

M E M O R A N D U M



FINAL AUDIT REPORT WITH RECOMMENDATIONS

Internal Operations No. 09-04

SUBJECT: Internal Control Review of
Fare Media Sales

DATE: December 30, 2008

FROM: IG/OIG – Helen Lew /s/

TO: GMGR – John B. Catoe, Jr

This Final Audit Report, entitled *Internal Control Review of Fare Media Sales*, presents the results of our audit. The objective of our audit was to assess the adequacy of internal controls over the Washington Metropolitan Area Transit Authority's (WMATA) fare media sales system.

Background

WMATA's fare media sales system is comprised of a number of programs managed by the Office of Customer Service (CSVC), Marketing & Advertising (MKTG), and Bus Transportation (BTRA). The Office of Treasury (TRES) procures and encodes fare media, processes orders, distributes fare media, and collects fare media sales receipts for reconciliation and deposit. During fiscal year 2008, WMATA's fare media sales programs generated \$581,157,218 in revenue from sales to daily commuters, area visitors, students, seniors, disabled individuals, government organizations, corporations, and transit commuter companies.

CSVC manages sales offices located at the Jackson Graham Building (JGB), Metro Center, Pentagon, and Anacostia rail stations, and Northern and Western Bus Divisions. A sales office at the Southeastern Bus Division was closed in March 2008 when the Division was closed. TRES supplies each sales office with a central consignment of fare media and cash. CSVC assigns each sales clerk with a consignment of fare media and cash. Each sales office (except JGB) maintains a central consignment of fare media for replenishing the sales clerks' consignments. Payments for sales are accepted in the form of cash, check, and credit card. CSVC's total sales for fiscal years (FYs) 2007

and 2008 were \$9,943,518, and \$8,321,971, respectively. Table 1 summarizes fare media sales for CSVC.

Table 1: CSVC's Fare Media Sales							
FY	Metro Center	Pentagon	Northern	JGB	Southeastern	Western	Totals
2007	6,919,931	1,047,897	726,420	645,340	445,259	158,672	\$ 9,943,518
2008	5,914,472	754,379	701,638	574,139	258,087	119,256	\$ 8,321,971

CSVC's sales transactions are processed in a point-of-sales (POS) system that WMATA purchased and installed in 1995. The POS system is a computerized network of cash register terminals used by the sales offices to process and account for the daily sales and redemption of fare media. The POS system is used to manage the sales operations, consignments, inventories, orders, and reports. The POS system initially consisted of stand-alone cash registers that were upgraded in 2005 to the current network of 15 cash registers. CSVC has a maintenance agreement with eCore POS Systems, Inc., for equipment maintenance associated with the 15 computer terminals/workstations and supporting equipment.

MKTG, through its Corporate Sales Programs Branch, administers the sales of fare media at over 350 retail sales outlets and regional transit stores throughout the region. Sales are also made in bulk to local governments, private companies, and transit commuter companies. Total sales for the Corporate Sales Programs Branch in fiscal years 2007 and 2008 were \$275,411,659, and \$287,708,017, respectively. Table 2 summarizes fare media sales for Corporate Sales Programs Branch.

Table 2: MKTG's Corporate Sales				
FY	Federal Programs	Metro Pool	Outlets	Totals
2007	176,034,184	73,515,560	25,861,915	\$ 275,411,659
2008	159,615,878	86,038,406	42,053,733	\$ 287,708,017

BTRA manages three sales locations at the Landover, Four-Mile Run, and Royal Street Bus Divisions. The superintendent at each Bus Division is responsible for overseeing the sales of fare media. In addition to selling fare media, depot clerks perform their

normal bus duties. Total sales for fiscal years 2007, and 2008, were \$60,654, and \$63,895, respectively. Table 3 summarizes fare media sales for BTRA.

Table 3: BTRA's Bus Divisions Sales				
FY	Landover	Four-Mile Run	Royal Street	Totals
2007	45,235	1,055	14,364	\$ 60,654
2008	51,833	4,181	7,881	\$ 63,895

In 2008, a CSVC Sales Office supervisor pled guilty to wire fraud based upon her theft between 2001 and 2007 of over \$560,000 in cash at WMATA sales offices. The supervisor committed the fraud, in part, by manipulating the POS system. She admitted that she obtained Metrocheks and substituted them for cash received by sales office cashiers. The supervisor was able to make false entries in the cashiers' accounts of sales in the POS system to correspond with her substitution of the Metrocheks for the cash she took. The fraud was discovered not through oversight of the sales offices' operation, but because an individual cashier noted discrepancies in her account balances and reported them.

The internal control framework as identified in the Committee of Sponsoring Organizations of the Treadwell Commission's¹ (COSO) internal control model specifies the criteria for acceptable internal control practices. COSO identifies the objectives of internal controls as (1) compliance with laws, regulations, policies and procedures, (2) safeguarding assets, (3) ensuring reliability and integrity of information, and (4) the economical and efficient use of resources.

Audit Results

We found that internal control weaknesses exist in WMATA's fare media sales system. These weaknesses adversely affected WMATA's ability to provide reasonable assurance that sales revenue and access to fare media inventory are safeguarded, inventories are properly stated, and redeemed fare cards are destroyed.

¹ In 1992, the Committee of Sponsoring Organizations of the Treadwell Commission (COSO) developed a model for evaluating internal controls. This model has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control.

Specifically, we found that (1) the POS system lacks proper controls and management oversight, (2) security equipment at some sales offices is not working, (3) CSVC's fare media consignments are not properly accounted for, (4) BTRA lacks physical control to safeguard fare media sales, (5) controls over and destruction of redeemed fare cards needs improvement, (6) fare card readers are not available at some sales offices, (7) analysis of consignments is needed to determine the appropriate level of fare media, and (8) decentralized organizational structure for fare media sales does not ensure proper oversight.

We also found that management had not instructed the sales clerks on how to properly invalidate redeemed Metrocheks. To bring immediate attention to this issue, the Office of Inspector General (OIG) issued a draft Alert Memorandum on July 29, 2008, that outlined recommendations to alleviate improper procedures used to void Metrocheks. The General Manager concurred with OIG recommendations and immediately implemented an action plan to mitigate potential risks.

In the General Manager's December 24, 2008, response to a draft of this report, he concurred with all but 2 of our 11 recommendations. The two nonconcurring recommendations relate to the need to develop formal policy instructions on controls over and destruction of redeemed fare cards. Instead of policy instructions, Management issued or plans to issue notices to address the OIG's finding. These notices, if properly implemented, should address the intent of OIG's recommendations. The complete text of the response is included as an attachment to this report.

Finding 1 - The POS system lacks proper controls and management oversight.

The internal control framework as identified in COSO's internal control model specifies that access security controls help to protect information systems from inappropriate access and unauthorized or inappropriate use. Application controls ensure completeness, accuracy, authorization, and validity of all transactions.

We found weak controls over access to users' logon identification codes and passwords and other features of the POS system that should be secured. For example, sales clerks were assigned logon identification codes and passwords that were not unique, or confidential. The logon identification codes and passwords were the same and were shared with the supervisors. This allowed the supervisors to have logon access to the sales clerks' accounts in the POS system. Uncontrolled access to these features can and was used to perpetrate the fraud committed by a sales office supervisor at WMATA.

We found that WMATA does not conduct or perform any analysis of POS system logs, routine system audits, or edit checks. WMATA also does not create and review any exception reports. Such standard risk-avoidance activities are generally performed by a person on staff. Failure to assign resources to perform these duties increases the risk of undetected fraud and thefts, such as what occurred from 2001 to 2007 at WMATA.

In addition, CVSC has no staff member assigned responsibility for overseeing the day-to-day operations of the POS system. The absence of an in-house person to oversee the day-to-day operations of the system is a weakness in internal controls. The maintenance contractor, eCore POS Systems, Inc., provides maintenance for the system hardware (printers, scanners, monitors, keyboards), and telephone and software support as needed. Any services requested outside the scope of the maintenance contract must be negotiated separately. There is no clause in the contract with eCore POS Systems, Inc., that prevents the contractor from canceling the maintenance services for the POS system. The lack of a provision in the maintenance agreement that protects WMATA and the lack of contingency plans leave WMATA vulnerable to potential interruptions that could negatively impact service.

CSVC has not developed, implemented, and enforced policies and procedures that define the responsibilities for administration and maintenance of the POS system. CSVC's management also failed to provide the necessary oversight to detect and correct the weaknesses in controls over access, operation, and maintenance of the POS system.

Recommendations

We recommend that the General Manager:

1. Direct the Assistant General Manager (AGM), Department of Operations Services (OPSV) to develop, implement, and enforce policies and procedures to improve oversight and internal controls over the POS system. The improved controls over the POS system should address access, operations, maintenance, and contingency plans.
2. Direct the AGM, Information Technology (IT), in coordination AGM, OPSV, to study the pros and cons of bringing the POS system under WMATA's management.

Management Comment

Management concurs with our recommendations. Specifically, each sales clerk and supervisor now has unique system access, and daily sales reports are now generated, with all records retained. Additionally, OPSV and IT are working to integrate the POS system with Metro's current and planned systems to ensure improved security, management controls, access, reporting capabilities and maintenance.

Finding 2 - Security equipment at some sales offices is not working.

The internal control framework as identified in COSO's internal control model specifies that effective controls require that appropriate and timely action is taken on exceptions and deviations in operations. Information should be communicated to management as part of agency reporting on operational performance. Supervisory personnel should monitor the function of operational controls. This includes the repair, replacement, servicing, and monitoring of security equipment to safeguard employees and company assets.

We found that security equipment, such as vaults, cameras, monitors, and/or alert buzzers, at some of the fare media sales offices was not working. For example, the video camera/monitor that focuses on the entrance doors at the Metro Center office had been out of order for approximately one year. The CSVC sales offices located at

Northern and Western Bus Division have vaults with locks that had not worked for approximately two years. The vaults are used to secure and store the clerks' cash and fare media. The security alert buzzers installed at the sales clerks' windows at Metro Center and JGB had been disconnected from the MTPD Control Center for approximately two years. The alerts are used to notify MTPD in emergency situations. CSVC employees did not know the buzzers were not working.

We found that CSVC's management did not have policies and procedures necessary to ensure security equipment is tested, functioning properly and repaired when necessary. The manager of the sales offices stated that the supervisors are responsible for reporting broken equipment to the proper office at WMATA for repair and replacement. The supervisors stated that they informed the manager of the sales offices of the broken equipment, but no action was taken.

WMATA's failure to repair or replace faulty and broken security equipment increased the risk of theft at the sales offices, as well as places the safety of employees and the general public at risk.

We brought this matter to the attention of CSVC management in August 2008, and CSVC took corrective action to repair the cameras/monitors at Metro Center.

Recommendations

We recommend that the General Manager:

1. Direct the AGM, OPSV to conduct an evaluation of the security cameras, monitors, alert buzzers, locks on vaults, and other security equipment at the sales offices, for the purpose of identifying equipment needing repair, service, or replacement, and getting it repaired or replaced.
2. Direct the AGM, OPSV to establish policies and procedures that require CSVC to address faulty equipment in a timely manner.

Management Comment

Management concurs with our recommendations. Metro has concluded an initial security equipment survey and, as a result, several security improvements have occurred. The security camera monitor at Metro Center has been repaired. The exterior safe doors at the Northern and Western garage sales offices have been repaired. IT is scheduled to complete installation of new alarm systems. Also, new policy requiring periodic security surveys and immediate remedial actions will be incorporated into the revised sales operation manual no later than January 30, 2009.

Finding 3 – CVSC’s fare media consignments are not properly accounted for.

According to COSO’s internal control model, agencies should have internal controls in place that provide reasonable assurance of an accurate perpetual inventory and the reliability and integrity of financial and operational information. Effective internal controls also require inventories to be properly valued, compared with detail records, differences investigated, and corrective action taken when necessary.

We found that CSVC’s central consignment (safes and/or vaults) inventories recorded in the POS system were not correctly stated. We physically counted the central consignment inventories in August 2008 at the Metro Center, Northern, and Pentagon sales offices. We found that the number of fare media items on-hand was less than the inventory balances in the POS system. Specifically, our count showed a shortage of 224 fare cards at Metro Center, a shortage of 1,015 fare cards at Northern, and an overage of 54 fare cards at Pentagon. The net value of the shortage in fare media was \$14,486.

CSVC conducts a daily count and reconciliation of the sales clerks’ cash and fare media consignments. However, CSVC does not conduct regular reconciliations of the fare media in its central consignments. TRES’ count of the central consignment at Metro Center in May 2007 uncovered shortages in fare media. CSVC also uncovered shortages in fare media in a count of central consignment inventories in October and November 2007 at Metro Center, Northern, Western, and Southeastern. Although

shortages were discovered, CSVC did not make adjustments to the central consignment balances in the POS system for the shortages, nor did CSVC adequately investigate and determine the circumstances surrounding these shortages. In addition, we noted that there were two other cases of shortages in fare media and cash for which adjustments were never made. These shortages, discovered at the Southeastern Sales Office in June 2003 and April 2004, totaled \$1,064 and \$1,448, respectively. The director of CSVC requested the Office of Accounting (ACCT) in August 2007 and January 2008 to reimburse them for these losses. These requests were never acted upon or investigated, and the consignment at the Southeastern office was never adjusted.

CSVC has no written policies and procedures regarding the physical count and reconciliation of fare media in the central consignments with recorded amounts in the POS system. Management at CSVC also failed to communicate, execute, investigate, and monitor the controls required to ensure that central consignments inventories are fairly stated. In addition, TRES has no written policies and procedures regarding periodic review of fare media consignments.

If the shortages and overages are not documented, investigated, adjusted, and reported, management may not be able to take appropriate and timely action to detect and prevent fraud, waste, and mismanagement. In addition, failure by WMATA to keep accurate inventory balances may adversely affect the accuracy of financial information. If physical counts of inventory are not conducted periodically and compared with detailed inventory records, management cannot be sure that the accounting records properly reflect the number of fare cards in inventory and the dollar value of the inventory.

Recommendation

We recommend that the General Manager direct the AGM, OPSV and the CFO to establish policies and procedures requiring the sales offices and TRES to conduct physical counts and reconciliations of the central consignments inventories, and investigate and report all shortages and/or overages in fare media. The policies should

outline procedures for making adjustments to inventory records in the POS system in order to accurately reflect the value of the inventory.

Management Comment

Management indicated that it concurs with our recommendation. OPSV and TRES will establish by January 30, 2009, policies, procedures, and a schedule to jointly count and reconcile central consignments, as well as procedures for investigating, reporting, and accounting for any overages and shortages and adjusting the POS inventory records.

Finding 4 - BTRA lacks physical control to safeguard fare media sales.

The internal control framework as identified in COSO's internal control model specifies that agencies must establish physical control to safeguard vulnerable assets. Appropriate control activities should include limited access to assets such as cash and inventories which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records.

Our audit disclosed that two or more sales clerks at the Landover and Four-Mile Run Bus Divisions are allowed to share the same cash and inventory consignments for making fare media sales. In addition, reconciliations of the consignments are not consistently conducted after use by each clerk.

The supervisor stated that the principal sales clerk at Landover leaves work daily one hour before the sales window closes. A second clerk takes control of the cash and consignments for the last hour of sales. At Four-Mile Run, the principal sales clerk conducts sales of fare media Monday through Friday. A second clerk takes control of the cash and consignments for sales on weekends. There were no reconciliations completed prior to the transfers of the consignments of stock and cash from one sales clerk to another.

The sharing of cash and fare media consignments by two or more clerks, without having the necessary controls in place, makes it difficult to detect and prevent fraud, waste and mismanagement.

Recommendation

We recommend that the General Manager direct the AGM, Bus Services to improve internal controls to safeguard cash and fare media consignments at the Landover and Four-Mile Run Bus Divisions by performing physical counts and reconciliations.

Management Comment

Management concurs with our recommendation. At the Landover and Four-Mile Run Bus Divisions, reconciliation forms now must be completed daily by the clerk on duty at the completion of their shift. The weekday clerk's bank and weekend clerk's bank are now separated for additional security and accountability purposes.

Finding 5 – Controls over and destruction of redeemed fare cards needs improvement.

5 A. Fare cards previously redeemed in the fare card vendors are being resubmitted by customers for redemption at some sales offices.

The internal control framework as identified in COSO's internal control model specifies that, appropriate policies, procedures, techniques, and mechanisms should exist with respect to each of the organization's operating activities. Access to resources should be limited to authorized individuals. Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees.

When a fare card or Metrochek is used at a fare card vendor (for example, when a customer adds value and obtains a new fare card), the fare card vendor prints four asterisks at the bottom of the traded-in fare card to indicate that the card is of no value and should be destroyed. This redeemed fare card remains in the fare card vendor.

TRES is responsible for collecting the redeemed fare cards from the fare card vendor and destroying them. However, we were told by sales office personnel that redeemed fare cards marked with asterisks are sometimes presented by customers at sales offices for redemption. TRES officials and other sales office managers could not explain how customers were able to get these redeemed fare cards. During our audit, we presented a redeemed fare card (a Metrochek, originally worth \$30, and marked with the four asterisks) showing remaining value of \$4.40 at the Metro Center sales office. The sales clerk accepted it, and in exchange for the redeemed fare card and 60 cents, a new \$5 replacement fare card was offered.

While the CSVc manager told us that sales clerks generally know that fare cards with four asterisks are not eligible to be redeemed, she indicated that there is no written directive to this effect. The acceptance of redeemed fare cards with no value for valid fare media results in revenue loss to WMATA.

5 B. TRES was not handling redeemed fare cards in a manner that guarantees no reuse.

While we were unable to determine precisely how customers gain access to redeemed fare cards, we found that the method used by TRES to dispose of used fare cards collected from fare card vendors and fare gates is inadequate to guarantee that they will not be reused. TRES was discarding the redeemed fare cards intact into an on-site waste container for disposal. The waste container is picked up daily by a contractor who delivers it to a landfill for disposal. TRES stated that, approximately 10 years ago, a shredder was used to destroy the used fare cards. Use of the shredder was discontinued due to problems with the shredder. Subsequently, TRES began to discard the fare cards into its trash container and has continued that practice.

Although TRES was aware that redeemed fare cards were being reused in the Metrorail system, no action was taken to implement more effective procedures, equipment or controls to ensure that all redeemed fare cards are properly destroyed until OIG brought the matter to management's attention during the audit. In response, TRES began renting

in October 2008 a more effective shredder to destroy the fare cards. TRES stated that it plans to purchase a new machine for shredding the fare cards. The Director, CSVC also responded by issuing written instructions on October 10, 2008, to sales clerks, directing them not to accept fare cards with four asterisks printed at the bottom.

Recommendations

We recommend that the General Manager:

1. Direct the AGM, OPSV to develop a formal Policy Instruction to ensure that sales clerks do not accept fare media with four asterisks at the bottom of the fare card.
2. Direct the CFO to develop a Policy Instruction that requires all redeemed fare cards to be shredded.

Management Comment

Management does not concur with our recommendation to develop a formal Policy Instruction to ensure that sales clerks do not accept fare media with four asterisks at the bottom of the fare card. Instead of a Policy/Instruction, OPSV has issued a notice to all sales agents regarding revised procedures for non-acceptance of fare media with four asterisks at the bottom. Management believes that these revised procedures comply with the intent of the Inspector General's recommendation.

In addition, Management does not concur with our recommendation to develop a Policy Instruction that requires all redeemed fare cards to be shredded. However, TRES will issue a notice by January 30, 2009, requiring that all redeemed fare cards be shredded.

OIG's Comment

Based on our review of the General Manager's response to our recommendations, the actions taken and planned by Management should address our finding, if properly implemented. It is critical that all current and new employees in OPSV and TRES are familiar with the two notices. Management should provide OIG with a corrective action plan on how it will ensure that these employees are familiar with the notices.

5 C. Failure to properly invalidate redeemed Metrocheks posed a risk of reuse.

The OIG issued an Alert Memorandum on July 29, 2008, indicating that CSVC and MKTG were not properly voiding redeemed Metrocheks so that they could not be reused. During this audit, we noted the Metrochek Program Redemption Guide for Transit Service Providers and Transit Stores, dated March 7, 2005, indicated that a Metrochek can be stamped “VOID;” however, to properly invalidate a Metrochek, the registration hole in the upper left corner must be cut off to prevent re-use. We suggested that requiring proper invalidating of redeemed Metrocheks be given the highest priority. In the General Manager’s August 5, 2008, response, he concurred with our recommendations and implemented corrective action.

Finding 6 - Fare card readers are needed at some sales offices.

CSVC policy and procedures on “Cash and Consignment Balance Requirements” require sales clerks to use a fare card reader to determine the balance on fare cards when replacing damaged fare cards. The internal control framework as identified in COSO’s internal control model specifies that transactions and events should be completely and accurately recorded.

During our review, we noted that the JGB and Pentagon sales offices do not have fare card readers to determine the value and status of fare cards submitted by customers for redemption. The readers are needed because the values on the cards are sometimes illegible, and the clerks need to know if the cards were properly exited² from the system. The reader deciphers the magnetic strip on front of the fare cards. Sales clerks at the JGB and Pentagon offices complained that the large volume of used and faulty fare cards submitted by customers warrants a fare card reader.

² A fare card has been properly exited if a customer has used the same card to enter and exit the fare gates within a four hour period.

When a clerk cannot read the remaining value on a fare card and no card reader is available, the clerk instructs the customer to mail the fare card to TRES for replacement. When a clerk can read the remaining value on a card and no card reader is available, the clerk deducts a minimum fare from the customer's card in case the card was not properly exited from the system. The value on the card could be greater or less than a minimum fare resulting in a gain or loss to WMATA or the customer.

Of the three sales offices that redeem used fare cards, only Metro Center had a fare card reader. The manager of CSVC stated that both JGB and Pentagon had fare card readers three to four years ago. They were removed due to frequent breakdowns and difficulty obtaining replacement parts. Attempts were made to obtain the same card readers used by the station managers, but these readers were determined to be too large for the sales offices. CSVC's management stated that new card readers provided by the Office of SmarTrip Programs are being fitted with software for installation by the Office of Engineering Services at JGB, Pentagon, and Metro Center.

Although the Director of CSVC made requests for fare card readers, there were problems with the software that delayed installation. Management was aware of complaints by the sales clerks about not having a fare card reader. Some offices (JGB and Pentagon) have been without fare card readers for at least three years.

WMATA's failure to provide sales clerks with a reader to determine the value or status of a fare card can jeopardize the clerk's ability to determine if the card was properly exited from the system and/or the remaining value on some fare cards. The clerk's action can result in a loss of revenue to WMATA.

Recommendation

We recommend that the General Manager direct the AGM, OPSV to take appropriate action to provide fare card readers to all sales offices where sales clerks are required to redeem used or damaged fare cards from customers.

Management Comment

Management concurs with our recommendation. Metro recently deployed the Ticket Office Terminals system, which reads fare cards, at the Metro Center, Jackson Graham, and Pentagon sales offices.

Finding 7 - Analysis of consignments is needed to determine the appropriate level of fare media.

CSVC's policy on Cash and Consignment Balance Requirements indicates that an analysis or evaluation of the fare media inventories should be periodically conducted by management to determine whether excess fare media is being stored and to reduce the risk of theft and fraud. The internal control framework as identified in COSO's internal control model specifies that internal control monitoring should assess the quality of performance which would include sales performance. The monitoring strategy should identify critical operational activities that need specific review, monitoring and evaluation of goals and objectives to determine if those operational activities are meeting expectation.

CSVC's management, supervisors and sales clerks stated that the amount of fare media in the central consignment is in excess of what is needed to meet customers' demands. TRES replenishes the central consignment to reflect sales within one to two days. For example, at Metro Center, the set consignment levels for Metrocheks in \$5, \$20 and \$30 denominations were 2,000 or more for each denomination, and 1,800 for adult tokens, even though tokens are no longer widely used by the public. Similar situations existed at the Pentagon and Northern sales offices for Metrocheks, tokens, and certain other fare media.

Even though the policy and procedures manual indicate that CSVC, in conjunction with TRES, must conduct periodic analysis and evaluations of the fare media consignment balances at the sales offices to determine if reductions or increases should be made, we found the policy had not been consistently followed. According to the manager of the sales offices, the last evaluation of fare media (tokens only) was in 2001 by CSVC and

TRES. The manager of the sales offices stated that a more recent analysis had not been conducted because of the difficulty in making arrangements between the two offices.

Excess fare media in central consignments increases the risk of theft and makes consignments more difficult to safeguard and monitor.

Recommendation

We recommend that the General Manager direct the CFO to develop and enforce policy and procedures for periodic analysis of the adequacy of fare media consignments.

Management Comment

Management concurs with our recommendation. OPSV and TRES will establish a policy and procedure to ensure periodic analysis of fare media consignments by January 30, 2009.

Finding 8 - Decentralized organizational structure for fare media sales does not ensure proper oversight.

The internal control framework as identified in COSO's internal control model specifies that the control environment sets the tone of an organization, and it is the foundation for all components of internal control. A factor affecting the environment is the agency's organization structure. It provides management's framework for planning, directing, and controlling operations to achieve objectives. A good internal control environment requires that the agency's organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting.

As indicated earlier in this report, WMATA's fare media sales system is comprised of a number of programs managed by CSVC, MKTG, BTRA, and TRES. Some of the findings noted in this report may have been the result of WMATA's decentralized organizational structure over fare sales. Management oversight over fare media is spread over four offices, with no one official accountable for fare media sales policy, procedures, and oversight.

The accountability structures that frame these offices also dictate different priorities and expectations. For example, BTRA may be more interested in providing the National Capital Region with the very best in transit bus on-time performance and customer service than oversight of fare media sales. In addition, BTRA does not have sales clerks assigned to their staff. Their depot clerks are responsible for sales of fare media in addition to their regular bus duties.

WMATA's decentralized and organizational structure over fare media sales may hinder communications and progress when no one office has clear responsibility for developing policies and procedures, and communicating them across the various program offices. Interviews with managers during our audit indicated they did not respond to some issues we identified because they had a hard time coordinating schedules to address them with other offices that have fare media responsibilities. The reason for this may have been the result of competing or what they perceived to be conflicting priorities and responsibilities.

Recommendation

We recommend that the General Manager review the decentralized organizational structure over fare media sales process and determine the feasibility of having one office provide oversight. This office should have the responsibility of ensuring consistency in policy and procedures and communication thereof, and ensuring proper internal and security controls are in place to provide reasonable assurance that sales revenue and fare media inventory is safeguarded.

Management Comment

Management concurs with our recommendation. The General Manager's office will review the organizational structure over the fare media sales process and determine the feasibility of having one office provide oversight.

Objective, Scope, and Methodology

The objective of our audit was to assess the adequacy of internal controls over WMATA's fare media sales system. The audit was conducted from May 2008 through November 2008.

To accomplish our objective, we gained an understanding of the fare media sales processes at CSVC, MKTG, BTRA, and TRES. We conducted interviews of individuals; observed the sales activities at CSVC, MKTG, BTRA, and TRES examined sale documents; counted fare media inventories; and conducted tests of fare cards redemptions.

We conducted our audit in accordance with Government Auditing Standards appropriate to our scope. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit includes assessments of applicable internal controls and compliance requirements of laws and regulations when necessary to satisfy our audit objectives. We believe that our audit provides a reasonable basis for our conclusion.

Administrative Matters

Corrective actions proposed (resolution phase) and implemented (closure phase) by the affected Departments/Offices will be monitored and tracked through the Office of Inspector General'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 the specific action items and targeted 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 our audit.

If you have any questions, please contact Andrew Clemmons, Assistant Inspector General-Audit, on (202) 962-1014 or me on (202) 962-2515.

/s/
Helen Lew
Inspection General

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ATTACHMENT

M E M O R A N D U M



SUBJECT: Internal Control Review of Fare Media Sales

DATE: December 24, 2008

FROM: GMGR – John B. Catoe, Jr. *Shiva Kant for GM*

TO: OIG – Helen Lew

We received your memorandum dated December 15, 2008 on the Draft Audit Report No. 09-04 titled "Internal Control Review of Fare Media Sales." You requested that we provide written comments on the findings and recommendations of the draft report. The following represents our response to Draft Audit Report No. 09-04.

Finding 1: The POS system lacks proper controls and management oversight.

Recommendation 1: Direct the Assistant General Manager (AGM), Department of Operations Services (OPSV) to develop, implement, and enforce policies and procedures to improve oversight and internal controls over the POS system.

Metro Response: The Washington Metropolitan Area Transit Authority (Metro) concurs with this recommendation. Each sales clerk and supervisor now has unique system access. Additionally, daily sales reports are now generated, with all records retained.

Recommendation 2: Direct the AGM, Information Technology (IT), in coordination with AGM, OPSV, to study the pros and cons of bringing the point-of-sale (POS) system under WMATA's management.

Metro Response: Metro concurs with this recommendation. The sales offices converted to an automated system in 1991 and then to an automated POS system in 1995 to improve security of funds and reporting capabilities. It was decided then, and again in response to subsequent sales office requests, that Metro's IT Department would not build, install or maintain this system. This created a situation where sales offices were responsible for systems they had a limited ability to maintain.

OPSV and IT are now working to integrate the POS system with Metro's current and planned systems to ensure improved security, management controls, access, reporting capabilities and maintenance. The initial meeting with the current POS vendor to evaluate the best means to achieve these objectives took place on December 22, 2008. A timeline for making the required improvements and determining if the system or some portions of it

will be brought in-house is expected by July 2009. This will allow IT to gain a complete understanding of the system, business processes and support requirements. Some improvements such as more secure remote access to data and improved credit card processing are expected in the interim.

Finding 2: Security equipment at some sales offices is not working.

Recommendation 1: Direct the AGM, OPSV to conduct an evaluation of the security cameras, monitors, alert buzzers, locks on vaults, and other security equipment at the sales offices, for the purpose of identifying equipment needing repair, service, or replacement, and getting it repaired or replaced.

Metro Response: Metro concurs with this recommendation. Metro has concluded an initial security equipment survey and, as a result, several security improvements have occurred. The security camera monitor at Metro Center has been repaired. The exterior safe doors at the Northern and Western garage sales offices have been repaired. However, at no time were funds accessible because the interior safe compartments were controlled by dual locking mechanisms. IT is scheduled to complete installation of new alarm systems by December 31, 2008.

Recommendation 2: Direct the AGM, OPSV to establish policies and procedures that require the Office of Customer Service (CSVC) to address faulty equipment in a timely manner.

Metro Response: Metro concurs with this recommendation. A new policy requiring periodic security surveys and immediate remedial actions will be incorporated into the revised sales operation manual no later than January 30, 2009.

Finding 3: CSVC's fare media consignments are not properly accounted for.

Recommendation: That the GM direct the AGM, OPSV and the Chief Financial Officer (CFO) to establish policies and procedures requiring the sales offices and the Office of the Treasurer (TRES) to conduct physical counts and reconciliations of the central consignments inventories, and investigate and report all shortages and/or overages in fare media. The policies should outline procedures for making adjustments to inventory records in the POS system in order to accurately reflect the value of the inventory.

Metro Response: The sales offices, in compliance with the former internal Audit Office (AUDT) procedures, previously reported unresolved shortages or overages to AUDT for investigation. This practice, along with unannounced audits by AUDT maintained the sales offices in compliance with the accounting and security standards in place at the time.

The more recent overages and shortages are the result primarily of a former supervisor's fraudulent acts. The discrepancies were reported to the Metro Transit Police Department (MTPD) upon discovery and sales supervision was asked to maintain confidentiality and to take no corrective actions for fear of compromising the criminal investigation. Sales supervision requested the OIG to audit the sales offices as soon as the MTPD investigation concluded and learned at that time that sales office audits, as conducted by AUDT, were not performed by OIG.

OPSV submitted to TRES on December 18, 2008 revised fare media inventory levels based on current demand for each media type. OPSV and TRES will establish by January 30, 2009 policies, procedures and a schedule to jointly count and reconcile central consignments as well as procedures for investigating, reporting and accounting for any overages and shortages and adjusting the POS inventory records.

Finding 4: BTRA lacks physical control to safeguard fare media sales.

Recommendation: That the GM direct the AGM, Bus Services to improve internal controls to safeguard cash and fare media consignments at the Landover and Four-Mile Run Bus Divisions by performing physical counts and reconciliations.

Metro Response: Metro concurs with this recommendation and appropriate action has been taken. At Landover and Four-Mile Run Bus Divisions, reconciliation forms must be completed daily by the clerk on duty at the completion of their shift. Additionally, the weekday clerk's bank and the weekend clerk's bank are now separated for additional security and accountability purposes.

Finding 5: Controls over and destruction of redeemed fare cards needs improvement. (5A) Fare cards previously redeemed in the fare card vendors are being resubmitted by customers for redemption at some sales offices. (5B) TRES was not handling redeemed fare cards in a manner that guarantees no reuse. (5C) Failure to properly invalidate redeemed Metrocheks posed a risk of re-use.

Recommendation 1: Direct the AGM, OPSV to develop a formal Policy Instruction to ensure that sales clerks do not accept fare media with four asterisks at the bottom of the fare card.

Metro Response: Metro does not concur that a formal Policy/Instruction should be issued on this matter. However, instead of a Policy/Instruction, OPSV has issued a notice to all sales agents. OPSV's sales operating procedures were updated in July 2008 and again in October 2008 and each sales agent was required to sign an acknowledging receipt and understanding of the revised procedures for invalidating Metrocheks and non-acceptance of fare media with four asterisks at the bottom. Supervisors have been instructed to check for compliance with these procedures daily when balancing each sales clerk's work. Metro believes that these revised procedures comply with the intent of the IG's recommendations.

Recommendation 2: Direct the CFO to develop a Policy Instruction that requires all redeemed fare cards to be shredded.

Metro Response: Metro does not concur that a Policy/Instruction should be issued on this matter. However, TRES will issue a notice by January 30, 2009 requiring that all redeemed fare cards be shredded. TRES is currently shopping for shredding equipment and as of October 20, 2008, TRES has hired a contractor to perform regularly scheduled, on-site shredding of all redeemed fare media.

Finding 6: Fare card readers are needed at some sales offices.

Recommendation: That the GM direct the AGM, OPSV to take appropriate action to provide fare card readers to all sales offices where sales clerks are required to redeem used or damaged fare cards from customers.

Metro Response: Metro concurs with this recommendation. Previous requests for fare card readers (SMADs) could not be met due to the shortage of these machines and their high cost. Effective in November 2008, customers can exchange only one damaged fare card and consolidations are no longer honored at sales offices. Customers with more than one damaged card or who wish to consolidate fare cards are provided Fare Adjustment Envelopes and instructed to mail the cards to TRES. This substantially reduces the need for card readers.

Cubic's recently deployed Ticket Office Terminals (TOTs) system reads fare cards and those devices were recently installed at the Metro Center (adding to an existing SMADS card reader), Jackson Graham and Pentagon sales offices. These are the only sales offices where customers can exchange a damaged fare card.

Finding 7: Analysis of consignments is needed to determine the appropriate level of fare media.

Recommendation: That the GM direct the CFO to develop and enforce policy and procedures for periodic analysis of the adequacy of fare media consignments.

Metro Response: Metro concurs with this recommendation. An analysis of consignments for each fare media type was recently concluded and the revised inventory levels for each OPSV sales location were submitted to TRES on 12/18/08 (as discussed in the response to Finding 3). OPSV and TRES will establish by January 30, 2009 a policy and procedure to ensure periodic analysis of fare media consignments.

Finding 8: Decentralized organizational structure for fare media sales does not ensure proper oversight.

Recommendation: That the GM review the decentralized organizational structure over fare media sales process and determine the feasibility of having one office provide oversight. This office should have the responsibility of ensuring consistency in policy and procedures and communication thereof, and ensuring proper internal and security controls are in place to provide reasonable assurance that sales revenue and fare media inventory is safeguarded.

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Metro Response: Metro concurs with this recommendation. The GM's Office will review the organizational structure over the fare media sales process and determine the feasibility of having one office provide oversight.