

February 17, 2009

In accordance with Board Resolution 2006-18, I am pleased to submit to the Board of Directors and stakeholders this Semiannual Report on the activities of the Office of Inspector General for the six (6) month period ending December 31, 2008. This report highlights our work for this period and reflects our strong commitment to assisting WMATA in improving its programs and operations.

/s/

Helen Lew
Inspector General

Enclosure



**Washington Metropolitan Area Transit Authority
Inspector General's Semiannual Report to the
Board of Directors, No. 3
July 1, 2008 – December 31, 2008**



TABLE OF CONTENTS

MESSAGE TO THE BOARD OF DIRECTORS

INTRODUCTION.....	1
AUDITS.....	3
Summary of Audit Reports Issued.....	3
<i>Review of Capital Projects: Internal Controls</i>	3
<i>Internal Control Review of Fare Media Sales</i>	3
Summary of Alternative Products Issued.....	4
Other Audit Products	5
INVESTIGATIONS.....	5
OTHER OIG ACCOMPLISHMENTS.....	6
Table 1: Recommendations Described in Previous SARS on Which Corrective Action Has Not Been Completed as of December 31, 2008.....	7
Table 2: OIG Audit Reports and Alternative Products on WMATA Programs and Activities (July 1, 2008 through December 31, 2008).....	8
Table 3: Other OIG Reports on WMATA Programs and Activities (July 1, 2008 – December 31, 2008)	11
Table 4: Investigative Activity Statistical Profile (July 1, 2008 through December 31, 2008).....	11

INSPECTOR GENERAL'S MESSAGE TO THE BOARD OF DIRECTORS

February 17, 2009

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 July 1, 2008, through December 31, 2008. The audits, investigations, and other activities highlighted in this report illustrate our on-going commitment to promoting accountability, efficiency, and effectiveness in WMATA's programs and operations.

Over the last six months, OIG issued 35 audit products and we suggested audit adjustments to contractor proposals with a value of \$7,010,067. Two of the audit products we issued identified internal control weaknesses in WMATA capital projects and its fare media sales system. We also closed 6 investigations and processed 216 complaints. One of the investigations we closed involved unauthorized disclosure of personally identifiable information and other sensitive claims information about worker's compensation and third-party liability claims. These and other accomplishments are discussed in more detail in this report.

I would like to thank the Board of Directors and the General Manager for their continued support and look forward to working with them in furthering our mission and values, as well as providing WMATA's vision of "The Best Ride in the Nation."

/s/

Helen Lew
Inspector General

INTRODUCTION

Board Resolution 2006-18, approved April 20, 2006, established the Office of Inspector General (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 about deficiencies in WMATA activities, as well as the necessity for and progress of corrective action. The OIG shall follow generally accepted audit standards for all audits, and shall supervise WMATA's annual independent audit of financial reporting. The Inspector General (IG) shall report to the Board of Directors (Board) and head the OIG. The IG shall appoint an Assistant Inspector General for Audits and an Assistant Inspector General for Investigations. The IG prepares a quarterly report to the Board's Subcommittee on Audits and Investigations and a semiannual report to the Board of Directors.

The OIG began operations on May 14, 2007, when the 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, 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 to assist in achieving the highest levels of program and operational performance in WMATA.

Our Core Values are:

Excellence in our people, our processes, our products, and our impact;

Accountability and compliance with professional standards; and

Integrity in everything we do, ensuring that our products are fair, balanced, and credible.

Excellence - We have a commitment to excellence 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 vision of providing "The Best Ride in the Nation" and its values of safety, professionalism, integrity, continuous improvement, and respect for all.

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 — Audit and Investigation. The Audit 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, or OIG oversees audit work done by outside audit firms.

The Investigation 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 Investigation 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 OIG Audit component for audit consideration, or another agency, as appropriate.

OIG had 24 full-time employees as of December 31, 2008, the majority of whom do audits. During this semiannual period, we brought on an experienced staff of information technology (IT) auditors. This will allow us to provide audit coverage in the IT area, a critical area for WMATA and one in which a great deal of resources are being expended, and to advise the Board on important and complex decisions in this area.

Our staff is comprised of auditors, investigators, an information specialist, an investigative analyst, and an office administrator with educational backgrounds in accounting, law, criminal justice, management information systems, and business. Two of our staff have graduate degrees in Business Administration; and more than half of the auditors have professional certifications as accountants, internal auditors, fraud examiners, information systems auditors, government financial managers, and inspectors general.

A summary of our audits and investigations, as well as other accomplishments from June 30, 2008, through December 31, 2008, are provided in the following sections of this report.

AUDITS

During this reporting period we issued 35 audit products, including audit reports and alternative audit products. The latter include attestations, alert memoranda, management letters, and other types of audit products.

Audit Resolution and Follow-Up

Board Resolution 2006-18 requires us to provide Semiannual Reports listing each report for which management has not completed corrective action. Table 1 shows recommendations described in the previous Semiannual Reports (SARS) on which corrective action has not been completed as of December 31, 2008.

Summary of Audit Reports Issued

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

Review of Capital Projects: Internal Controls – (Internal Operations No. 09-03, issued December 23, 2008) - The objectives of the audit were to determine whether WMATA (1) accurately accounts for and properly uses federal grant funds and assets, and (2) submits required reports, including amendments reflecting changes, to the U.S Department of Transportation's Federal Transit Administration (FTA). We reviewed capital projects-internal controls and found internal control weaknesses affected WMATA's ability to provide assurances that federal grant funds are being used for their authorized purposes. WMATA did not always (1) accurately account for federal capital grant funds in accordance with the line items in the grant agreement, (2) efficiently safeguard assets purchased with federal funds, (3) properly capitalize assets, (4) submit all required reports to the FTA, (5) properly account for and dispose of assets acquired with federal funds, and (6) accurately and completely enter data in the Fixed Asset Management System in a timely manner. We made eight recommendations for improvement. In the Chief Financial Officer's December 22, 2008, response to a draft of this report, she agreed with our findings and recommendations.

Internal Control Review of Fare Media Sales - (Internal Operations No. 09-04, issued December 30, 2008) – The objective of our audit was to assess the adequacy of internal controls over the WMATA fare media sales system. We found that internal control weaknesses exist which 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. Specifically, we found that (1) the point-of-sales system lacks proper controls and management oversight, (2) security equipment at some sales offices is not working, (3) the Office of Customer Service's fare media consignments are not properly accounted for, (4) Bus Transportation lacks physical controls 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) the decentralized organizational structure

for fare media sales does not ensure proper oversight. We made 11 recommendations for improvement.

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 finding. These notices, if properly implemented, should address the intent of OIG's recommendations.

Summary of Alternative Products Issued

From July 1, 2008, through December 31, 2008, we issued 24 attestation reports.

Our attestation engagements are performed within the context of their stated scope and objective(s) and can cover a broad range of financial and non-financial subjects. They can also be part of a financial audit or performance audit. They include the examination, review, or performance of agreed-upon procedures on a subject matter, or an assertion about a subject matter and the reporting on the results. Because these reports 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 work appears in Table 2.

Some key types of attestation reports issued by OIG include pre-negotiation, billing rate, Buy America, 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** (10 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 July 1, 2008, through December 31, 2008, we issued 10 Pre-negotiation Attestation Reports. We reviewed pricing information with a proposed value of \$34,909,076 and suggested \$6,262,679 in net audit adjustments.
- **Billing Rate Attestation Reports** (5 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. During the reporting period July 1, 2008, through December 31, 2008 we issued five Billing Rate Attestation Reports.
- **Buy America Attestation Reports** (2 reports) The Federal Transit Administration (FTA) requires a pre-award and post-delivery certification that the manufacture of the rolling stock-vehicles (rail and bus) is in compliance with the FTA Buy America Act regulations. The pre-award audit is conducted prior to the contract award and the notice-to-proceed. The post delivery audit is conducted prior to delivery of the rolling stock vehicle. At the end of the reviews, certifications are issued stating whether the manufacturer is in compliance with the FTA Buy America regulations. During the reporting period July 1, 2008, through December 31, 2008, we issued two Buy America Attestation Reports.

- **Pre-award Attestation Reports** (4 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. During the period July 1, 2008, through December 31, 2008, we issued four Pre-Award Attestation Reports.
- **Other Attestation Reports** (3 reports). We also performed other attestation services as requested by PRMT, including Advisory Memoranda on cost and pricing data, attestation reviews of contractor proposals for sole source procurements, and attestation reviews of contractor claims. During the period July 1, 2008, through December 31, 2008, we issued three such Attestation Reports. We reviewed pricing information with a proposed value of \$1,392,663 and suggested \$747,388 in adjustments.

Other Audit Products

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

We also issued seven waivers in response to requests from contracting officers to waive audits of cost and pricing information when this information is available and considered adequate. When the pre-negotiation audit is waived, the contract files are documented to support the reasons for the waiver and the Contracting Officer notifies the IG, in writing, that he/she requests a waiver of the requirement for a pre-negotiation attestation. We review the supporting documentation to determine whether to grant the waiver or not.

INVESTIGATIONS

During the reporting period July 1, 2008, through December 31, 2008, we received a total of 219 complaints through the OIG Hotline, in writing, and in person. We processed 216 matters that included both complaints requiring investigative attention that did not result in an investigation and those referred directly to other complaint resolution processes. We opened nine investigations and closed six investigations (a summary is provided in Table 4).

One of the investigations we conducted, the subject matter of which was previously made public by WMATA, concerned the unauthorized disclosure of personally identifiable information and other sensitive claims information about worker's compensation and third-party liability claims in a Request for Proposal (RFP) posted to the WMATA website in June 2008. WMATA took action to notify the affected parties and provide credit counseling assistance.

OIG found no evidence of deliberate wrongdoing in initially posting the reports with personally identifiable information, but we found that there was a lack of sufficient care in redacting the reports for posting. We also questioned the decision to post reports with any actual claims data. We found evidence that WMATA personnel did not take timely action to remove the reports from

the WMATA website after they became aware of the presence of personally identifiable and other sensitive information in the posted reports several days before the removal of the RFP. This delay resulted in two downloads of the data by outsiders. We found no evidence of misuse of the personally identifiable and other confidential information by those persons and associated entities that accessed the RFP and attached data. We made several recommendations to the General Manager of measures that could be taken to lessen the likelihood of a reoccurrence of such a data disclosure, including additional review procedures and use of software for detecting personally identifiable information. Management agreed to take actions consistent with our recommendations, in addition to taking disciplinary action.

OTHER OIG ACCOMPLISHMENTS

Other OIG accomplishments during this reporting period include:

From July to December 2008, OIG management participated in weekly New Employee Orientation training to acquaint recently hired employees of the role and mission of the OIG and to provide them with contact information.

An OIG audit manager successfully completed a Masters Certification in Government Contracting from the George Washington University School of Business in Washington, D.C.

An OIG audit supervisor conducted a training course on “Internal Controls” to managers and supervisors on September 22, 2008, in the Carmen Turner Building, as part of the Department of System Safety and Risk Management safety training.

The IG successfully completed a five day curriculum offered by the Association of Inspectors General at The American University in Washington, D.C. and was granted the designation of Certified Inspector General on August 15, 2008, The IG also participated on an Inspectors General Panel discussing the “*Challenges Facing the Inspector General Community*” at the 2008 Association of Inspectors General Fall Conference, on November 5, 2008, on the Queen Mary Hotel, in Long Beach, California.

Table 1: Recommendations Described in Previous SARs on Which Corrective Action Has Not Been Completed as of December 31, 2008

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						
OIG 07-112	Review of BUS Revenue (SAR 1, page 3)	06/25/07		4	7	Aug. 2008
OIG 08-002	Review of Internal Controls Related to Accounts Payable (SAR 1, page 3)	12/28/07		2	2	April 2009*
OIG 08-004	Overtime at Shady Grove Rail Yard Rail Transportation Supervisors (SAR 2, page 3)	01/07/08	\$2,450	1	4	Dec. 2008
OIG 08-005	Review of Trapeze, the Bus Rail Scheduling and Dispatch System (SAR 2, page 3)	03/25/08		1	4	Dec. 2008
Contract Performance						
08-025	Review of Issues and Concerns on ERG Contract (SAR 2, page 4)	4/28/2008		2	2	Mach. 2009
08-053	Review of Issues and Concerns on Cubic Contract (SAR , page 4)	2/19/2008		1	1	April 2010*
External Audits						
	Single Audit Report Year ended June 30, 2007 (With Independent Auditors' Report Thereon) (SAR 1, page 4)	09/28/07		2	3	FY 2012
* Expected completion date changed from previous report.						

Table 2: OIG Audit Reports and Alternative Products on WMATA Programs and Activities July 1, 2008, through December 31, 2008

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
AUDIT REPORTS					
<u>Internal Operations</u>					
OIG 09-03	Review of Capital Projects: Internal Controls	12/23/08			8
OIG 09-04	Internal Control Review of Fare Media Sales	12/30/08			11
Alternative Product					
<u>Contract Audit</u>					
<u>Pre-Negotiation Attestation Reports</u>					
OIG 09-001	Contractor's Revised Proposal, Contract FN5020 – PCO No. 001, Escalation Costs for Moving Phase 1 Work to Fiscal Years 2008 and 2009	08/11/08			
OIG 09-002	Contractor's Quotation No. 70925-01M-R3, Supply Complete EVAP Fan Module Overhaul Kits for the 1000 Series Rail Cars and Spare Parts	08/12/08			
OIG 09-003	Contractor's Revised Proposal, Contract CO4006 – PCO No. 012, Acquisition and Installation of Furniture and Hardware at Carman Turner Facility	08/14/08			
OIG 09-004	Contractor's Proposal, Contract FN4086 – PCO No. 013, Metronet Survey, Design, and Installation	08/14/08			
OIG 09-005	Contractor's Proposal, Contract FJ0957, to Provide Escalator Rehabilitation and Replacement of Controllers at Various Rail Stations, Spare Parts for Phase 1-4, 5, and 6	08/15/08			
OIG 09-006	Contractor's Revised Proposal, Contract FM1201 – PCO No. 022, Modernization of Montgomery Escalators	08/15/08			
OIG 09-007	Contractor's Proposal, Contract FO5145 – PCO No. 005, Mod 006, LiveWave Video Surveillance CCTV Design Change Directive Revision #2	09/11/08			
OIG 09-008	Contractor's Proposal, Contract FN5089 – PCO No. 019, For Removing and Replacing 16 Battery Chargers and 7 Inverters	09/17/08			

Semiannual Report to the Board of Directors: No. 3

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
OIG 09-009	Contractor's Proposal, Contract RE7017, Verification of Actual Cost For Navy Yard Station West Entrance Enhancement	09/30/08			
OIG 09-010	Contractor's Proposal, Contract JD4026, Request for Equitable Adjustments for the Huntington Station Parking Structure	10/19/08			
<u>Billing Rate Attestation Reports</u>					
CA 09-001	Review of Proposed Rates, Contract SF5140, FY 2009 Information Technology ReNEWal Program Consulting Services	07/30/08			
CA 09-003	Review of Proposed Rates, Financial (Audit) Consulting Services Contract CQ8105, Fixed-Price Hourly Billing Rate	08/14/08			
CA 09-008	Review of Proposed Rates, Contract FG1451 & CO5102, Fiscal Year 2009, Vehicle Engineering Consultant Services	08/22/08			
CA 09-009	Review of Subcontractor's Rates, Contract CO5102, Fiscal Year 2009, Vehicle Engineering Consultant Services	09/10/08			
CA 09-010	Review of Subcontractor's Rates, Contract CO5102, Fiscal Year 2009, Vehicle Engineering Consultant Services	09/29/08			
<u>Buy America Attestation Reports</u>					
CA 09-002	Post-Delivery Buy America Certification Audit, Contract FH6318, 5000 Series Rail Car Procurement, Base Contract 110 Rail Cars and The Optional 82 Rail Cars	08/11/08			
CA 09-011	Post-Delivery Buy America Certification Audit, Contract FQ8029, Low-Floor Sixty Foot Compressed Natural Gas (CNG) Articulated Buses (22 Buses)	11/06/08			
<u>Pre-Award Attestation Reports</u>					
CA 09-004	Evaluation of Pre-Award Financial Data, Solicitation CQ8154, SmartTrip Program Consultant	08/20/08			

Semiannual Report to the Board of Directors: No. 3

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
CA 09-005	Evaluation of Pre-Award Financial Data, Solicitation CQ8154, SmartTrip Program Consultant	08/20/08			
CA 09-006	Evaluation of Pre-Award Financial Data, Solicitation CQ8154, SmartTrip Program Consultant	08/20/08			
CA 09-007	Evaluation of Pre-Award Financial Data, Solicitation CQ8154, SmartTrip Program Consultant	08/20/08			
Other Attestation Reports					
CA 09-012	Review of Financial Settlement, Work Authorization Number 6B0034, Master Agreement Number MA-001	11/24/08			
CA 09-013	Contract No. FN5147, Metro Matters Brentwood Shops/Yard Expansion Program, Revision 3, Machine Access Delay Cost, Prime Contractor Proposal Desk Review – Request for Waiver of Audit	12/18/08			
CA 09-014	Contract No. FN5147, Metro Matters Brentwood Shops/Yard Expansion Program, Revision 3, Machine Access Delay, Subcontractors Cost Proposal Desk Review – Request for Waiver of Audit	12/18/08			
<p>* For purposes of this schedule, questioned costs include other recommended recoveries.</p> <p>Notes: Description of Alternative Products: 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>					

**Table 3: Other OIG Reports on WMATA Programs and Activities
July 1, 2008, through December 31, 2008**

Report Number	Report Title	Date Issued
<u>Internal Operations</u>		
OIG 09-01	Voiding Metrochek (<i>Alert Memorandum – Internal Operations, Addressed to the General Manager (GMGR), and requests GMGR to take suggested actions</i>)	7/29/08
OIG 09-02	Salary Increase Error (<i>Alert Memorandum – Internal Operations, Addressed to the Assistant General Manager (AGM), Workforce Services, and requests AGM to take suggested actions</i>)	11/26/08
* Alert Memoranda are not publicly distributed.		

**Table 4: Investigative Activity Statistical Profile
July 1, 2008, through December 31, 2008**

Statistic	No.
Complaints Received	219
Investigations Opened	9
Investigations Closed	6
Complaints Closed and Referred ¹	216
Matters Pending at end of Reporting Period (Investigations and Complaints)	34

¹ Includes both complaints requiring investigative attention that did not result in an Investigation and those referred directly to other complaint resolution processes.