



**Washington Metropolitan Area Transit Authority
Inspector General's Semiannual Report to the
Board of Directors, No. 18
January 1, 2016 – June 30, 2016**



INSPECTOR GENERAL'S MESSAGE TO THE BOARD OF DIRECTORS

September 8, 2016

We are pleased to provide this Semiannual Report on the activities and accomplishments of the Washington Metropolitan Area Transit Authority (WMATA) Office of Inspector General (OIG) from January 1, 2016, through June 30, 2016. Our work, highlighted in this report, demonstrates our commitment to promoting accountability, efficiency, and effectiveness in WMATA's programs and operations and keeping the Board of Directors fully and currently informed about deficiencies in WMATA's activities, as well as the necessity for and progress of corrective action.

Over the last 6 months, OIG issued 42 audit products, including 1 audit Alert Memorandum, 1 performance audit report, and 38 attestation reports. We also reviewed pricing information in contractors' proposals with a value of \$6,386,110 and suggested \$641,573 in net audit adjustments.

In addition, we issued 9 reports of investigations (ROIs) and received 191 complaints during this time period. The 9 ROIs included 2 Whistleblower retaliations, 1 fraud, 2 complaints regarding unauthorized procurement, and 4 miscellaneous misconduct investigations involving 6 different WMATA departments/offices. One of the investigations resulted in a WMATA employee being terminated.

We appreciate the Board of Directors' and the General Manager/Chief Executive Officer's (GM/CEO) support of our office and look forward to working with them in promoting GM/CEO's three priorities: safety, service reliability, and fiscal management. We will continue to make every effort to conduct our work efficiently, effectively, economically, and with utmost integrity.

/s/

Helen Lew
Inspector General

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INTRODUCTION

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

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

Mission Statement

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

Our Core Values

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

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

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

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

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

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

OIG Staff

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

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

OIG had 27 full-time employees as of June 30, 2016, the majority of whom do audits. Our staff is comprised of auditors, investigators, a computer specialist, an office manager and an administrative assistant with educational backgrounds and degrees in accounting, finance, cyber security, economics, computer science, law, criminal justice, information management, and business. Some of the staff have professional certifications such as accountants, internal auditors, investigators, fraud examiners, information systems auditors, information systems security professional, information security manager, government financial managers, computer forensic examiner and inspectors general and/or graduate degrees.

AUDITS

During this reporting period, we issued 42¹ audit products in the form of performance audit reports and alternative products, such as attestations and alert memorandum.

¹This number includes two audit-related reports that were prepared by WMATA's external auditor, RSM US LLP.

Audit Resolution and Follow-Up

Board Resolution 2006-18 requires us to provide Semiannual Reports (SARS) listing each report for which management has not completed corrective action. Table 1 shows recommendations described in previous SARS on which corrective action has not been completed as of June 30, 2016.

Summary of Performance Audit Reports Issued

During this reporting period, we issued one performance audit report. This report is listed in Table 2 and is summarized below:

- Audit of the Washington Metropolitan Area Transit Authority's (WMATA) Invoice Certification and Payment Process (Internal Operations No.16-003 issued January 13, 2016). 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.

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, the Capital Program Management Office and BUS do not have a policy and procedures manual for certifying and processing invoice payments.

Based on the findings, OIG made six recommendations to the Chief Financial Officer (CFO). We provided a draft of this report to management for review and comment. The CFO responded that the submission deadline requested by OIG was not achievable because several priority activities were due in December 2015. In a subsequent response to the draft report, the CFO stated he would complete a review of the findings and recommendations by March 31, 2016.

Financial Statement Audit Reports

RSM US LLP (RSM) conducted an audit to fulfill the requirements of the Operations Funding Agreements between WMATA and the 10 participating agencies. OIG performed oversight and monitoring procedures to ensure completion of the audit deliverables. In March 2016, OIG received the audit report – **SmarTrip Regional Partner Comparative Billing Statement of the Regional Customer Services Center, the Regional Software Maintenance Agreement, and the Compact Point of Sale Device Audit Report Year Ended June 30, 2014.**

RSM US LLP (RSM) conducted another audit to fulfill the requirements of the Operations Funding Agreements between WMATA and the 10 participating agencies. OIG also performed oversight and monitoring procedures to ensure completion of the audit deliverables. In March 2016, OIG received the audit report – **SmarTrip Regional Partner Comparative Billing Statement of the Regional Customer Services Center, the Regional Software Maintenance Agreement, and the Compact Point of Sale Device Audit Report Years Ended June 30, 2015 and 2014.**

Summary of Alternative Products Issued

From January 1, 2016 through June 30, 2016, we issued 38 attestation reports.

Our attestation engagements are performed within their stated scope and objective(s) as agreed with management and can cover a broad range of financial and non-financial subjects. They can also be part of a financial audit or performance audit. Because these reports generally involve contractor proprietary information, the reports are not posted on the OIG website and are not publicly distributed. A compilation of our attestation reports/certifications appears in Table 2.

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

- **Pre-negotiation Attestation Reports** (4 reports)

This type of report generally relates to a review and analysis of a contractor's proposal to determine if the pricing information is current, accurate, and complete and ties back to the contractor's accounting systems. During the reporting period January 1, 2016, through June 30, 2016, we reviewed pricing information with a proposed value of \$2,981,955 and suggested \$403,065 in net audit adjustments. Some of the suggested adjustments involved unallowable cost, inflated cost, unsupported cost, etc.

- **Billing Rate Attestation Reports** (24 reports)

At the request of WMATA's Office of Procurement and Materials (PRMT), we review the billing rates submitted by contractors and subcontractors to PRMT for approval. The primary objective of this review is to verify the basis of the billing rates and the support for the cost elements (base wage rates and overheads) included in the contractor's proposal and to ensure that the pricing information is current, accurate, and complete. The results of our review are sent to PRMT for use in the negotiation process.

- **Pre-award Attestation Reports** (7 reports)

Prior to the final determination of a contract award, the Contracting Officer sends financial data (Income Statements, Balance Sheets, Retained Earnings Statements, Source and Application of Funds and related notes), submitted by the prospective contractor to the OIG for evaluation. We conduct an agreed-upon procedure review to determine if the contractor has adequate financial resources (going concern) and whether the contractor meets the applicable standards for a responsible prospective contractor.

- **Other Attestation Reports** (3 reports)

We also performed other attestation services as requested by PRMT, which included two rate reviews of general and administrative, overhead, payroll burden, fringe benefit rates, etc. In addition, we issued one audit waiver in response to a request from the contracting officer to waive audit of cost and pricing information when this information is available and considered adequate. In our review of the audit waiver information with a proposed value of \$3,437,711, we suggested \$240,140 in net audit adjustments.

- **Other Audit Products**

During this reporting period, we issued one Alert Memorandum (see Table 3). These reports pertain to matters that are either outside the objectives of an on-going audit or identified while engaged in work not related to an on-going assignment and require immediate management action.

INVESTIGATIONS

From January 1, 2016 through June 30, 2016, OIG issued 9 ROIs, and handled 191 complaints. Of the 191 complaints received, 101 complaints were referred to management or other entities, and 27 were closed. We opened 15 investigations, and there are 23 investigations pending at the end of the reporting period. An Investigative Activity Statistical Profile is provided in Table 4.

The 9 reports of investigation included 2 Whistleblower retaliations, 1 fraud, 2 complaints regarding unauthorized procurement, and 4 miscellaneous misconduct investigations. These investigations involved employees from the Office of Elevators and Escalators, Office of Car Maintenance, Office of Bus Maintenance, Department of Transit Infrastructure Engineering Services, Office of Track and Structures, and the Office of Rail Transportation. One of these investigations resulted in one WMATA employee being terminated. In addition, some investigations resulted in less severe disciplinary actions, administered at the discretion of managers in the respective departments/offices.

Table 1: Recommendations Described in Previous SARs on Which Corrective Action Has Not Been Completed as of June 30, 2016

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations		Latest Target Date (Per WMATA Corrective Action Plan)
				Open	Complete	
Internal Operations Audits						
IO 16-001	Follow-up Review of Findings and Recommendations from 2014 Evaluation of WMATA's Disadvantaged Business Enterprise Program	12/22/15		2		08/31/16*
IO 16-002	Review of WMATA's Contract Closeout Process	12/18/15		3	2	08/15/16*
Information Technology Audits						
IT 15-001	Review of WMATA's Access Security Controls	09/30/14		5	5	TBD
IT 16-001	Audit of WMATA's Network Security Operations	12/18/15		3		06/30/16
IT 16-002	Review of WMATA's Maximo Asset Management System	12/22/15		3		06/30/16* & 9/30/16
Contract Audits						
CA 14-001	Review of nMomentum Corporation Contracts and Task Orders (SAR 13, Page 9)	07/26/13		1	5	08/31/16*
CA 15-001	Review of WMATA's Local Jurisdictional Subsidies	04/28/15		1	1	12/31/16*
CA 16-001	Audit of WMATA's Office of Procurement and Materials Noncompetitive Contract Actions	12/17/15		6	1	

*Expected Completion Date Changed from Previous Report

Table 2: OIG Audit Reports and Alternative Products on WMATA Programs and Activities (January 1, 2016 through June 30, 2016)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
AUDIT REPORTS					
<u>Internal Operations</u>					
IO-16-003	Audit of WMATA's Invoice Certification and Payment Process	01/13/16			6
<u>External Audits</u>					
	SmarTrip Regional Partner Comparative Billing Statement of the Regional Customer Services Center, the Regional Software Maintenance Agreement, and the Compact Point of Sale Device Audit Report, Year Ended June 30, 2014	03/16/16			
	SmarTrip Regional Partner Comparative Billing Statement of the Regional Customer Services Center, the Regional Software Maintenance Agreement, and the Compact Point of Sale Device Audit Report, Years Ended June 30, 2015 and 2014	03/16/16			
<u>Pre-negotiation Attestation Reports</u>					
CAA 16-003	Independent Review of Revised Pre-negotiation Proposal Contract No. CQ14046 – MSS-1/MSS-2 & UPS System Reconfiguration	03/08/16			
CAA 16-004	Independent Review of Revised Sole Source Proposal Contract No. CQ15197 – Maintenance Service & Technical Support for Kardex Remstar Equipment	03/08/16			
CAM 16-012	Independent Review of Proposed Costs for Contract FQ12118 – MTPD II Police Facility – Design Review Comments	03/29/16			
CAA 16-005	Independent Review of Revised Sole Source Proposal Contract No. FQ12269 – Add/Delete for 110 – 40ft Hybrid/Electric Heavy-Duty Buses	05/26/16			
<u>Billing Rate Attestation Reports</u>					
CAM 16-006	Independent Review of Proposed Rates for Contract IFB CQ16053/KAM – Professional Services to Perform MetroAccess Operations IT Support	02/19/16			
CAM 16-007	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	03/17/16			
CAM 16-009	Independent Review of Proposed Rates for Contract RFP FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	03/23/16			
CAM 16-010	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	03/24/16			
CAM 16-011	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	03/29/16			
CAM 16-013	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	03/29/16			

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
CAM 16-014	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	03/29/16			
CAM 16-015	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	03/31/16			
CAM 16-016	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	04/01/16			
CAM 16-017	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	04/01/16			
CAM 16-018	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	04/01/16			
CAM 16-019	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	04/06/16			
CAM 16-020	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	04/07/16			
CAM 16-021	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	04/08/16			
CAM 16-022	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	04/13/16			
CAM 16-023	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	04/14/16			
CAM 16-025	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	04/25/16			
CAM 16-027	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	04/28/16			
CAM 16-030	Independent Review of Proposed Rates for Contract FQ15192 – General Architectural Engineering Consultant Services – Systems IDIQ	05/09/16			
CAM 16-033	Independent Review of Proposed Rates for Contract FQ15191 – General Architectural Engineering Consultant Services – Facilities IDIQ	05/25/16			
CAM 16-034	Independent Review of Proposed Rates for Contract FQ15191 – General Architectural Engineering Consultant Services – Facilities IDIQ	06/22/16			
CAM 16-036	Independent Review of Proposed Rates for Contract FQ15191 – General Architectural Engineering Consultant Services – Facilities IDIQ	06/27/16			

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
CAM 16-037	Independent Review of Proposed Rates for Contract FQ15191 – General Architectural Engineering Consultant Services – Facilities IDIQ	06/27/16			
CAM 16-038	Independent Review of Proposed Rates for Contract FQ15191 – General Architectural Engineering Consultant Services – Facilities IDIQ				
Pre-award Attestation Reports					
CAM 16-005	Independent Review of Pre-Award Financial Data for Contract No. FQ15104 – “Escalator Canopies”	01/08/16			
CAM 16-005a	Independent Review of Pre-Award Financial Data for Contract No. FQ15237 - “Six (6) Tie Breaker Stations Upgrade Orange and Blue Line VA, DC and MD”	01/28/16			
CAM 16-024	Independent Review of Pre-Award Financial Data for Contract No. FQ15191 – General Architectural and Engineering Consultant Services – Facilities IDIQ	04/22/16			
CAM 16-026	Independent Review of Pre-Award Financial Data for Contract No. FQ15235R – “Six (6) Tie Breaker Stations Upgrade Orange and Blue Line VA, DC and MD”	04/25/16			
CAM 16-028	Independent Review of Pre-Award Financial Data for Contract No. FQ16078 – “Structural Retrofit of Beam B9 at Farragut North Metrorail Station”	04/29/16			
CAM 16-029	Independent Review of Pre-Award Financial Data for Contract No. FQ15191 – General Architectural and Engineering Consultant Services – Facilities IDIQ	05/06/16			
CAM 16-031	Independent Review of Pre-Award Financial Data for Contract No. FQ15237R - “Six (6) Tie Breaker Stations Upgrade Orange and Blue Line VA, DC and MD”	05/12/16			
Other Attestation Reports					
CAM 16-008	Independent Review of Rate Information for Contract FQ13087 – Andrews Federal Center Bus Garage	03/18/16			
CAM 16-032	Independent Review for Cost and Pricing Audit Waiver for Contract FQ16091/LD – Customer Information Electronic Display Signs, O&M Support Services, Software Changes and Related Services	05/20/16			
CAM 16-035	Independent Review of Rate Information for Contract FQ13087, Andrews Federal Center Bus Garage	06/22/16			
<p>For purposes of this schedule, questioned costs include other recommended recoveries.</p> <p>Notes: Description of Alternative Products</p> <p>Attestation reports convey the results of attestation engagements performed within the context of their stated scope and objective(s). Attestation engagements can cover a broad range of financial or non-financial subjects and can be part of a financial audit or performance audit. They include examination, review or performance of agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting results.</p> <p>Pre-award audit services are provided by OIG in response to requests by WMATA’s contracting or program office staffs. These normally include making an assessment of an offeror’s accounting system and financial capability to perform the contract.</p>					

**Table 3: Other OIG Reports on WMATA Programs and Activities
(January 1, 2016 through June 30, 2016)**

Report Number	Report Title	Date Issued
IOA-16-001	Final Alert Memorandum Internal Operations (Emergency Response Maps)	03/24/16

**Table 4: Investigative Activity Statistical Profile
(January 1, 2016 through June 30, 2016)**

Statistic	No.
Total Complaints Received	191
<ul style="list-style-type: none"> • Investigations Initiated From Complaints • Whistleblower Cases (included above) • Pending Assignment for Investigation² • Whistleblower Cases (included above) • Referred to Management or Other Entity³ • No Action Taken⁴ 	<p>15 3 12 0 101 27</p>
Investigations Closed ⁵	9

²Does not include pending assignments from previous reporting periods.

³Includes referrals that require management response.

⁴Complaint did not fit criteria for investigation or referral to management or other entity.

⁵Includes investigations initiated in previous reporting periods.