



**Washington Metropolitan Area Transit Authority
Inspector General's Semiannual Report to the
Board of Directors, No. 17
July 1, 2015 – December 31, 2015**



L'Enfant Plaza Exit

INSPECTOR GENERAL'S MESSAGE TO THE BOARD OF DIRECTORS

March 3, 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 July 1, 2015, through December 31, 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 12 audit products: 1 audit Alert Memorandum, 5 performance audit reports, and 6 attestation reports. Included among the five performance audit reports issued are: a Follow-up Review of Findings and Recommendations from 2014 Evaluation of WMATA's Disadvantaged Business Enterprise Program, Review of WMATA's Contract Closeout Process, Audit of WMATA's Network Security Operations, and Audit of WMATA's Office of Procurement and Materials Noncompetitive Contract Actions. WMATA generally agreed with the findings and recommendations contained in these reports and have taken and/or have plans to take corrective action. We also reviewed pricing information in contractors' proposals with a value of \$13,651,846 and suggested \$777,376 in net audit adjustments.

In addition, we issued 14 reports of investigations (ROIs) including 1 interim ROI and received 188 complaints during this time period. The 14 ROIs included 5 Whistleblower retaliations, 3 procurement frauds, 1 conflict of interest, and 5 miscellaneous misconducts involving 8 different WMATA departments/offices. As a result of these investigations, one contractor was debarred from WMATA employment, one WMATA employee was terminated, and one WMATA employee was terminated and indicted on criminal charges.

Lastly, during the past six months, RSM US LLP, formerly McGladrey LLP completed the Fiscal Year (FY) 2014 financial statement audit of WMATA's financial operations and the FY2014 Single Audit and issued qualified opinions on the associated reports on August 1, 2015 and August 26, 2015 respectively. On December 17, 2015, RSM completed and issued an unmodified opinion on the FY2015 financial statement audit and a qualified opinion on the FY2015 Single Audit. It should be noted the FY2015 audits were completed in less than four months due to an expedited effort by RSM, the Office of the Chief Financial Officer, and OIG personnel.

We appreciate the Board of Directors', the Interim General Manager/Chief Executive Officers' (GM/CEO), and new GM/CEO's support of our office and look forward to working with them in promoting a safe and effective transit system. 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 30 full-time employees as of December 31, 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, cyber security, economics, 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 17¹ audit products in the form of performance audit reports and alternative products, such as attestations and alert memorandum.

¹This number includes four audit-related reports that were prepared by WMATA's external auditor, RSM US LLP formerly McGladrey LLP and one audit-related report that was issued by WMATA's former external auditor, CliftonLarsonAllen 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 December 31, 2015.

Summary of Performance Audit Reports Issued

During this reporting period, we issued 5 performance audit reports. These reports are listed in Table 2 and are summarized below:

- Audit of the Washington Metropolitan Area Transit Authority's (WMATA) Office of Procurement and Materials (PRMT) Noncompetitive Contract Actions – (Contract Audit No. 16-001 issued December 17, 2015). The objectives of the audit were to (1) determine whether PRMT is using sufficient cost/price analysis methods for noncompetitive contracts awarded, and (2) assess PRMT's ability to adequately account for its noncompetitive contract awards.

OIG found PRMT's cost/price analysis processes and controls for noncompetitive contract awards and related record retention practices require improvements to ensure contract award prices are fair and reasonable, adequate records are maintained, and noncompetitive procurements comply with relevant rules and regulations, e.g. FTA, Common Grant Rules, and internal WMATA requirements.

OIG also found a contract modification that exceeded the Program Office Contract Officer Representative's contracting authority limit and was inadequately supported.

We made seven recommendations to the Chief Procurement Officer (CPRO). Management concurred with our findings and recommendations and provided information on actions taken or planned.

- Review of WMATA's Contract Closeout Process – (Internal Operations No. 16-002 issued December 18, 2015). 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 found WMATA has room for improvement to ensure an effective and efficient contract closeout process. In addition, we found the Office of Procurement and Materials (PRMT) has not implemented oversight procedures or performance metrics to assess whether the Contracting Officers comply with the 2015 WMATA Procurement Procedures Manual closeout requirements.

OIG also found only one office in the Authority, the Office of Capital Program Delivery located in the Department of Transit Infrastructure and Engineering Services is actively closing contracts. 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. Management concurred with our findings.

- Audit of WMATA's Network Security Operations – (Information Technology No. 16-001 Issued December 18, 2015). The objective of the audit was to determine whether WMATA has adequate internal controls to detect and prevent unauthorized access to Network Security Operations.

OIG found WMATA Information Technology (IT) management could improve governance controls over the IT departments that have roles in providing network security and could strengthen components of network security. Based on the audit results, OIG made four recommendations to strengthen controls weaknesses over Network Security Operations. Management concurred with our findings and recommendations.

- Follow-up Review of Finding and Recommendations from 2014 Evaluations of WMATA's Disadvantaged Business Enterprise Program (DBE) – (Internal Operations No. 16-001 issued December 22, 2015). The objective of the follow-up audit was to determine if the Chief Procurement Officer (CPRO) has adequately addressed the findings and recommendations in OIG's December, 2014 report.

OIG found the CPRO Corrective Action Plan responses to OIG's "Evaluation of Disadvantaged Business Enterprise Program" report were inaccurate and inadequate. Specifically, the DBE groups Uniform Report of DBE Commitments/Awards and Payments submitted to the Federal Transit Administration (FTA) contained a significant number of errors, and the DBE/Small Business Dashboard was not revised to include actual DBE performance metrics. As a result, OIG made two recommendations to the CPRO that will help validate the accuracy of the FTA Report and improve DBE program performance. Management concurred with our recommendations.

- Review of WMATA's MAXIMO Asset Management System – (Information Technology No. 16-002 issued December 22, 2015). The objective of the audit was to determine whether MAXIMO has adequate controls in place to manage assets effectively and efficiently.

OIG found WMATA management has not ensured MAXIMO has adequate controls and oversight to properly manage assets. We also determined several issues previously identified in OIG's March 2011 report entitled *Review of Washington Metropolitan Area Transit Authority's MAXIMO Work Orders Module*, still exist. We made three recommendations to the Deputy General Manager, Operations (DGMO). Management generally concurred with our findings.

Financial Statement Audit Reports

McGladrey LLP, (McGladrey) conducted the financial audits, and we performed oversight and monitoring procedures to ensure completion of the FY2014 audit deliverables. In August 2015, we received the financial statement audit related reports – **WMATA's Basic Financial Statements, Years Ended June 30, 2014 and 2013 with Independent Auditors' Report** and **WMATA's Single Audit Report for the year ended June 30, 2014**. Management generally concurred with the auditors' findings and recommendations and proposed corrective actions to address them.

Specifically, WMATA received a qualified opinion on the FY2014 financial statements and an unmodified “clean” opinion on the FY2013 financial statements that were restated by WMATA’s prior auditors (CliftonLarsonAllen LLP). In addition, WMATA received a qualified opinion on the FY2014 Independent Auditors’ “Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards” and “Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133” identified 14 material weaknesses, 8 significant deficiencies and 4 matters of non-compliance. Of the 26 findings, 15 have been resolved and 11 are repeated in the FY2015 audit. A brief summary of some of the areas that resulted in the findings are financial reporting, capital contribution revenues, account reconciliations/reviews, capital asset management system, accounting for net pension asset, reporting Schedule of Expenditures of Federal Awards (SEFA), allowable costs and equipment/real property management.

RSM US LLP formerly McGladrey LLP conducted the financial audits, and we performed oversight and monitoring procedures to ensure completion of the FY2015 audit deliverables. In December 2015, we received the financial statement audit related reports – **WMATA’s Basic Financial Statements, Year Ended June 30, 2015 with Independent Auditors’ Report** and **WMATA’s Single Audit Report for the year ended June 30, 2015**. Management generally concurred with the external auditors’ findings and recommendations and proposed corrective actions to address them.

Specifically, WMATA received an unmodified “clean” opinion on the FY2015 financial statements. In addition, WMATA received a qualified opinion on the FY2015 Independent Auditors’ “Report on Internal Control Over Financial; Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards” and “Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133” identified 5 material weaknesses, 5 significant deficiencies and 5 matters of non-compliance. Of the 15 findings, 11 are repeats from the FY2014 audit. A brief summary of some of the areas that resulted in the findings are fixed assets, payroll, reporting Schedule of Expenditures of Federal Awards (SEFA), inventory, journal entry reporting and cash management.

Summary of Alternative Products Issued

From July 1, 2015 through December 31, 2015, we issued 6 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)

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, 2015, through December 31, 2015, we reviewed pricing information with a proposed value of \$13,651,846 and suggested \$777,376 in net audit adjustments. Some of the suggested adjustments involved unallowable cost, inflated cost, unsupported cost, etc.

- **Other 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.

- **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 July 1, 2015 through December 31, 2015, OIG issued 13 ROIs, and 1 interim ROI and handled 188 complaints. Of the 188 complaints received, 144 complaints were referred to management or other entities, and 17 were closed. We opened 11 investigations, and there are 16 investigations pending at the end of the reporting period. An Investigative Activity Statistical Profile is provided in Table 4.

The 14 reports of investigation included 5 Whistleblower retaliations, 3 procurement frauds, 1 conflict of interest, and 5 miscellaneous misconduct investigations. These investigations involved employees from the Office of Human Resources, Office of Information Technology, Office of Elevators and Escalators, Office of Car Maintenance, Office of Bus Maintenance, Office of Track and Structures, Office of Rail Transportation, Office of Parking, and Vehicle Program Services (CENV). As a result of these investigations, 1 contractor was debarred from WMATA employment, and 1 WMATA employee was terminated and indicted on criminal charges. 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 December 31, 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	Nov. 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	12/31/15*
IT 15-001	Review of WMATA's Access Security Controls	09/30/14		3	7	TBD
IT 15-002	Review of Security of WMATA's Oracle Databases	05/29/15		1	10	01/31/16
IT 16-002	Review of WMATA's Maximo Asset Management System	12/22/15		3		1/29/16 & 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	03/31/16*
CA 14-002	Review of WMATA's Labor Expenditures Charged to Federal Grant Awards	05/05/14		2		**
CA 15-001	Review of WMATA's Local Jurisdictional Subsidies	04/28/15		2		12/31/15***

*Expected Completion Date Changed from Previous Report

**IT has submitted their updated labor charging Standard Operation Procedure (SOP) to the Office of Internal Control and Compliance (OICC) for review to ensure it is in compliance with WMATA's Grants Management Manual. OICC completed the review in January 2016 and determined the SOP to be in compliance with WMATA's Grants Management Manual. OIG will test the procedures in the January/February timeframe to ensure they have been implemented.

***Date elapsed, revised date not provided.

Table 2: OIG Audit Reports and Alternative Products on WMATA Programs and Activities (July 1, 2015 through December 31, 2015)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
AUDIT REPORTS					
<u>Internal Operations</u>					
IO 16-001	Follow-up Review of Findings and Recommendations from 2014 Evaluation of WMATA's Disadvantaged Business Enterprise Program	12/22/15			2
IO 16-002	Review of WMATA's Contract Closeout Process	12/18/15			5
<u>Information Technology</u>					
IT 16-001	Audit of WMATA's Network Security Operations	12/18/15			4
IT 16-002	Review of WMATA's Maximo Asset Management System	12/22/15			3
<u>Contract Audit</u>					
CA 16-001	Audit of WMATA's Office of Procurement and Materials Noncompetitive Contract Actions	12/17/15			7
<u>External Audits</u>					
	Restated Basic Financial Statements, Year Ended June 30, 2013 with Independent Auditors' Report	08/06/15			
	Basic Financial Statements, Years Ended June 30, 2014 and 2013 with Independent Auditors' Report	08/07/15			
	Single Audit Report for the year ended June 30, 2014 which includes the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and the Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB A-133.	08/31/15			26
	Basic Financial Statements, Year Ended June 30, 2015 with Independent Auditors' Report	12/17/15			
	Single Audit Report for the year ended June 30, 2015 which includes the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and the Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB A-133.	12/17/15			15

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
<u>Pre-negotiation Attestation Reports</u>					
CAA 16-001	Independent Review of Revised Proposal Contract No. FQ9206 – OB1	10/30/15			
CAA 16-002	Independent Review of Cost Incurred for the Period FY11 thru FY15 Contract No. FQ10064 – On-Call Engineering Services	12/24/15			
<u>Pre-Award Attestation Reports</u>					
CAM 16-001	Independent Review of Pre-Award Financial Data for Contract No. FQ14005 – “Replace Five Chiller Crystal City, Metro Center and Potomac Avenue Stations DC and VA”	07/15/15			
CAM 16-002	Independent Review of Pre-Award Financial Data for Contract No. IFB FQ15090GG “Rehabilitation of WMATA Parking Garages at Shady Grove (North), Franconia-Springfield (East), Grosvenor-Strathmore and College Park”	09/23/15			
CAM 16-003	Independent Review of Pre-Award Financial Data for Contract No. FQ15206 – “Construct Rail Cars Access Platforms”	10/07/15			
CAM 16-004	Independent Review of Pre-Award Financial Data for Contract No. IFB FQ15233 – “Electrical and Data Cable Installation at 34 Metro Stations in the District of Columbia and Maryland”	10/27/15			
<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
(July 1, 2015 through December 31, 2015)**

Report Number	Report Title	Date Issued
CAAM-16-001	Alert Memorandum – Lack of Adequate Controls Over Digital Image Signatures on Purchase Orders	07/09/15

**Table 4: Investigative Activity Statistical Profile
(July 1, 2015 through December 31, 2015)**

Statistics	No.
Total Complaints Received	188
• Investigations Initiated From Complaints	11
• Whistleblower	7
• Whistleblower	16
• Pending Assignment for Investigation ²	0
• Whistleblower	144
• Referred to Management or Other Entity ³	17
• No Action Taken ⁴	
Total Complaints Received	
Investigations Closed ⁵	13

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.