



**Washington Metropolitan Area Transit Authority
Inspector General's Semiannual Report to the
Board of Directors, No. 13
July 1, 2013 – December 31, 2013**



The New 7000 Series

INSPECTOR GENERAL'S MESSAGE TO THE BOARD OF DIRECTORS

January 27, 2014

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, 2013, through December 31, 2013. 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 19 audit products, including audit reports and attestation reports. We reviewed pricing information in contractors' proposals with a value of \$3,778,292 and suggested \$1,139,803 in net audit adjustments. Among the 19 audit products we issued was a performance report entitled, Review of Quality Assurance Program, Department of Transit Infrastructure and Engineering Services (TIES). We found the Quality Assurance and Warranty (QAAW) Program is generally operating effectively and efficiently and meeting the organizational mission, goals and objectives of TIES. We also found the First Article of Inspection process in QAAW is operating effectively and efficiently.

In addition, we closed 17 investigations and received 202 complaints during this time.

We appreciate the Board of Directors' and the General Manager/Chief Executive Officer'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 audit 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, 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.

OIG had 33 full-time employees as of December 31, 2013, 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, mathematics, computer science, law, criminal justice, information assurance, and business. Half 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 19¹ audit products in the form of 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, 2013.

Summary of Audit Reports Issued

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

- **Review of nMomentum Corporation Contracts and Task Orders²** (Contract Audit No. 13-001, issued July 26, 2013). The objective of the audit were to determine whether WMATA properly executed and administered contracts and issued task orders to nMomentum Corporation (nMC) in: (1) accordance with WMATA policies and procedures, and (2) compliance with applicable laws and regulations.

OIG made six recommendations to address future procurement actions to the General Manager/Chief Executive Officer (GM/CEO). Management indicated general agreement and have taken or planned corrective action on five of the six recommendations.

- **Review of Quality Assurance Program, Department of Transit Infrastructure and Engineering Services –** (Internal Operations No. 14-001, issued September 5, 2013). The objectives of the audit were to determine whether: (1) the quality assurance program in the Department of Transit Infrastructure and Engineering Services is operating effectively and efficiently, including meeting the organizational mission, goals, and objectives, and (2) the First Article Inspection process is effective and efficient. The latter objective was requested by the Deputy General Manager for Operations (DGMO).

OIG generally found the Quality Assurance and Warranty (QAAW) program is operating effectively and efficiently and meeting the organizational mission, goals and objectives of the Department of Transit Infrastructure and Engineering Services (TIES) in Railcar Maintenance (CMNT). Specifically, OIG noted QAAW (1) has policies and procedures that prescribed their responsibility to provide a comprehensive quality assurance and warranty program; (2) conducts oversight for railcar maintenance, railcar procurement, vehicle engineering and design; (3) reviews engineering modification instructions and software modifications to ensure the integrity of systems and equipment was maintained; and (4) conducts acceptance inspections for parts, materials and components shipped to the Metro Supply Facility (MSF).

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

² This report is not available on WMATA's website.

These inspections are necessary to ensure railcar parts, materials and components comply with Vehicle Program Services (CENV) drawings and specifications.

OIG, however, found QAAW should expand its quality assurance program by conducting acceptance inspections for parts, materials and components shipped to other storerooms outside of MSF. In addition, the quality assurance program should implement acceptance inspections and the warranty management program in the other offices within TIES, in order to provide a high level of customer service and delivery.

OIG also found the First Article Inspections process in QAAW is operating effectively and efficiently. First Article Inspection is the process for initiating, evaluating and approving parts and components that are new and being used for the first time to maintain and/or enhance the WMATA rail system. The First Article Inspections are to ensure compliance with WMATA Engineering's approved drawings or specifications.

To address the findings, we made two recommendations to the DGMO. The DGMO concurred with the findings and recommendations.

- **Financial Related Audit Reports**

CliftonLarsonAllen, LLP, Certified Public Accountants (CLA) conducted the audits, and we performed oversight and monitoring procedures to ensure completion of the audit deliverables. In October 2013, we received the financial statement audit related reports³ – **WMATA's Basic Financial Statements, Years Ended June 30, 2013 and 2012 with Independent Auditors' Report** and **WMATA's Single Audit Report for the year ended June 30, 2013.**⁴ Management generally concurred with the auditors' findings and recommendations and proposed corrective actions to address them.

Specifically, WMATA received an unqualified or "clean" opinion on its comparative financial statements. 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 contained one significant deficiency in internal control over compliance.⁵ The one significant deficiency in internal control over compliance was for failure to perform timely notification of the equipment dispositions to the grantor.

³ The WMATA Board accepted the reports on October 24, 2013.

⁴ The Single Audit Report includes the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards and the Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.

⁵ A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Summary of Alternative Products Issued

From July 1, 2013, through December 31, 2013, we issued 15 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 (3 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, 2013, through December 31, 2013, we reviewed pricing information with a proposed value of \$3,778,292 and suggested \$1,139,803 in net audit adjustments. Some of the suggested adjustments involved unallowable cost, inflated cost, unsupported cost, etc.

- **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.

- **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.

INVESTIGATIONS

From July 1, 2013, through December 31, 2013, we closed 17 investigations and received 202 complaints. Of the 202 complaints received, 185 complaints were closed, referred to management or referred for investigation. We opened 17 investigations and issued 9 Reports of Investigation. There are 22 items being carried over to the next reporting period. An Investigative Activity Statistical Profile is provided in Table 4.

OTHER OIG ACCOMPLISHMENTS

Other OIG accomplishments during this period included:

- Claudette Green-Thompson, Internal Operations Team, became a Certified Fraud Examiner on July 19, 2013.
- Barbara Jackson Williams, Audit Manager, Internal Operations Audit Team, gave a presentation on "Internal Controls" to WMATA Contracting Officer's Technical Representatives (COTRs) on August 15, 2013, September 12, 2013, October 10, 2013, and December 12, 2013. Ms. Jackson Williams gave a presentation on "Internal Controls" to WMATA's Office of Accounting on October 22 and 29, 2013 and November 21, 2013. Ms. Jackson Williams also facilitated training on "Communication Skills for Auditors" before the Institute of Internal Auditors on November 5-8, 2013 in Las Vegas, NV.
- Inspector General, Helen Lew, presented a training session on "Contract Attestations" before the APTA Committee of Audit Professionals on September 28, 2013, and participated on a panel on "Public Trust—Transit's Fiduciary Responsibilities" on September 30, 2013, at the 2013 APTA Annual Meeting in Chicago, IL.
- Leon, Langford, Audit Supervisor, Internal Operations Audit Team, gave a presentation on "Internal Controls" to WMATA COTRs on October 30, 2013, and November 7, 2013.
- Isabel M. Cumming, Assistant Inspector General Investigations/Counsel gave a presentation on "Professional Ethics and Integrity" on December 2-3, 2013, to new admittees to the Maryland Bar in Annapolis, MD.

CONGRATULATIONS

- Marcus Conley, Auditor I, began his employment with OIG on July 21, 2013. Mr. Conley recently graduated from Maryland Eastern Shore University. He is a member of the Contracts Audit Team.
- Dionne Holmes, Auditor II, began her employment with OIG on August 12, 2013. Prior to coming to WMATA, Ms. Holmes was a financial administrator with Northrop Grumman. She is a member of the Contracts Audit Team.
- Sharna Brewster, Administrative Assistant II, began her employment with OIG on November 12, 2013. Prior to coming to WMATA, Ms. Brewster was a secretary at the U.S. Internal Revenue Service.
- Victor Kirk, Senior Auditor, returned to OIG on November 25, 2013. Prior to returning to OIG, he worked with a private company. He is a member of the Contracts Audit Team.
- Tonny Tang, Auditor I, began his employment with OIG on December 9, 2013. Prior to coming to WMATA, Mr. Tang was an accounting associate with the State of Maryland. He is a member of the Internal Operations Team.
- Gordon Matthews, Auditor I, was promoted to Auditor II on October 20, 2013. He started in December 2011, and is a member of the Contracts Audit Team.

FAREWELL

- Lynn King, Auditor III, resigned from OIG in July 2013, and is currently working in WMATA's Office of Track and Structures.

**Table 1: Recommendations Described in Previous SARs on Which
Corrective Action Has Not Been Completed as of December 31, 2013**

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 13-001	Follow-up Review of WMATA's Environmental Management Problem (SAR 11, Page 4)	10/23/12		1	5	Jan. 2014
IO 13-002	Review of WMATA's Closed Circuit Television (CCTV) System (SAR 12, Page 4)	04/04/13		1	4	June 1, 2014
IO 12-002	Review of Internal Controls over the Collection of Metrorail Cash (SAR 10, Page 7)	02/29/12		1	8	June 2013
IO CSA 11-001	Control Self-Assessment Employee Safety in the Office of Track and Structures Systems Maintenance (SAR 7, Page 10)	09/08/10		1	18	June 2014
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	Dec. 2014

Table 2: OIG Audit Reports and Alternative Products on WMATA Programs and Activities (July 1, 2013 through December 31, 2013)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
AUDIT REPORTS					
<u>Internal Operations</u>					
IO 14-001	Review of Quality Assurance Program, Department of Transit Infrastructure & Engineering Services	09/05/13			2
<u>Contract Audit</u>					
CA 14-001	Review of nMomentum Corporation Contracts and Task Orders ⁶	07/26/13			6
<u>External Audits</u>					
	Basic Financial Statements, Years Ended June 30, 2013 and 2012 with Independent Auditors' Report	10/15/13			
	Single Audit Report for the year ended June 30, 2013 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 with Requirements That Could Have a Direct and Material Effect on Each Major Program, on Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance With OMB A-133	10/15/13			1
<u>Pre-Negotiation Attestation Reports</u>					
CAA 14-001	Independent Review of Sole Source Proposal for Contract FQ-11204, Modification No. 004, CoABE and FeS	10/29/13			
CAA 14-002	Independent Review of Sole Source Proposal for Contract FQ11204, Modification No. 010, Traffic Signal Priority (TSP) and Bus Security Technology (BST) Extension to CoABE and FeS	12/20/13			
CAA 14-003	Independent Review of Revised Proposal for Contract CQ12258, Modification No. 003, "Rail Car Wheels"	12/20/13			
<u>Billing Rate Attestation Reports</u>					
CAM 14-001	Independent Review of Proposed Rates for Contract FQ10218, Program Management Services, Option Year 1 – Overhead Rates and Overhead Rate Schedules	07/3/13			
CAM 14-008	Independent Review of Proposed Rates for Contract FQ10218, Program Management Services, Option Year 1 – Overhead Rates and Overhead Rate Schedules	10/1/13			

⁶ This report is not available on WMATA's website.

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
CAM 14-010	Independent Review of Proposed Rates for Contract FQ10218, Program Management Services, (Task Order Contract)	11/30/12			
CAM 14-011	Independent Review of Proposed Rates for Contract CQ9205, FY 2014 Vehicle Engineering Consulting	10/30/13			
CAM 14-012	Independent Review of Proposed Rates for Contract FQ10060/KPN, FY 2011 On-Call General Architectural and Engineering Consulting Services	11/6/13			
<u>Pre-Award Attestation Reports</u>					
CAM 14-002	Independent Review of Pre-Award Financial Data for Contract No. FQ12175, "Largo Water Treatment Facility"	8/5/13			
CAM 14-003	Independent Review of Pre-Award Financial Data for RFP CQ13062, for "Professional Services for Functional Assessments of Persons with Disabilities"	8/8/13			
CAM 14-004	Independent Review of Pre-Award Financial Data for Contract No. FQ9194, "Rehabilitation of Rail Yard Facilities"	8/8/13			
CAM 14-005	Independent Review of Pre-Award Financial Data for Contract No. IFB FQ13065/RLJ, "Automatic Train Control Cables"	8/13/13			
CAM 14-006	Independent Review of Pre-Award Financial Data for Contract No. FQ13093, "Purchase of truncated dome quarry title"	9/5/13			
CAM 14-007	Independent Review of Pre-Award Financial Data for Contract No. CO9050, "Cinder Bed Road Bus Garage"	9/27/13			
CAM 14-009	Independent Review of Pre-Award Financial Data for Contract No. IFB FQ14006GG, "Fan Coil Units and Chilled Water Air Conditioning Units"	10/16/13			
<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, 2013 through December 31, 2013)**

(None were issued this reporting period)

Report Number		Report Title	Date Issued

Table 4: Investigative Activity Statistical Profile
(July 1, 2013 through December 31, 2013)

Statistic	No.
Complaints	
• Referred to Management or Other Entity	139
• No Action Taken ⁷	33
• Closed by Investigation ⁸	5
• Open ⁹	17
• Investigations Initiated	<u>8</u>
Total Complaints Received	202
Investigations Closed ¹⁰	17
Matters Pending at end of Reporting Period (18 Investigations and 4 Complaints)	22

⁷ Complaint did not fit criteria for investigation or referral.

⁸ Cases opened and subsequently closed during reporting period.

⁹ Cases opened during reporting period that remain open.

¹⁰ Includes investigations from previous reports.