Washington Metropolitan Area Transit Authority Inspector General's Semiannual Report to the Board of Directors, No. 15
July 1, 2014 – December 31, 2014

INSPECTOR GENERAL'S MESSAGE TO THE BOARD OF DIRECTORS

January 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 July 1, 2014, through December 31, 2014. 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 18 audit/evaluation products, including a performance audit report, performance evaluation reports, an Interim Audit Memorandum, and attestation reports. We reviewed pricing information in contractors' proposals with a value of $36,388,385 and suggested $6,409,525 in net audit adjustments. Among the 16 audit products we issued, one was a performance audit report, entitled Review of the Washington Metropolitan Area Transit Authority's (WMATA) Access Security Controls. We made recommendations to improve internal controls.

During this period, OIG also issued two performance evaluations. The first involved a Review of WMATA's Escalator Rehabilitation, Replacement, and Maintenance Program, while the second involved an Evaluation of WMATA's Disadvantaged Business Enterprise (DBE) program. The objective of both evaluations was to determine whether the program was producing results consistent with the program's goals and objectives. In conducting our evaluations, we sought to facilitate collaborative working relationships and effective communication with program staff and other interested parties. We made recommendations to improve the overall programs.

In addition, we closed 9 investigations and received 231 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 Performance Evaluation Reports Issued 5

Interim Audit Memorandum Issued 7

Summary of Alternative Products Issued 7

INVESTIGATIONS 8

OTHER OIG ACCOMPLISHMENTS 8

CONGRATULATIONS/FAREWELLS 9

Table 1: Recommendations Described in Previous SARS on Which Corrective Action Has Not Been Completed as of December 31, 2014 10

Table 2: OIG Audit Reports, Interim Audit Memorandum and Alternative Products on WMATA Programs and Activities (July 1, 2014 through December 31, 2014) 11

Table 3: Other OIG Reports on WMATA Programs and Activities (July 1, 2014 through December 31, 2014) 13

Table 4: Investigative Activity Statistical Profile (July 1, 2014 through December 31, 2014) 14

INTRODUCTION

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

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

Mission Statement

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

Our Core Values

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

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

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

- We have confidence in the accuracy of our work and that our results hold up to professional scrutiny.

- We encourage an environment of risk-free communication and promote an open, honest, and respectful exchange of ideas and information.

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

- The personal and professional qualities of our employees include honesty, respect for others, and freedom from bias.

- We value and protect our access to information recognizing that reputations, public confidence, and lives can be affected by our actions.

OIG Staff

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

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

OIG had 27 full-time employees as of December 31, 2014, 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 18 audit/evaluation products in the form of performance audit reports, performance evaluation reports, an interim audit memorandum 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 December 31, 2014.

Summary of a Performance Audit Report Issued

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

- Review of the Washington Metropolitan Area Transit Authority's (WMATA) Access Security Controls - (Information Technology No. 15-001 issued September 30, 2014). We conducted a review of WMATA's Access Security Controls to determine whether WMATA has adequate security controls in place to effectively and efficiently provide reasonable assurance: (1) logical access controls will safeguard information, protect privacy, achieve WMATA's goals and objectives, and comply with established and/or relevant information technology standards, policies, and regulations; and (2) physical access controls will deter unauthorized access, alteration, theft or physical damage to WMATA's systems and assets.

  We made 10 recommendations to the General Manager/Chief Executive Officer (GM/CEO) to improve logical and physical access controls. Management concurred with the findings and recommendations.

Summary of Performance Evaluation Reports Issued

During this reporting period, we issued two performance evaluations. These are summarized below:

- Evaluation of the Washington Metropolitan Area Transit Authority's (WMATA) Disadvantaged Business Enterprise (DBE) program (Report Number IO 15-002, issued December 23, 2014). The objectives of the evaluation were to determine whether: (1) WMATA's DBE program performance was producing results that were consistent with the program's goals and objectives; and (2) the DBE program was effectively serving the program's beneficiaries.

We determined that WMATA management did not know whether the DBE program was producing results consistent with its objective. This was because DBE reports issued to WMATA management and the Board of Directors (Board) only included information on the attainment of goal commitments, with status reports reflecting new anticipated target rates. Actual achievement of the DBE goal had not been reported to management and the Board during the audit period reviewed.

We also determined that WMATA management did not have sufficient information on how well the DBE program was performing in serving its beneficiaries. This was because our evaluation found no formal program efforts were in place to develop DBEs, some barriers to DBE selection were identified, and the absence of sufficient program performance metrics were not found to effectively monitor and report on the status of DBE program activities and products.

Based on the above evaluation results, OIG made two recommendations to the Chief Procurement Officer (CPRO), and offered eight suggestions to the DBE manager that could help management improve DBE program performance and improve assistance to the program beneficiaries. In the CPRO's December 16, 2014 response, Management agreed with the report recommendations and stated in part that DBE reporting metrics would be revised to include actual performance of the most recent completed Federal Fiscal Year, and that DBE actual performance statistics would be included in their monthly reports. Management also responded that the Office of Procurement will partner with the Chief Performance Officer to develop additional performance indicators and measures where necessary by June 2016.

- Review WMATA's Escalator Rehabilitation, Replacement, and Maintenance Program (Report Number IO 15-001), issued December 23, 2014). The objective of the performance evaluation was to determine whether the program was producing results consistent with the program's objective.

  We determined the Elevator and Escalator Services (ELES) rehab, replacement, and maintenance program met its CY 2012 and CY 2013 targets in most areas and produced results that are consistent with the program's objective.

  Our analysis included System Escalator Availability; Scheduled Maintenance Compliance; Escalator Rehabilitation and Replacements; Days to Resolve Customer Complaints; System Mean Time to Repair; and Mean Time Between Failure (MTBF). Additional performance evaluations were made of comparisons of ELES employees to a contractor; MTBF for covered and uncovered entrance escalators; manufacturers; and other transit agencies.

  OIG made two recommendations to the Deputy General Manager of Operations (DGMO) to improve the Escalator Rehabilitation, Replacement and Maintenance Program. In the Assistant General Manager Transit Infrastructure and Engineering Services' (AGM/TIES) December 15, 2014, response he concurred with the recommendations and corrective actions were taken, or planned to address the recommendations.

Interim Audit Memorandum Issued

During this reporting period, we issued one Interim Audit Memorandum (Review of Security of WMATA's Oracle Databases). This report is listed in Table 2.

The purpose of an Interim Audit Memorandum is to bring to Management's attention, a serious internal control weakness or other issue discovered during an ongoing audit that needs immediate attention. The Interim report, including Management's response, will be addressed in the Final Audit report of the same title. Accordingly, the Interim Audit Memorandum is not posted on the OIG website.

Summary of Alternative Products Issued

From July 1, 2014, through December 31, 2014, we issued 14 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** (6 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, 2014, through December 31, 2014, we reviewed pricing information with a proposed value of $36,248,259 and suggested $6,399,879 in net audit adjustments. Some of the suggested adjustments involved unallowable cost, inflated cost, unsupported cost, etc.

- **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.

- **Other Attestation Reports** (4 reports)

  We also performed other attestation services as requested by PRMT, which included three rate reviews of general and administrative, overhead, payroll burden, fringe benefit rates, etc. In addition, we issued one claim 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 $140,126), we suggested $9,646 in net audit adjustments.

INVESTIGATIONS

From July 1, 2014, through December 31, 2014, we closed 9 investigations and received 231 complaints. Of the 231 complaints received, 224 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:

- Helen Lew, Inspector General, received the Chartered Global Management Accountant (CGMA) designation from the AICPA on July 31, 2014. Helen also became Chair of the American Public Transportation Association's (APTA) Committee of Audit Professionals (CAP) on October 11, 2014.

- Isabel Cumming, Assistant Inspector General – Investigations, became a Certified Inspector General on August 1, 2014. Isabel gave the Keynote address for the Maryland Chapter of Certified Fraud Examiners on September 16, 2014, at Stevenson University in Baltimore, Maryland. Isabel was also named a Leader in Law for Maryland by the *Daily Record.* The awards ceremony was on November 13, 2014 at the BWI Hilton in Maryland.

- Leon Langford, Audit Manager, Internal Operations Audit Team, gave presentations on internal controls to personnel receiving Contracting Officer's Technical Representative (COTR) training on July 22, October 8, and November 20, 2014.

- Gerald D'Angelo, Investigations Manager, gave a Fraud Awareness presentation to personnel receiving COTR training on December 10, 2014.

- Claudette Green-Thompson, Senior Auditor, Internal Operations Audit Team, gave presentations on internal controls to personnel receiving COTR training on August 6, September 11, and December 10, 2014.

CONGRATULATIONS/FAREWELLS

- Kayon Graham was promoted from an Auditor II to an Auditor III in June 2014.
- Leon Langford was promoted from Audit Supervisor to Audit Manager, Internal Operations Audit Team, in August 2014.
- Latrice Mack was promoted from an Auditor II to an Auditor III in August 2014.
- Gerald D'Angelo was promoted from Special Agent to Investigations Manager in November 2014.
- Tonny Tang was promoted from an Auditor I to an Auditor II in December 2014.
- Larry Visos was promoted from a Senior Auditor to an Audit Supervisor, Internal Operations Audit Team, in December 2014.
- Gordon Mathews, Auditor II, resigned from OIG in September 2014, to accept a job at the Defense Contract Audit Agency.
- Robert McClinton, Senior Auditor, retired from OIG in September 2014.
- Ronnie Johnson, Audit Supervisor, Contracts Audit Team, retired from OIG in December 2014.

Table 1: Recommendations Described in Previous SARs on Which Corrective Action Has Not Been Completed as of December 31, 2014

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	June 30, 2015*
Contract Audits						
CA 14-001	Review of nMomentum Corporation Contracts and Task Orders (SAR 13, Page 9)	07/26/13		1	5	June 30, 2015*
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.

Table 2: OIG Audit Reports and Alternative Products on WMATA Programs and Activities (July 1, 2014 through December 31, 2014)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
PERFORMANCE EVALUATIONS REPORTS					
Internal Operations					
IO-15-001	Review of WMATA's Escalator Rehabilitation, Replacement and Maintenance Program	12/23/14			2
IO-15-002	Evaluation of WMATA's Disadvantaged Business Enterprise Program	12/23/14			2
AUDIT REPORTS					
Information Technology					
IT 15-001	Review of WMATA's Access Security Controls	09/30/14			10
ITI 15-001	Review of Security of WMATA's Oracle Databases (Interim Audit Memorandum)	12/23/14			2
Pre-Negotiation Attestation Reports					
CAA 15-001	Independent Review of Revised Cost Proposal for Contract FQ12220 – Escalator Replacement/Rehabilitation	10/22/14			
CAA 15-002	Independent Review of Cost Proposal for Contract FQ12035 – Video Management System (VMS), Software Development and Configuration Services	10/31/14			
CAA 15-003	Independent Review of Revised Sole Source Cost Proposal for Contract CQ14121 – Preventative and Corrective Maintenance of Bus Mounted Fire Extinguishers, Fire Suppression Systems and Methane Gas Detection Systems	12/11/14			
CAA 15-004	Independent Review of Cost Proposal for Contract No. FQ14103 – System Wide Crossties, Fasteners and Insulators Renewals	12/22/14			
CAA 15-005	Independent Review of Pre-negotiation Proposal for Contract No. FP7010, PCO No. 006 – Escalator Modernization, DuPont Station	12/24/14			
CAA 15-006	Independent Review of Revised Pre-negotiation Proposal for Contract No. FQ12001, PCO-006 – Greenbelt Test Track and Commissioning Facility	12/30/14			
Pre-Award Attestation Reports					
CAM 15-002	Independent Review of Pre-Award Financial Data for Contract No. CQ14121/JAD – "Preventative and Corrective Maintenance of Bus Mounted Fire Extinguishers, Fire Suppression Systems and Methane Gas Detection Systems"	08/15/14			
CAM 15-003	Independent Review of Pre-Award Financial Data for Contract No. FQ9194 – "Yard 1 Facilities Rehabilitation"	10/20/14			

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
CAM 15-007	Independent Review of Pre-Award Financial Data for Contract No. FQ14107 "Furniture Purchase and Installation at Greenbelt, Pennsy Drive and District II Facilities"	11/18/14			
CAM 15-008	Independent Review of Pre-Award Financial Data for Contract No. FQ14103/CDS – "System Wide Crossties, Fasteners & Insulators Renewals"	11/19/14			
Other Attestation Reports					
CAM 15-001	Independent Review of Proposed Payroll Burden, Fringe Benefits, Material Overhead, Home Office General & Administrative and Bonding Rates for Contract FQ9206 – "Orange/Blue Line Rehabilitation"	07/22/14			
CAM 15-004	Independent Review of Rate Information for Contract FQ12165 – 3421 Pennsy Drive	10/21/14			
CAM 15-005	Independent Review of Rate Information for Contract FQ9206 – Access Delays – 07/11/12 – 09/30/13	10/31/14			
CAM 15-006	Independent Review of Claims for Contract CQ13053 – Additional Professional Services	11/13/14			

For purposes of this schedule, questioned costs include other recommended recoveries.

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.

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.

Table 3: Other OIG Reports on WMATA Programs and Activities (July 1, 2014 through December 31, 2014)

(None were issued this reporting period)

Report Number	Report Title	Date Issued

Table 4: Investigative Activity Statistical Profile (July 1, 2014 through December 31, 2014)

Statistic	No.
Complaints	
• Referred to Management or Other Entity	177
• No Action Taken[1]	37
• Investigations Initiated From Complaints	10
• Open Matters Pending Further Action[2]	7
Total Complaints Received	231
Investigations Closed[3]	9
Matters Pending at end of Reporting Period (17 Investigations and 19 Complaints)	36

[1] Complaint did not fit criteria for investigation or referral.
[2] Cases opened and subsequently closed during reporting period.
[3] Includes investigations from previous reports.