantage of available discount terms when available.

The original scope of the audit was fiscal year (FY) 2014 (July 1, 2013 - June 30, 2014) and the first three quarters of FY 2015 (July 1, 2014 through March 31, 2015). All of WMATA's departments that contracted with outside vendors were included in the scope of the review. The scope was limited to invoices from external vendors. At the end of the Audit Survey, we expanded the audit scope period to June 30, 2015. As a result, the audit period has been changed to FY 2014 and FY 2015.

To accomplish our audit objective, we reviewed written policies and procedures for the certification and processing of vendor invoices developed by ACCT, PRMT, OMBS, and TRES, to gain an understanding of the internal control policies and practices applicable for the departments administration over the invoice certification and payment process.

We conducted interviews with management and staff in CFO: ACCT AP Branch, OMBS, TRES, PRMT, CPMO and BUS to obtain an understanding of their invoice certification and payment process. In addition, we interviewed COTRS and project managers from several departments including the Departments of Human Resources, Information Technology, Access Services, and Transit Infrastructure and Engineering Services to understand their roles and responsibilities in reviewing and recommending invoices for payment.

We developed flowcharts of WMATA's invoice certification and payment process and assessed for completeness, and compliance with internal and external policies as applicable.

To assess the validity, reliability, and integrity of AP information processed by the PeopleSoft system, OIG's IT specialist extracted all paid operating and capital invoices from PeopleSoft for FY 2014, and FY 2015. We used IDEA Data Analysis (IDEA) software to analyze and test operating and capital invoices. We determined the average number of days it took for invoices to be paid from the date of the invoice to the payment date for each month in FY 2014 and FY 2015. From the data obtained, we prepared aging reports of the three major phases that were identified during the invoice certification and payment process. We identified the number of days from the invoice date to the date the receipt was entered in PeopleSoft; the number of days when the receipt was entered into PeopleSoft to the date the voucher was created in PeopleSoft; and the number of days from the voucher creation date to invoice payment date.

The data tables used were sourced and compiled by using a Structured Query Language (SQL) created by the Applications Development and Operations (APPS) Office, Operations Maintenance Branch. Using the SQL created by APPS, our IT Specialist extracted the data to assess and analyze. During our analysis of the data, we found inconsistencies with the various field columns regarding dollar amounts, unused fields, possible improper data entry, and undefined fields. The data had more than one column for amounts, negative amounts were paid, and user ID fields were recorded with a default user ID "VP1". We interviewed staff from the APPS office and requested a data dictionary which was not provided.

We assessed the reliability of PeopleSoft Financial Accounts Payable data by: (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined the data used to analyze capital and operating paid invoices for FY 2014 and FY 2015 was not sufficiently reliable for the purpose of this report. In addition, our IT Specialist deemed the data to be unreliable.

We reviewed 7,607 and 7,671 capital budget invoices that were paid during FY 2014 and FY 2015, respectively to determine if vendor invoices were paid on time. The total value of the transactions for FY 2014 was \$466 million, and for FY 2015 was \$587 million. We reviewed 42,301 and 54,819 operating budget invoices that were paid during FY 2014 and FY 2015, respectively to determine if vendor invoices were paid on time. The total value of the transactions for FY 2014 was \$365 million, and for FY 2015 \$360 million. We selected

judgmental samples of capital budget invoices and operating invoices, and supporting documents to determine where the invoices were delayed and ascertained reasons for late payment of vendor invoices.

We conducted a site visit at the third party contractor's facility to observe the AP invoice automation process for the paper invoice and electronic invoice processes.

We conducted this performance audit 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.

OIG held an Exit Conference on November 25, 2015, to discuss the preliminary findings from the audit with management personnel and representatives from WMATA, including the CFO.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) by the affected Departments/Offices will be monitored and tracked through the OIG's Audit Accountability and Resolution Tracking System. Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth specific action items and target completion dates necessary to implement final corrective actions on the findings and recommendations contained in this report.

We appreciate the cooperation and assistance extended by your staff during the audit. Should you or your staff have any questions, please contact Andrew Clemmons, Assistant Inspector General for Audit, on (202) 962-██████ or me on (202) 962-2515.

Attachments

cc: GMGR – P. Wiedefeld
GMGR – S. Pant
CHOS – B. Richardson
DGMO – R. Troup
BUS – R. Potts
CPRO – J. Shackelford
COUN – M. Pohl
IT – K. Borek
HR – T. Moore-McGee
CPO – A. Burnside

Invoice Processing

Operating (Budget) Invoice Process:

AP branch processes operating invoices which are either receipt based or direct payment invoices. Receipt based invoices have a corresponding purchase order or contract number, which represents the purchase of goods and services. Direct payment invoices do not have a corresponding requisition and purchase order. Prior to December 2014, invoices were sent directly to AP by vendors for processing, AP technicians manually entered invoices into PeopleSoft Financials (PeopleSoft), for receipt matching, workflow approval and budget checking.

Effective January 2015, ACCT outsourced the mailroom service to a third party contractor to eliminate the manual data entry of vendor invoices. Vendors are required to submit invoices and supporting documents via regular mail, email, or fax to the third party contractor for processing. All vendor invoices received by the third party contractor are validated, scanned and digitized in a centralized e-invoice processing system called "OnBase". Operating invoices go through purchase order (PO) and vendor matching within OnBase before being interfaced into PeopleSoft for receipt matching, workflow approval, budget checking and payment processing. Departments and program representatives are still responsible for their tasks in PeopleSoft. If there are missing receipts for invoices, automatic email notifications are sent to the PO requestor. AP staff will follow up with phone calls or emails to ensure that receipts are entered into PeopleSoft. Vendor invoices are processed daily. All vendor invoices that are submitted to the third party contractor must be received by WMATA within two (2) business days if there are no matching or other discrepancies.

Capital (Budget) Invoice Process:

Capital invoices originate with contractors, and are sent to the project office/COTR/CO office where they are reviewed and approved for payment. Currently the capital invoice process is not automated. The AP Branch continues to accept paper packages for capital invoices. Vendors are required to submit invoice packages to the project manager/project office for review and approval for payment processing.

Pre-Payment Review

The *US Department of Transportation Federal Transit Administration Financial Management Oversight (FMO) Final Report* issued June 10, 2014, identified weaknesses in WMATA's financial system. As a result, manual drawdown restrictions were imposed on WMATA for the reimbursement of expenses incurred on all capital projects. Effective July 2014, OMBS became involved in both the prepayment and post payment review of capital invoices. OMBS developed detailed processes for the review of invoices which was incorporated into the department Policies and Procedures Manual and included FTA Circular 5010.1D requirements for conducting payment reviews. Subsequently, WMATA had to submit detailed supporting documents to FTA for reimbursement of capital invoices paid to vendors.

Transition of Pre-Payment Division from OMBS to the Department of Capital Management Program Office (CPMO), and the Office of Bus Services (BUS):

CPMO, formerly Program Planning & Energy (PPLE), assumed responsibility for the prepayment review of capital invoices for the Department of Deputy General Manager, Operations (DGMO), Department of Access Services (ACCS), and the Department of Information Technology (IT), effective December 10, 2014. In addition, BUS took over the responsibility for the pre-payment review of capital invoices for BMNT and the Office of Bus Planning. Policies and procedures used by CPMO and BUS to conduct invoice review were inherited from OMBS.

Table 1 – FY 2014 & 2015 Operating Invoices
Average Days from Invoice Date to Payment Date
Responsible Offices Include Project Offices
Pre-Payment Review Division, AP Branch, and TRES

<u>Number of Days</u>	<u>FY 2014</u>		<u>FY 2015</u>	
	<u># of Invoices</u>	<u>Percent</u>	<u># of Invoices</u>	<u>Percent</u>
Within 30 Days	15,784	37.31%	8,670	15.82%
31-60 Days	19,168	45.31%	30,344	55.35%
61-90 Days	4,313	10.20%	7,524	13.73%
91-120 Days	1,228	2.90%	3,744	6.83%
121-150 Days	568	1.34%	1,756	3.20%
151-180 Days	441	1.04%	1,483	2.71%
181-365 Days	622	1.47%	1,298	2.37%
More than 365 Days	177	0.42%	0	0.00%
Total Number of Invoices	42,301	100.00%	54,819	100%
Average Days from Invoice Date to Payment Date	45.96		60.72	

Table 2 – FY 2014 & FY 2015 Operating Invoices
Invoice Date to Receipt Creation Date Phase
Responsible Offices Include Project Offices,
Pre-Payment Review Division

<u>Number of Days</u>	<u>FY 2014</u>		<u>FY 2015</u>	
	<u># of Invoices</u>	<u>Percent</u>	<u># of Invoices</u>	<u>Percent</u>
Within 30 Days	30,536	72.19%	41,126	75.02%
31-60 Days	8,220	19.43%	6,915	12.61%
61-90 Days	1,687	3.99%	2,911	5.31%
91-120 Days	673	1.59%	1,742	3.18%
121-150 Days	471	1.11%	867	1.58%
151-180 Days	228	0.54%	481	0.88%
181-365 Days	357	0.84%	603	1.10%
More than 365 Days	129	0.30%	174	0.32%
Total Number of Invoices	42,301	100%	54,819	100%
Average Days from Invoice Date to Receipt Creation Date	23.39		25.21	

**Table 3 – FY 2014 & 2015 Operating Invoices
Receipt Creation Date to Voucher Date Phase
Responsible Offices Include Project Offices,
Pre-Payment Review Division, and AP Branch**

<u>Number of Days</u>	<u>FY 2014</u>		<u>FY 2015</u>	
	<u># of Invoices</u>	<u>Percent</u>	<u># of Invoices</u>	<u>Percent</u>
Within 30 Days	24,448	57.80%	40,898	74.61%
31-60 Days	11,888	28.10%	8,693	15.86%
61-90 Days	3,205	7.58%	2,647	4.83%
91-120 Days	1,064	2.52%	1,039	1.90%
121-150 Days	555	1.31%	505	0.92%
151-180 Days	387	0.91%	339	0.62%
181-365 Days	585	1.38%	642	1.17%
More than 365 Days	169	0.40%	56	0.10%
Total Number of Invoices	42,301	100.00%	54,819	100.00%
Average Days from Receipt Creation Date to Voucher Date	14.56		26.97	

**Table 4 – FY 2014 & 2015 Operating Invoices
Voucher Date to Payment Date Phase
Responsible Offices Include AP Branch, and TRES**

<u>Number of Days</u>	<u>FY 2014</u>		<u>FY 2015</u>	
	<u># of Invoices</u>	<u>Percent</u>	<u># of Invoices</u>	<u>Percent</u>
Within 30 Days	42,067	99.45%	54,396	99.23%
31-60 Days	222	0.52%	364	0.66%
61-90 Days	10	0.02%	47	0.09%
91-120 Days	2	0.00%	1	0.00%
121-150 Days	0	0.00%	11	0.02%
151-180 Days	0	0.00%	0	0.00%
181-365 Days	0	0.00%	0	0.00%
More than 365 Days	0	0.00%	0	0.00%
Total Number of Invoices	42,301	100.00%	54,819	100.00%
Average Days from Voucher Date to Payment Date	8.01		8.53	

Note: All charts in Appendix I only show the data in PeopleSoft.

**Table 5 – FY 2014 & 2015 Capital Invoice
Average Days from Invoice Date to Payment Date Aging Tables
Responsible Offices Include Project Offices,
Pre-Payment Review Division, AP Branch, and TRES**

<u>Number of Days</u>	<u>FY 2014</u>		<u>FY 2015</u>	
	<u># of Invoices</u>	<u>Percent</u>	<u># of Invoices</u>	<u>Percent</u>
Within 30 Days	3,895	51.20%	1,814	23.65%
31-60 Days	2,492	32.76%	2,602	33.92%
61-90 Days	726	9.54%	1,241	16.18%
91-120 Days	229	3.01%	703	9.16%
121-150 Days	55	0.72%	391	5.10%
151-180 Days	65	0.85%	230	3.00%
181-365 Days	101	1.33%	649	8.46%
More than 365 Days	44	0.58%	41	0.53%
Total Number of Invoices	7,607	100%	7,671	100%
Average Days from Invoice Date to Payment Date	43.21		76.98	

**Table 6 – FY 2014 & FY 2015 Capital Invoices
Invoice Date to Receipt Creation Date Phase Aging Table
Responsible Offices Include Project Offices,
Pre-Payment Review Division**

<u>Number of Days</u>	<u>FY 2014</u>		<u>FY 2015</u>	
	<u># of Invoices</u>	<u>Percent</u>	<u># of Invoices</u>	<u>Percent</u>
Within 30 Days	5,139	67.56%	4,400	57.36%
31-60 Days	1,753	23.04%	1,550	20.21%
61-90 Days	380	5.00%	604	7.87%
91-120 Days	136	1.79%	366	4.77%
121-150 Days	53	0.70%	225	2.93%
151-180 Days	33	0.43%	114	1.49%
181-365 Days	88	1.16%	384	5.01%
More than 365 Days	25	0.33%	28	0.37%
Total Number of Invoices	7,607	100%	7,671	100%
Average Days from Invoice Date to Receipt Creation Date	30.46		46.17	

**Table 7 – FY 2014 & 2015 Capital Invoices
Receipt Creation Date to Voucher Date Phase Aging Table
Responsible Offices Include Project Offices,
Pre-Payment Review Division and AP Branch**

<u>Number of Days</u>	<u>FY 2014</u>		<u>FY 2015</u>	
	<u># of Invoices</u>	<u>Percent</u>	<u># of Invoices</u>	<u>Percent</u>
Within 30 Days	7,338	96.46%	5,822	75.90%
31-60 Days	158	2.08%	1,110	14.47%
61-90 Days	53	0.70%	438	5.71%
91-120 Days	15	0.20%	136	1.77%
121-150 Days	25	0.33%	71	0.93%
151-180 Days	2	0.03%	31	0.40%
181-365 Days	12	0.16%	60	0.78%
More than 365 Days	4	0.05%	3	0.04%
Total Number of Invoices	7,607	100.00%	7,671	100.00%
Average Days from Receipt Creation Date to Voucher Date	7.29		26.00	

**Table 8 – FY 2014 & 2015 Capital Invoices
Voucher Date to Payment Date Phase Aging Tables
Responsible Offices Include AP Branch, and TRES**

<u>Number of Days</u>	<u>FY 2014</u>		<u>FY 2015</u>	
	<u># of Invoices</u>	<u>Percent</u>	<u># of Invoices</u>	<u>Percent</u>
Within 30 Days	7,574	99.57%	7,611	99.22%
31-60 Days	6	0.08%	25	0.33%
61-90 Days	1	0.01%	5	0.07%
91-120 Days	0	0.00%	20	0.26%
121-150 Days	20	0.26%	7	0.09%
151-180 Days	6	0.08%	1	0.01%
181-365 Days	0	0.00%	2	0.03%
More than 365 Days	0	0.00%	0	0.00%
Total Number of Invoices	7,607	100.00%	7,671	100.00%
Average Days from Voucher Date to Payment Date	5.45		4.81	

Note: All charts in Appendix II only show the data in PeopleSoft

ATTACHMENT 2

From: Anosike, Dennis
Sent: Thursday, December 10, 2015 8:02 AM
To: Lew, Helen <HLew@wmata.com>
Cc: Wiedefeld, Paul J. <PWiedefeld@wmata.com>; Richardson, Barbara <brichardson@wmata.com>; Pant, Shiva K. <SPant@wmata.com>; Alexander, LaRisa A. <laalexander@wmata.com>; Visos, Larry <lvisos@wmata.com>
Subject: RE: OIG Draft Report, re: Review of WMATA's Invoice Certification and Payment Process

Helen,

Thank you for providing the attached report and findings. As requested, I will review same and respond appropriately.

As you are also aware, Finance is currently the mist of several critical and priority activities such as FTA's FMO reviews, completion of FY15 financial audit due in December, preparation for FY16 financial audit, recovery of outstanding capital costs and development of the FY17 budgets, including reviews with FTA among others. As a result, the 12/22/15 submission deadline that you have request is not achievable. I will suggest a more appropriate date following review of the report. Thanks.

Dennis

M E M O R A N D U M



SUBJECT: Response to OIG Draft Report
Internal Operations No. 16-003

DATE: December 15, 2015

FROM: CFO - Dennis Anosike

TO: OIG – Helen Lew

In response to the OIG Internal Operations Draft Report No. 16-003, the Office of the Chief Financial Officer (OCFO) will complete its review of the findings and recommendations by March 31, 2016, and provide an appropriate timeline for responding to the findings and recommendations.

M E M O R A N D U M



SUBJECT: Response to OIG Report No.16-003

DATE: March 31, 2016

FROM: CFO – Dennis Anosike *[Signature]*

THRU: GM/CEO – Paul J. Wiedefeld *[Signature]*

TO: OIG – Helen Lew

The following represents Office of Accounting's (ACCT) Corrective Action Plan (CAP) in response to OIG's Invoice Certification and Payment Process, Internal Operations Audit No. 16-003.

OIG Recommendation 1.1

Monitor invoice processing timelines for each interval of the invoice certification and payment process and assess its efficiency and effectiveness and make recommendations for improvement.

Management's Response:

Management accepts this recommendation. ACCT has completed an assessment of WMATA's Operating invoice payment process. Based on this assessment, ACCT has determined the following root causes for untimely payment of invoices:

1. A large number of invoices hit the Exception queues due to data quality (such as funding issues with Purchase Orders), non-receipt/non-acceptance of invoices by service requestor, incorrect invoice attributes and lack of deliverable milestone;
2. Untimely processing of invoices by third party vendor, [REDACTED] and
3. Improper monitoring by Accounts Payable department.

ACCT has established a two-tiered plan to address the issues noted above. The first phase of the plan will address invoices that are currently in the Exception queue by:

1. Daily monitoring of Exception report;
2. Daily follow up with departments to "receipt" invoices currently in the exception queue;
3. Weekly meeting with third-party vendor [REDACTED] to address performance issues

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[Signature]

This streamlined process will be incorporated into the Accounts Payable Policy and standard operating procedure by April 30, 2016.

The second phase of the plan will systemically address other root causes through:

1. Working with PRMT and [REDACTED] to include SLA performance monitoring by July 31, 2016
2. Provide training for end-users by June 30, 2016
3. Develop and improve monitoring of Exception Reports to provide first-tier visibility of invoices in On-Base queues by June 30, 2016

In addition to steps already taken to improve invoice payments, the Accounts Payable Department is working with [REDACTED] to re-engineer business process flows for invoices movement through OnBase and PeopleSoft financial management systems.

OIG Recommendation 1.2

Develop a written prompt payment policy to ensure vendor invoices are paid timely.

Management's Response:

Management accepts this recommendation. ACCT is drafting a prompt pay policy with clear guidelines and instructions for Operating and Capital invoices interval controls and invoice certification. The policy will reinforce the payment terms as defined by PRMT and/or establish payment terms for non-contract goods and services by June 30, 2016.

OIG Recommendation 1.3

Coordinate with PRMT to instruct COTRS/Cos and project managers to inform contractors not to begin work on projects without an approved purchase order and a Notice to Proceed document.

Management's Response:

OIG's recommendation is premised on PRMT prior alignment with Finance. In light of the recent reorganization, PRMT remains responsible for purchasing policy but now has a different reporting structure. Management will advise PRMT of OIG Recommendation 1.2, and collaborate as needed regarding timely invoice payment.

OIG Recommendation 1.4

Coordinate with DGMO and BUS to develop adequate standard operating

procedures to ensure capital invoice review processes are followed during the prepayment review.

Management's Response:

Management accepts this recommendation. DGMO and BUS utilize an invoice payment process for Capital expenses that differs from other departments. In coordination with the Office of Internal Control and Compliance (OICC), ACCT would evaluate and redesign DGMO and BUS Capital invoice payment process to ensure timely payment of capital invoices using the following timelines:

- Review the process by May 31, 2016.
- Develop recommendations for improvement by June 30, 2016



OIG Recommendation 1.5

Coordinate with the Chief Human Resources Officer to instruct Mail Room Services to time-date stamp all first class mail to establish date of receipt.

Management's Response:

Management will advise the Chief Human Resources Officer to evaluate OIG Recommendation 1.5 by April 15, 2016. Any required follow up will depend on the finding and recommendation of the CHRO.

OIG Recommendation 2.1

Coordinate with the DGMO to ensure policies and procedures relating to the invoice certification and payment process are updated appropriately carried out.

Management's Response:

Management accepts this recommendation. Please reference Management's Response to OIG Recommendation 1.4

