



**Washington Metropolitan Area Transit Authority
Inspector General's Semiannual Report to the
Board of Directors, No. 16
January 1, 2015 – June 30, 2015**



INSPECTOR GENERAL'S MESSAGE TO THE BOARD OF DIRECTORS

July 30, 2015

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, 2015, through June 30, 2015. 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 six months, OIG issued six audit products, including two performance audit reports, and attestation reports. We reviewed pricing information in contractors' proposals with a value of \$152,137 and suggested \$22,930 in net audit adjustments. Among the six audit products we issued, one was a performance audit report, entitled Review of the Washington Metropolitan Area Transit Authority's (WMATA) Local Jurisdictional Subsidies. We found WMATA does not have adequate internal controls in place to effectively and efficiently manage local jurisdictional subsidies. We made recommendations to improve internal controls.

In addition, we closed 8 investigations and received 226 complaints during this time.

/s/

Helen Lew
Inspector General

TABLE OF CONTENTS

INSPECTOR GENERAL'S MESSAGE TO THE BOARD OF DIRECTORS

INTRODUCTION	3
AUDITS	5
Audit Resolution and Follow-up	5
Summary of a Performance Audit Report Issued.....	5
Summary of Alternative Products Issued	6
INVESTIGATIONS	8
OTHER OIG ACCOMPLISHMENTS	7
CONGRATULATIONS/FAREWELLS.....	7
Table 1: Recommendations Described in Previous SARS on Which Corrective Action Has Not Been Completed as of June 30, 2015.....	8
Table 2: OIG Audit Reports, Interim Audit Memorandum and Alternative Products on WMATA Programs and Activities (January 1, 2015 through June 30, 2015	9
Table 3: Other OIG Reports on WMATA Programs and Activities (January 1, 2015 through June 30, 2015)	10
Table 4: Investigative Activity Statistical Profile (January 1, 2015 through June 30, 2015)	11

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 30 full-time employees as of June 30, 2015, 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, engineering, computer science, law, criminal justice, information management, and business. Some of the staff have professional certifications as accountants, internal auditors, fraud examiners, information systems auditors, certified information systems security professional, certified information security manager, government financial managers, and inspectors general and/or graduates degrees.

AUDITS

During this reporting period, we issued 6 audit products in the form of performance audit reports and alternative products, such as attestations.

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, 2015.

Summary of a Performance Audit Report Issued

During this reporting period, we issued two performance audit reports. These reports are listed in Table 2 and is summarized below:

- Review of WMATA's Local Jurisdictional Subsidies - (Contract Audit No. 15-001 issued April 28, 2015). The objective of the audit was to determine the adequacy of the Washington Metropolitan Area Transit Authority's (WMATA) controls to effectively and efficiently manage local jurisdictional subsidies.

OIG found WMATA does not have adequate internal controls in place to effectively and efficiently manage local jurisdictional subsidies. OIG found inadequate oversight as it relates to some key established procedures in the Capital Funding Agreement (CFA). Specifically, WMATA did not provide oversight to ensure the CFA Annual Budget Reconciliation Report had been completed. As a result, WMATA has not prepared or distributed a CFA Annual Budget Reconciliation Report to the Contributing Jurisdictions since FY2012.

OIG also found Contributing Jurisdictions have not fully utilized provisions established for them in the CFA. Specifically, Contributing Jurisdictions have not consistently exercised their rights to perform external audits of WMATA's expenditures of funds and the source of those funds.

We made two recommendations to the Interim General Manager/Chief Executive Officer (GM/CEO) to improve internal controls to effectively and efficiently manage local jurisdictional subsidies. Management concurred with the findings and recommendations.

- Review of Security of Washington Metropolitan Area Transit Authority's (WMATA) Oracle Databases - (Information Technology No. 15-002, issued May 29, 2015). The objective of the audit was to determine whether WMATA has adequate security controls over Oracle Databases.

Based on our findings, we made 11 recommendations to the Assistant General Manager/Chief Information Officer (AGM/CIO).

We provided a draft of the report to the AGM/CIO for review and comment on May 20, 2015. In the AGM/CIO's May 26, 2015, response to the draft of the report, Management concurred with all findings and recommendations and provided information on actions taken or planned.

Summary of Alternative Products Issued

From January 1, through June 30, 2015, we issued 4 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-award Attestation Reports** (2 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** (2 reports)

We also performed other attestation services as requested by Office of Procurement and Materials (PRMT), which included one rate review of general and administrative rates. In addition, we issued one audit waiver memo in response to a request from the contracting officer to review the reasonableness of the cost and pricing information submitted by a contractor. In our review of the claim's pricing information (proposed value of \$152,137), we suggested \$22,930 in net audit adjustments.

INVESTIGATIONS

From January 1, 2015, through June 30, 2015, we closed 8 investigations and received 226 complaints. Of the 226 complaints received, 8 complaints were closed, referred to management or referred for investigation. We opened 10 investigations and issued 8 Reports of Investigation. There are 36 items pending at the end of the reporting period. An Investigative Activity Statistical Profile is provided in Table 4.

OTHER OIG ACCOMPLISHMENTS

Other OIG accomplishments during this period included:

- Leon Langford, Audit Manager, Internal Operations Audit Team, gave presentations on internal controls to personnel receiving Contracting Officer's Technical Representative (COTR) training on February 12, March 12, April 15 and June 10, 2015.
- Isabel Cumming, Assistant Inspector General of Investigations, was a featured speaker for the Institute of Internal Auditor's Annual Ethics and Fraud Day on March 20, 2015. Ms. Cumming discussed recent fraud cases and ethical leadership in government.
- Claudette Green-Thompson, Senior Auditor, Internal Operations Audit Team, gave a presentation on internal controls to personnel receiving COTR training on May 13, 2015.

CONGRATULATIONS/FAREWELLS

- William Chung, Auditor II, began his employment with OIG on February 23, 2015. Prior to coming to WMATA, Mr. Chung was an accountant with May & Barnhard, PC. He is a member of the Contract Audit Team.
- Tyrone Garrison was promoted from Senior IT Auditor to IT Audit Manager, IT Audit Team, in March 2015.
- Ameen Burton, Senior IT Auditor completed his studies for a Master's Degree in Cyber Security in May 2015 from the University of Maryland University College, Adelphi, Maryland.
- Yvonne Brooks, Special Agent, began her employment with OIG on June 15, 2015. Prior to coming to WMATA, Ms. Brooks was with the Prince George's County State's Attorney's Office, Baltimore City State's Attorney's Office and the Attorney General's Office investigating and prosecuting cases involving white collar fraud, environmental crimes and corruption.
- Willie Haynes, Special Agent, began his employment with OIG on June 15, 2015. Prior to coming to WMATA, Mr. Haynes served with the Office of Inspector General at the U.S. Department of Transportation and the U.S. Department of Justice for almost 20 years.

Table 1: Recommendations Described in Previous SARs on Which Corrective Action Has Not Been Completed as of June 30, 2015

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 13-002	Review of WMATA's Closed Circuit Television (CCTV) System (SAR 12, Page 4)	04/04/13		1	4	July 2015*
IO 12-002	Review of Internal Controls over the Collection of Metrorail Cash (SAR 10, Page 7)	02/29/12		1	8	Fall 2016*
Information Technology Audits						
IT 11-001	Review of Emergency Plans for Critical Information Technology Operations and Financial Systems (SAR 7, Page 6)	09/24/10		2	3	December 31, 2015*
IT 15-001	Review of WMATA's Access Security Controls	09/30/14		6	4	TBD
Contract Audits						
CA 14-001	Review of nMomentum Corporation Contracts and Task Orders (SAR 13, Page 9)	07/26/13		1	5	March 31, 2016*
CA 14-002	Review of WMATA's Labor Expenditures Charged to Federal Grant Awards	05/05/14		2		**

*Expected Completion Date Changed from Previous Report

**The GM/CEO expects to make recommendations to the Board regarding remedial action once the forensic accounting analysis is completed in December 2014. The recommendation will include new policies and procedures for recording employee time, as recommended in the report. As of March 31, 2015, OIG was awaiting the GM/CEO's report of the results of the accounting forensic firm's review. On June 30, 2015, copies of the forensic firm's December 31, 2014 and March 26, 2015 reports were received from WMATA Management on June 9, 2015. One of the reports included findings related to employee labor hours; mirroring OIG audit results relative to the comingling of operating and capital labor expenditures and incorrect labor charges. However, no summary of management's response to the reports were provided that specifically addressed remedial actions to be taken by WMATA designed to ensure the proper recording of employee time in response to the OIG recommendation. This recommendation will remain open pending management's response to the forensic firm's reports and associated remedial actions taken to implement the OIG recommendation.

Table 2: OIG Audit Reports and Alternative Products on WMATA Programs and Activities (January 1, 2015 through June 30, 2015)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
AUDIT REPORTS					
<u>Information Technology</u>					
IT 15-002	Review of Security of WMATA's Oracle Databases	05/29/15			11
<u>Contract Audit</u>					
CA 15-001	Review of WMATA's Local Jurisdictional Subsidies	04/28/15			2
<u>Pre-Award Attestation Reports</u>					
CAM 15-010	Independent Review of Pre-Award Financial Data for Contract No. CQ15110 – "Scrap Metal Recycling Services – Revenue Generating Contract"	02/19/15			
CAM 15-012	Independent Review of Pre-Award Financial Data for Contract No. CQ15105_RSS – "Railcar Carpet"	05/14/15			
<u>Other Attestation Reports</u>					
CAM 15-009	Independent Review of Proposed G&A Rate for Contract FQ9206 – Orange/Blue Line Rehabilitation	02/10/15			
CAM 15-011	Independent Review of Cost and Pricing Audit Waiver for Contract No. CQ14022 – SmarTrip Regional Customer Service Center	04/10/15			
<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, 2015 through June 30, 2015)**

(None were issued this reporting period)

Report Number	Report Title	Date Issued

**Table 4: Investigative Activity Statistical Profile
(January 1, 2015 through June 30, 2015)**

Statistic	No.
Total Complaints Received	226
<ul style="list-style-type: none"> • Investigations Initiated From Complaints • Referred to Management or Other Entity • No Action Taken¹ • Pending Assignment for Investigation • Open Matters² 	<p style="text-align: right;">10</p> <p style="text-align: right;">178</p> <p style="text-align: right;">29</p> <p style="text-align: right;">6</p> <p style="text-align: right;">3</p>
Total Complaints Received	
Investigations Closed ³	8
Matters Pending at end of Reporting Period (17 Investigations and 19 Complaints)	36

¹ Complaint did not fit criteria for investigation or referral to management or other entity.

² Cases opened during reporting period that remain open pending referral or preliminary review.

³ Includes investigations from previous reports.