
Review of WMATA's Contract Closeout Process

Final Report



Internal Operations Audit No. 16-002
December 18, 2015

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-16-002

SUBJECT: Review of WMATA's Contract
Closeout Process

DATE: December 18, 2015

FROM: OIG – Helen Lew /SI/

TO: CPRO – John Shackelford

This Final Audit Report, entitled *Review of WMATA's Contract Closeout Process*, presents the results of our audit. The audit objective was to determine if the Washington Metropolitan Area Transit Authority has adequate controls in place to ensure an effective and efficient contract closeout process. The scope of the audit was Fiscal Years (FY) 2014 and 2015.

BACKGROUND

The Contract Closeout Process is the final phase of a contract's lifecycle. It is a key step and an important internal control in a sometimes years-long process that ensures WMATA has, at the end of the contract, received the appropriate goods and services at the agreed-upon price. It provides the necessary checks and balances to ensure warranties are in place, proper documentation has been retained, final payments were made, and there were no legal matters or other outstanding issues needed to be resolved prior to closing. It also gives management the information needed to review and assess whether they had made good decisions throughout the contract's lifespan. The contract closeout process begins with the physical¹ and administrative² completions of a contract.

WMATA's Chief Procurement Officer (CPRO) is responsible for the Contract Closeout Process throughout all departments in the Authority. The CPRO reports to the General Manager/Chief Executive Officer (GM/CEO). Specifically, the Office of Procurement and Materials (PRMT) has overall responsibility for all procurement requirements promulgated in WMATA's Procurement Procedures Manual (PPM) as their primary guide. Other guidelines related to the Contract Closeout process are found in the Project Implementation Manual (PIM), Federal Acquisition Regulation (FAR), and the Internal Control Integrated Framework: The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Washington
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¹According to the August 2015 WMATA PPM, Section 18-18(b), a contract is physically complete only after all articles and services called for under the contract, including such related items as reports, spare parts, and exhibits have been delivered to and accepted by the Authority, including those articles and services for which no specific compensation may have been stipulated.

²According to the August 2015 WMATA PPM, Section 18-18(b), a contract is administratively complete when all payments have been made and administrative actions accomplished.

WMATA continues to work on implementing the Contract Life Cycle Management (CLM) project. Management advised this new computer application will include a module that will assist them in monitoring the contract closeout process. Once implemented, management advised, CLM will be a single source system (PeopleSoft) that will include all procurement activities and contract support documents. The system is expected to drive file standardization and discipline throughout the procurement lifecycle, providing enhanced visibility and integration of plans, solicitations, and contracts from initiation through closeout. CLM is scheduled to be implemented in 2016.

AUDIT RESULTS

OIG found WMATA has room for improvement to ensure an effective and efficient contract closeout process. Specifically, the 2015 WMATA PPM has inadequate contract closeout policies and procedures, contract closeout performance is not tracked in PeopleSoft, and PRMT does not ensure compliance with contract closeout requirements. These conditions are attributable in part to PRMT's lack of sufficient closeout guidance. As a result, contracts are rarely closed in accordance with policy guidelines, producing a backlog of potentially 2,904 inactive contracts as of September 29, 2014.

In addition, PRMT has not implemented oversight procedures or performance metrics to assess whether the Contracting Officers (CO) comply with 2015 WMATA PPM closeout requirements. PRMT's efforts to implement CLM could help improve contract closeout efforts. However, even with CLM fully implemented, PRMT's compliance with the 2015 WMATA PPM contract closeout requirements will still rely on contracting staff to effectively initiate the contract closeout process. PRMT's compliance with contract closeout requirements is critical to verify all deliverables and/or services are provided as intended, validate final costs and payments, and free excess funds for possible use elsewhere.

OIG also found only one office in the Authority, the Office of Capital Program Delivery (CPDO) located in the Department of Transit Infrastructure and Engineering Services (TIES), actively closing contracts. CPDO closes contracts awarded in the Office of Elevator & Escalator Maintenance, Office of Major Capital Projects (MCAP), Office of Infrastructure Services (CENI), and the former Office of Infrastructure Renewal Programs. CPDO, however, did not fully ensure compliance with contract closeout requirements. This matter is discussed in the "Other Matters of Concern" section of this report.

Based upon the audit results, OIG made five recommendations to improve compliance with policy requirements and ensure the basic internal controls embedded in the closeout process are in place as designed to mitigate opportunities for fraud, waste, and abuse.

We provided a draft of this report to the CPRO for review and comment on December 2, 2015. In the CPRO's December 17, 2015 response to a draft of this report, Management concurred with the findings. The complete text of Management's response is included as Attachment 2 to this report.

Details of these findings, which are rated as High,³ Medium,⁴ or Low Risk⁵ and require management corrective actions to strengthen internal processes and provide for more effective and efficient operations follow:

Finding 1: WMATA Has Room for Improvement to Ensure an Effective and Efficient Contract Closeout Process. (High Risk)

1. The 2015 WMATA PPM Contract Closeout Policies and Procedures Section is Inadequate

OIG determined the 2015 WMATA PPM contract closeout policies and procedures are inadequate. This is attributable in part to the removal of detailed guidance in the 2015 WMATA PPM. In reviewing previous WMATA PPMs found on the WMATA Intranet, OIG found a 2004 Procurement Manual Tenth Edition (Manual). The Manual referenced the June 1993 Instruction Handbook for Contract Files Assembly and Documentation (Handbook) in §1018.10 "Closeout of Contract Files" as additional contract file closeout instructions for the contract closeout process. The Handbook included a contract closeout documentation checklist with 22 required actions to ensure proper completion of the contract closeout process (See Attachment 1).

In the 2015 WMATA PPM §18-18 "Closeout of Contract Files," we found four sub-sections: (a) General; (b) Completed Contract; (c) Review of Contract File; and (d) Written Statement Authorizing Closeout. These sub-sections did not provide the same level of detail that was included in the Handbook.

Sub-section (a) of the 2015 WMATA PPM states, "The Contracting Officer (CO) should exercise judgement and discretion in the closeout of files for a completed contract." Sub-section (b) of the 2015 WMATA PPM defines a completed contract and what a contract means to be "physically and administratively" complete. Sub-section (c) of the 2015 WMATA PPM states, "The Contracting Officer is responsible

³High – 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.

⁴Medium – 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.

⁵Low – 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.

for review of the contract file and obtaining all necessary documentation to ensure that:

- All deliverables and/or services (including any reports) required under the contract have been received and accepted;
- The terms and conditions of the contract have been complied with;
- Disposition of accountable property under the contract has been accomplished;
- A final audit (cost reimbursement contracts) has been performed and all questioned costs have been resolved;
- The final voucher for the contract has been certified and sent to Accounts Receivable [sic];⁶ and
- All necessary actions required to close the contract are completed and documented."

Sub-section (d) of the 2015 WMATA PPM states, "The Contracting Officer shall ensure that all required contractual actions have been completed and shall prepare a statement to that effect. This statement formally closes the contract file and must be made a part of the official contract file."

OIG requested copies of WMATA PPMs from 2005 through 2011 from the Compliance and Quality Control personnel of PRMT. The Compliance and Quality Control personnel of PRMT provided OIG a signed memo from the former GM/CEO, dated December 18, 2012, that stated, "The Procurement Procedures Manual ("PPM") was last fully updated in 2004. In 2008, an update was prepared. However, that version was neither fully reviewed nor implemented." Upon further review of this memo, the WMATA PPM was not updated and approved by the GM/CEO until December 2012. The Compliance and Quality Control personnel mentioned that the Handbook was outdated. Consequently, in reviewing the 2012 WMATA PPM, OIG found the reference to the Handbook was omitted. A reference to the Handbook could have been included into the 2008 WMATA PPM, but that is undeterminable.

OIG personnel interviewed a CO of CENI to gain an understanding of the CO's role in the contract closeout process from his point of view. According to the CO, he reviews the closeout package assembled by the Contracting Administrator (CA) and the Contracting Officer Technical Representative (COTR) for completeness of the contract. He ensures the Contractor has been fully paid, the quality of work is acceptable, and all of the modifications/changes have been documented. In addition, he uses the Office Engineers in CPDO to help him close contracts.

⁶OIG discovered a mistake in the verbiage used in §18-18 of the WMATA PPM. Final vouchers for payment should be sent to Accounts Payable rather than Accounts Receivable.

Relative to §18-18 of the 2015 WMATA PPM, the CO stated, "Yes, I am familiar with the contract closeout section of the PPM, but it doesn't provide any kind of detail as how you go about doing it. It's almost useless for either the CA or CO. It leaves a lot of room for what you need to do about the process itself."

Since all revisions made to the WMATA PPMs implemented after 2004 to present omitted reference to the Handbook, the contract closeout process has not been followed accordingly. The WMATA PPMs approved and issued after 2004 lacks detailed instruction to ensure an effective closeout process. There are several parties involved in every contract: contracting officers, contracting administrators, contracting officer technical representatives, and contractors. The lack of defined responsibilities for each of these groups relative to the contract closeout process is hindering effective and efficient contract closeout compliance. As a result, inadequate contract closeout policy can lead to non-compliance, misunderstandings, grievances, and even litigations against WMATA.

2. WMATA's Contract Closeout Performance is Not Tracked in PeopleSoft

OIG found WMATA's contract closeout performance is not tracked in PeopleSoft. This is attributable in part to the absence of policies and procedures on how to track contract closeout in PeopleSoft. OIG was unable to find any instructions on tracking contract closeouts in PeopleSoft. OIG's IT Specialist extracted the universe of contracts for FYs 2014 and 2015. In FY 2014, the total universe of contracts within PeopleSoft was 136 contracts. In FY 2015, the total universe of contracts within PeopleSoft was 241 contracts.

PeopleSoft has a field that tracks the status during the contract's lifecycle. The contract status field includes: (1) A - Approved; (2) C - Closed/Completed; (3) H - Hold; (4) O - Open/Not Active; and (5) X - Cancelled (See Table 1 below).

Table 1. Universe of WMATA Contracts

Contract Status	FY 2014	FY 2015
A - Approved ⁷	122	218
C - Closed/Completed	0	0
H - Hold ⁸	0	0
O - Open/Not Active	4	9
X - Cancelled	10	14
Total Number of Contracts	136	241

⁷According to the Technology Support Manager, PRMT, an "Approved" contract status means an active contract where Purchase Orders/Receipts and payments can be made.

⁸According to the Technology Support Manager, PRMT, a "Hold" contract status is used to manage any automatic releases or connecting Purchase Orders to contract.

Although PeopleSoft has the capability to track closed contracts, a 'Ready to be Closed' contract status field does not exist. Efforts by OIG and PRMT staff to identify the number of contracts ready for closing could not be accurately determined during the audit. Developing a 'Ready to be Closed' contract status field in PeopleSoft would be beneficial to the contract closeout process because it will alert the contracting personnel that a contract has been physically completed and can begin the contract closeout process.

Based on our review of PeopleSoft, there were no contracts closed in FYs 2014 and 2015, and the "Closed/Completed" contract status field was not utilized. According to the PRMT Technology Support Manager, the contract statuses aren't being updated in PeopleSoft, and there is no way to determine the amount of contracts closed during FYs 2014 and 2015.

Failure to use the PeopleSoft's contract status and the absence of a 'Ready to be Closed' contract status present weaknesses in internal controls. WMATA could be susceptible to the risk of unidentified overpayments and/or unrecovered payments from contractors when the contract status has not been updated to reflect "Closed/Completed" or "Ready to be Closed." Also, an important step in contract closeout is to identify any unused funds remaining on a contract that can be put to better use or returned to WMATA.

3. PRMT Did Not Ensure Compliance with Contract Closeout Requirements

OIG found PRMT could improve its role to ensuring compliance with contract closeout requirements. This is attributable in part to the 'tone at the top' and lack of oversight. The CPRO mentioned PRMT's focus is on awarding contracts and paying contractors. The CPRO is responsible for issuing guidance and ensuring compliance with the 2015 WMATA PPM requirements for contract closeout.

OIG found COs lacked specific detailed instruction on how to close out contracts because the 2015 WMATA PPM only states the CO should "exercise judgement and discretion." In addition, the 2015 WMATA PPM states, "a completed contract is one which is both physically and administratively complete." There is no guidance on what is considered appropriate evidence of physical and administrative completions, leaving the COs to make this determination.

OIG requested PRMT to provide evaluations or reviews conducted on the contract closeout process over the past two years. The CPRO provided OIG a memorandum addressed to the Chief Financial Officer (CFO), dated September 29, 2014. The memorandum stated there was a backlog of 2,904 inactive contracts. The CPRO stated he has a plan to manage the backlog of contracts currently ready for closeout through the use of dedicated resources from an outside organization, AbilityOne.⁹

⁹The AbilityOne Program provides employment opportunities to more than 45,000 people with significant disabilities, including approximately 3,000 veterans.

The AbilityOne program provides employment opportunities for people who are blind or have other disabilities. The CPRO believes these resources will effectively address the growing number of contracts in the database that may be ready for closing.

The CPRO provided OIG a list of ready to be closed contracts for each fiscal year that has not been reported to the CFO. During FYs 2014 and 2015, PRMT had 36 contracts that were ready to be closed with a value of over \$42 million (See Table 2 below). These contracts were considered ready to be closed because they had zero dollar balances. OIG judgmentally sampled 10 contracts, five contracts from each fiscal year, or 27.8% of the 36 ready to be closed contracts representing about \$27 million, or 62.8% of contract dollars. According to PeopleSoft, there were three capitally funded contracts and two operationally funded contracts in FY 2014. For FY 2015, there were two capitally funded contracts, two operationally funded contracts, and one contract's fund source was unknown.

Table 2. PRMT's Ready to be Closed Contract Sample Selection Summary

Definition	Total Count	Total Value*	Sample Size	% of Contracts Sample	Sample Value*	% of Dollars Sampled
FY 2014 Ready for Closeout Contracts	23	\$37,481,217	5	13.89%	\$23,994,141	56.4%
FY 2015 Ready for Closeout Contracts	13	\$5,099,039	5	13.89%	\$2,730,815	6.4%
Subtotals	36	\$42,580,256	10	27.8%	\$26,724,956	62.8%

* Total and Sample Amounts Paid were rounded to the nearest dollar amount.

OIG identified a number of issues during the audit. Specifically, (1) contract files could not be located and (2) contract files had missing supporting documentation.

Contract Files Could Not Be Located

OIG could not locate 5 of the 10 ready to be closed contracts sampled (See Table 3). All five¹⁰ contracts were not in PeopleSoft. According to PRMT staff, these contract files could not be located because they had not been digitized in PeopleSoft. Also, OIG was unable to find any formal instruction on digitizing contracts in PeopleSoft.

¹⁰However, OIG was able to locate a digitized contract modification (Mod) associated with the missing contract file for CQ14007. This Mod included the documentation required in the 2015 WMATA PPM §12-16(c). OIG determined the contents of the Mod was appropriate and sufficient documentation.

In order to prepare for the implementation of CLM, PRMT has to automate its contract files. Currently, PRMT staff and consultants are reviewing contract files for completeness and compliance with PRMT requirements. Off-site scanning is occurring through an outsourced vendor. However, even if CLM is fully implemented, PRMT will require contracting staff to effectively initiate the contract closeout process.

Contract Files Had Missing Documentation

Six of the 10 ready to be closed contracts sampled had missing supporting documentation. According to the 2015 WMATA PPM §12-16(a) and §2-16, "It is necessary to retain accurate and complete documentation regarding every contract awarded by the Authority" and "the appropriate checklist must be completed by the Procurement Manager or Contract Manager to ensure that the proper procurement processes have been followed..." According to the 2015 WMATA PPM §12-16(c), the following items must be included in the contract file:

- Notice to Proceed/Award
- Delegation of Contracting Officer's Technical Representative ("COTR"), if applicable
- Insurance Certificates
- Executed Contract/Agreement Form (signed by both parties)
- Unit Price Schedule (accepted with date)
- List of positions (if applicable)
- Department of Labor – Labor Rates (if applicable)
- Solicitation Package
- Amendments (acknowledged)
- Disadvantaged Business Enterprise ("DBE") Participation (Signed Letters of Intent, DBE Participant Schedule)
- Complete Pre-Award Data
- Representations and Certifications (signed)
- Cost Proposal

OIG created a checklist that included a list of all the documentation the 2015 WMATA PPM stated should be assembled in a contract file against the contract files of the 10 contracts sampled. We found the following discrepancies (See Table 3):

- 20% of the contract files did not contain a Notice to Proceed letter
- 10% of the contract files did not contain a Notice of Award letter
- 20% of the contract files did not contain a Delegation of COTR letter
- 20% of the contract files did not contain Insurance Certificates
- 20% of the contract files did not contain a signed Executed Contract
- 20% of the contract files did not contain a Solicitation Package
- 20% of the contract files did not contain acknowledged Amendments

- 30% of the contract files did not contain Pre-Award Data
- 10% of the contract files did not contain signed Representations and Certifications
- 50% of the contract files did not contain a Cost Proposal
- 60% of the contract files did not contain a Procurement Checklist

Table 3. PRMT's Ready to Be Closed Sample of 10 Contracts Selected

Discrepancy	Overall	Percentage	FY 2014	FY 2015
Contract Files Could Not Be Located	5	50%	2	3
Contract Files Had Missing Supporting Documentation ¹¹	6	60%	4	2

Stronger contract closeout oversight practices and specific closeout guidance can help WMATA ensure it receives the deliverables and services it pays for, promptly free up excess funds for use on other projects, and safeguard against future claims and liabilities.

Recommendations:

We recommend the CPRO:

- 1.1 Develop and implement policies and procedures to ensure an effective and efficient contract closeout process throughout the Authority. At a minimum, the June 1993 Instruction Handbook for Contract Files Assembly and Documentation Contract Closeout section should be updated and reincorporated into the current and future WMATA PPM. (*High Risk*)
- 1.2 Ensure that CLM facilitate the contract lifecycle by implementing a contract closeout module for Authority-wide usage. (*Medium Risk*)
- 1.3 Establish and communicate a process for COs to adhere to PRMT requirements and ensure compliance with the WMATA PPM relative to contract closeout. (*Medium Risk*)
- 1.4 Develop (1) procedures requiring COs to utilize the contract status field in PeopleSoft once a contract has reached the end of its lifespan and (2) a 'Ready to be Closed' contract status field in PeopleSoft. (*Medium Risk*)

¹¹Ibid

OTHER MATTERS OF CONCERN

Finding 2: The Office of Capital Delivery Has Its Own Contract Closeout Process. (High Risk)

During our audit, we identified a matter of concern regarding an independent contract closeout process in CPDO. This process was created because of inadequate guidance on contract closeout in the 2015 WMATA PPM. CPDO has its own internal policies and procedures relative to contract closeouts, which can be found in §1323 of the PIM. However, CPDO's internal policies and procedures do not include contract closeout timeline requirements.

CPDO did not always comply with their internal policies and procedures and the 2015 WMATA PPM. This was attributable in part to (1) the CPDO not being aware of CPDO's contract closeout efforts; (2) PRMT did not review CPDO's internal contract closeout policies and procedures to verify compliance with the 2015 WMATA PPM requirements; and (3) PRMT did not review CPDO's policies and procedures for accuracy and completeness.

OIG interviewed CPDO management and staff about their involvement in the contract closeout process. Management stated contract closeout has a reduced emphasis from PRMT personnel, and it is low priority, advising OIG PRMT is more focused on awarding contracts, rather than closing contracts. There are two Office Engineers in CPDO, who are responsible for the contract closeout process. According to PIM §1323, the Office Engineers are required to prepare and process contract closeout packets as follows:

1. Prepare Final Payment Estimate and/or Invoice, Contractor Release, Affidavit and Final SCI¹² at the request of the Project Authorized Representative. Documents are placed in PROCORE¹³ for the Contractor to execute;
2. Prepare an Action 4 form to de-obligate excess funds if there are obligated funds in excess of expended funds;
3. Prepare a ladder memorandum for review and concurrence or approval by MCAP, CPDO, or CENI as applicable, PRMT, COUN,¹⁴ Contracting Officer and ACCT;¹⁵
4. Obtain a signed "Performance Evaluation," from the Authorized Representative, and forward it to the Contracting Officer for his concurrence;
5. Prepare "Final Acceptance," "Change in Representation," "Rescission of Designation as Authorized Representative," and "Delegation of Authority" letters for Contracting Officer's signature;

¹²A Substantial Completion Inspection (SCI) form is completed by the Project Manager to verify the completion of a project.

¹³PROCORE is a cloud-based construction software where users manage all types of construction projects. It helps increase project efficiency and accountability by streamlining and mobilizing project communication and documentation.

¹⁴COUN stands for the Office of General Counsel.

¹⁵ACCT stands for the Office of Accounting.

6. Obtain from the CA any Office of Procurement and Materials records needed to complete the "Contract Closeout Checklist" and place them in PROCORE;
7. Assemble and tabulate package for circulation in PROCORE; and
8. Track in PROCORE the final package through the perspective [sic]¹⁶ offices of MCAP, CPDO, CENI, PRMT, COUN and the Office of ACCT. An electronic Tracking Report may be used to track progress.

During FYs 2014 and 2015, CPDO closed a total of 44¹⁷ contracts with a value of over \$277 million (See Table 4 below). OIG judgmentally sampled 10 contracts, 5 contracts from each fiscal year, or 22.7% of the 44 closed contracts representing about \$57 million, or 20.6% of the contract dollars. According to the CPDO, there were four capitally funded contracts and one that is both capitally and operationally funded in FY 2014. For FY 2015, all five contracts were capitally funded.

Table 4. CPDO's Closed Contract Sample Selection Summary

Definition	Total Count	Total Amount Paid*	Sample Size	% of Contracts Sampled	Sample Amount Paid*	% of Dollars Sampled	Contractors Fully Paid
FY 2014 Closed Contracts	17	\$104,831,325	5	11.36%	\$47,685,638	17.2%	Yes
FY 2015 Closed Contracts	27	\$172,742,435	5	11.36%	\$9,526,834	3.4%	Yes
Subtotals	44	\$277,573,760	10	22.7%	\$57,212,472	20.6%	

* Total and Sample Amount Paid are rounded to the nearest dollar amount.

OIG identified a significant number of conditions showing non-compliance with contract closeout requirements. Specifically, (1) some contract closeout packets were missing supporting documentation, (2) some contract closeout packets had incomplete documentation, and (3) contract closeout timelines were not met.

Contract Closeout Packets were Missing Supporting Documentation

According to the PIM §1323, the contract closeout process is completed by using a Contract Closeout Checklist, which outlines the normal steps for closing a completed contract. OIG applied the contract closeout checklist from CPDO to verify the existence of supporting documentation. Of the 10 contracts sampled, OIG found five contract closeout packets had missing supporting documentation (See Table 5 below). Specifically, we found:

¹⁶OIG discovered a mistake in the verbiage used in §1323 of the PIM. Final packages should be tracked in PROCORE through the respective offices.

¹⁷During the audit, OIG was only able to obtain a closed contract listing from only one of the two Office Engineers in a timely manner.

- 10% of the closeout packets did not contain an SCI Punchlist
- 40% of the closeout packets did not contain an SCI Certificate
- 30% of the closeout packets referenced the existence of de-obligated funds but did not contain an Action 4 form

Contract Closeout Packets Had Incomplete Documentation

Of the 10 contracts sampled, OIG found five contract closeout packets had incomplete documentation (See Table 5 below). Specifically, we found:

- 50% of the closeout packets had COTR Reports that did not contain the performance rating (Satisfactory or Unsatisfactory)
- 10% of the closeout packets had COTR Reports and Contract Closeout Forms that did not identify the COTR
- 10% of the contract packets had COTR Reports without the COTR's signature

Table 5. CPDO's Closed Contract Sample Breakdown

Discrepancy	Overall	Percentage	FY 2014	FY 2015
Contract Closeout Packets Were Missing Supporting Documentation	5	50%	4	1
Contract Closeout Packets Had Incomplete Documentation	5	50%	1	4
Closeout Timelines Were Not Met	10	100%	5	5

Contract Closeout Timelines Were Not Met

According to the 2015 WMATA PPM §18-19, "Firm-fixed price contracts, other than those using simplified acquisition procedures should be closed within six months after the date on which the contracting officer receives evidence of physical completion." OIG found that none of the judgmentally sampled closed contracts were closed within the required timeframe (See Table 6 below). Our sample only included firm-fixed price contracts.

Table 6. CPDO's Closed Contracts Closeout Timeframe Summary

Contract Type	Sample Size	Total Dollar Amount	Closed Within Timeline	Number of Contracts Exceeded Timeline	Number of Days Exceeded Timeline*	Average Number of Days Exceeded Timeline per Contract**
Firm Fixed Price (FY2014)	5	\$47,685,638	0	5	9,167	1,833
Firm Fixed Price (FY2015)	5	\$9,526,834	0	5	22,743	4,549
Subtotals	10	\$57,212,472	0	10	31,910	

*Number of days exceeded is the total days for all five contracts.

**Average is rounded to the nearest whole number.

In addition to not closing out contracts in a timely manner, OIG noted the absence of a contract management application. This hindered the contracting personnel's ability to view contracts at or near (physical) completion. As a result, CPDO had to rely heavily on contracting personnel for feedback on completion. CPDO used a Microsoft Excel spreadsheet to store information about contract closeout packages in circulation, contracts currently with open administrative and/or field actions, active contracts in design or construction, and contracts in litigation. However, the spreadsheet was not complete enough to facilitate an efficient and effective contract closeout process.

OIG calculated the duration between the date of physical completion of the contract and the start of the contract closeout process. We found most of the contracts in our sample took more than 720 days to complete (See Table 7). Further, our analysis showed that most of the contracts sampled took 31-90 days from the start of the contract closeout process to the end of the contract closeout process (See Table 8).

Table 7. FYs 2014 & 2015 CPDO's Closed Contracts Aging Table (From Contract Physical Completion to the Start of the Contract Closeout Process)

Contract Type	Sample Size	0 – 180 Days	181 – 360 Days	361 – 540 Days	541 – 720 Days	More Than 720 Days
Firm Fixed Price (FY 2014)	5	0	1	1	0	3
Firm Fixed Price (FY 2015)	5	0	0	0	0	5
Subtotals	10	0	1	1	0	8

Table 8. FYs 2014 & 2015 CPDO's Closed Contracts Aging Table (From Start of the Contract Closeout Process to the End of the Contract Closeout Process)¹⁸

Contract Type	Sample Size	0 – 30 Days	31 – 60 Days	61 – 90 Days	91 – 120 Days	More Than 120 Days
Firm Fixed Price (FY 2014)	5	0	2	1	0	2
Firm Fixed Price (FY 2015)	5	0	2	2	0	1
Subtotals	10	0	4	3	0	3

Failure to promptly close out contracts reduces the benefits of releasing any unspent funds to other projects as those funds become available. In addition, closing contracts years after the contract is completed can be more time consuming because key documentation, such as invoices, performance evaluations, contractor release forms, and contracting personnel with first-hand knowledge of the contract may no longer be available.

Recommendations:

We recommend the CPDO:

- 2.1 Review CPDO's internal contract closeout policies and procedures to determine compliance with the 2015 WMATA PPM and (2) work with the Deputy General Manager (DGMO) to ensure CPDO complies with internal policy, the 2015 WMATA PPM, including the contract closeout timelines stated in the WMATA PPM. *(High Risk)*

OBJECTIVE, SCOPE AND METHODOLOGY

The audit objective is to determine if WMATA has adequate controls in place to ensure an effective and efficient contract closeout process. The scope of the audit was Fiscal Years (FY) 2014 and 2015.

OIG interviewed management and staff in PRMT, the Office of Performance (CPO), Department of Bus Services (BUS), Department of Information Systems (IT), and CPDO to gain an understanding of the contract closeout process. A survey instrument was developed and utilized to ensure consistency in the gathering of information. A judgmental sample of federal and operational contracts was pulled for the audit period. A total of 20 contracts either closed or ready to be closed were selected. Our sample of closed contracts was based on every third contract listed with a value of \$57 million. Our sample of ready to be closed contracts was based on the three highest dollar values and the last two lowest dollar values with a value

¹⁸The duration between the contract closeout process start date and the end of the contract closeout process in CPDO.

of \$23 million. The contracts in our sample were downloaded using PeopleSoft. We created a standardized checklist based on the 2015 WMATA PPM's contract assembly requirements and used our sample of ready to be closed contracts to test compliance with each checklist. OIG's IT Specialist extracted the universe of contracts from PeopleSoft for the audit period.

We contacted the CPRO and other WMATA managers to determine whether reports had been prepared, and none were found concerning the performance of the contract closeout process. We reviewed the contract closeout process in PRMT and CPDO, analyzed data collected pertaining to contract closeout, and assessed internal controls used in the closeout process.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 management during the audit. Should you or your staff have questions, please contact Andrew Clemmons, Assistant Inspector General for Audits on (202) 962- or me on (202) 962-2515.

Attachment

cc: GMGR – P. Wiedefeld
CFO – D. Anosike
DGMO – R. Troup
CHOS – B. Richardson
COUN – M. Pohl

Attachment 1

The Contract Closeout Documentation Checklist

1. Determine the status of contractor deliveries and billings and prepare a reconciliation of any differences between what has been billed and what has been paid.
2. Verify that all contract changes have been incorporated into the contract by modification
3. Assure that there is adequate documentation to show receipt and formal acceptance of all contract items.
4. Verify the Authority-furnished property has been returned in acceptable condition.
5. Verify that price revisions, when called for, have been accomplished; determine the adequacy of the data to support those revisions.
6. Assure that advance or progress payments have been liquidated and that action has been initiated to recover any overpayments.
7. Assure that, in instances where other Government agencies or jurisdictions are involved, closeout actions are coordinated with those parties.
8. Assure that the contractor has been alerted to the contract requirement for retaining records.
9. Confirm that appropriate and fully documented action was taken in regard to violation of any contract clause that is based on an Executive Order concerning labor laws, Affirmative Action requirements, contingent fees, domestic articles, officials not to benefit, etc.
10. Assure that the contractor has executed and furnished any release of claims required by the contract provisions.
11. Assure that questions regarding exemptions from Federal and State tax laws have been properly resolved.
12. Examine the contract and contract files to find out (1) whether any disputes or potential liabilities are pending and (2) whether there are circumstances out of which future claims or litigation might arise. Determine whether attempts to get credits, refunds, or other recoveries may arise. Assure that adequate reserves have been set aside to provide for potential liabilities. Maintain suspense and follow-up on any matters that remain unresolved. Coordinate with legal and audit personnel where appropriate.
13. Determine that all administrative reviews and approvals have been accomplished and documented.
14. Review all notices of cost suspension or disallowance (non-payment of costs billed) in order to determine that the issues have been resolved.
15. Determine that all reports required by clauses relating to patents, inventions, royalties, copyrights, and publication have been received.
16. Determine that all required data have been delivered.

17. Assure that all investigations and all reports to the Office of Auditor General have been completed and documented.
18. Confirm that the Authority has acquired (by assignment or subrogation) all the contractor's rights and claims other than those against the Authority, in accordance with contract terms.
19. Determine that final audit of cost-reimbursement contracts has been completed and that a copy of the audit report is in the file.
20. Evaluate contractor performance and file evaluation report in contract file.
21. After closeout review, it is necessary to:
 - o Finalize any items that are not complete
 - o Include all pertinent documentation in the official contract file.
 - o Verify, in a contract closing memorandum, that all contract actions are complete and documented. (This closing memorandum may be in the form of a checklist)
22. The completed contract file should provide a chronological record of all actions related to the procurement. The file should contain documents that explain and support the rationale, the judgements, and the authorities on which all decisions and actions were based. Such documents would include:
 - o Termination settlement agreement, if any.
 - o Contract modifications (change orders, etc.)
 - o Inventory and record of disposition of Authority property
 - o Subcontract approvals
 - o Other approvals; e.g., property contract and procurement systems, overtime, etc.
 - o Clearances and reports relating to such items as inventories, patents, and tax exemptions
 - o Documentation on delegations of authority for contract administration functions; e.g., COR delegation, Project Manager delegation, etc.

Source: Instruction Handbook for Contract Files Assembly and Documentation, June 1993 (Exhibit #10)

M E M O R A N D U M



SUBJECT: Response to OIG Audit Report:
Internal Operations No. IO-16-
002: Review of WMATA's
Contract Closeout Process

DATE: December 17, 2015

FROM: PRMT – John S. Shackelford

TO: OIG – Helen Lew

This is in response to the Office of Inspector General (OIG) Audit Report: Internal Operations No. IO-16-002: Review of WMATA's Contract Closeout Process. The objective of the audit was to determine if the Washington Metropolitan Area Transit Authority has adequate controls in place to ensure an effective and efficient contract closeout process.

OIG made five recommendations to improve compliance with policy requirements and ensure the basic internal controls embedded in the close out process are in place and designed to mitigate opportunities of fraud, waste, and abuse.

Response:

Office of Procurement and Materials (PRMT) concurs with these findings with comments to follow during the requisite time frame.

Washington
Metropolitan Area
Transit Authority