



M E M O R A N D U M

SUBJECT: Management Assistance Report
Review of WMATA's Improper Payments
(OIG 21-05)

DATE: June 28, 2021

FROM: OIG – Geoffrey A. Cherrington [REDACTED]

TO: GMGR – Paul J. Wiedefeld

While WMATA has disbursement controls to prevent improper payments,¹ it has not established a comprehensive improper payment program. This condition occurred because WMATA does not have a WMATA-specific requirement for identifying and reducing improper payments. We recommend that WMATA establish a comprehensive program as it is a steward of significant public resources with \$2.1 billion in total annual disbursements in FY2019. To help the program commence, OIG provided RSM's² improper payment analysis to WMATA's Office of Accounting for further review.

WMATA's Executive Vice President/Chief Financial Officer (EVP/CFO) provided written comments, dated June 16, 2021 (Appendix). The EVP/CFO fully concurred with the finding and recommendation to implement a more comprehensive improper payment review program by June 30, 2022. OIG considers management's comments responsive to the recommendation, and the planned corrective actions should correct the deficiencies identified in the report.

Attachment

cc: CFO - D. Anosike
COUN - P. Lee

¹ Broadly defined, improper payments are those made for the wrong amount, to the wrong entity, or for the wrong reason.

² Robson Rhodes, Salustro Reydel, McGladrey (RSM) United States (US) Limited Liability Partnership (LLP).

Background

What is an Improper Payment?

According to the U.S. Office of Management and Budget Circular A-123, Appendix C (“A123C”), “Requirements for Payment Integrity Improvement” (rev. March 5, 2021), an improper payment is a payment that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.

Improper payments include: any payment to an ineligible recipient; any payment for an ineligible good or service; any duplicate payment; any payment for a good or service not received, except for those payments where authorized by law; any payment that is not authorized by law; and any payment that does not account for credit for applicable discounts.

Federal Government Improper Payment Program

Prior to the passage of the Improper Payments Information Act of 2002, there was no overarching government-wide framework for measuring Federal Government improper payments and improving payment integrity. Between 2002 and 2009, as more agencies began measuring and reporting improper payment estimates for their programs, it became increasingly clear that Federal Government improper payments represented a significant management challenge. As a result, the Federal Government built a robust infrastructure of legislative and administrative requirements with which agencies must comply to prevent improper payments. These requirements are described in detail in A123C.

What is Required

WMATA is not subject to Federal Government improper payment guidance. However, WMATA may appropriately look to the following Federal Government guidance for best practices as it improves its improper payments program.

A123C Program Guidance

According to A123C, which is the most current implementation guidance for the Payment Integrity Information Act (PIIA) of 2019, the following are Federal agency requirements for preventing, reducing, tracking, determining root cause, recovering, and reporting improper payments:

Program Payment Integrity Risk Identification

As it relates to improper payments, all programs should have a structured and systematic approach to recognizing where the potential for improper payments and unknown payments can arise. The identification of payment integrity risks should be a continuous process to ensure new or changing risks are not overlooked. When identifying payment integrity risks within a program, it is important to determine and understand the inherent vulnerabilities that a program

faces based on the types of payments the program makes and how the payment process is structured.

Controls to Manage Payment Integrity Risk

Agencies have the responsibility to respond to identified payment integrity risks and prevent improper payments from occurring. In combatting payment integrity risk, it is important to assess the agency's controls and the control environment.

The following are actions management can establish through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system:

- Establishing internal control activities that are responsive to management's objectives to mitigate risks of improper payments (e.g., policies and procedures related to transaction authorization and approvals of program activities).
- Implementing pre-award and pre-payment reviews where detailed criteria are evaluated before funds are expended.
- Utilizing data analytics tools to compare information from different sources to help ensure that payments are appropriate.

The Do Not Pay (DNP) Initiative

The DNP Initiative includes multiple resources across the Federal Government designed to help agencies determine eligibility to confirm that the right recipient obtains the right payment amount. Each agency has access to and should use the DNP Initiative to verify payment eligibility for the purposes of identifying and preventing improper payments.

- DNP Portal – Online Search: Allows the agency to search by name or other uniquely identifiable information (e.g., Tax Identification Number) to match against approved data sources. The match results are immediately available in the DNP Portal for review. The DNP Portal is available to WMATA.³

What We Found

WMATA Has Not Established A Comprehensive Improper Payment Program

WMATA has disbursement controls to prevent improper payments, including:

- Authorizing invoices for payment after validating that goods and services were received;
- Performing reviews and approvals of vouchered payments based on the dollar amount of the invoice;

³ "Each State and any contractor, subcontractor, or agent of a State who are responsible for reducing improper payments of a federally funded State-Administered program" has access to and use of the DNP Portal. 31 U.S. Code § 3354(b)(3)(c). WMATA is an agency of Virginia, Maryland, and the District of Columbia as provided by Section 4 of the WMATA Compact.

- Performing capital invoice prepayment reviews, where detailed criteria are evaluated before federal grant funds are expended;
- Ensuring current W-9s are on file for active vendors before payments are made; and
- Performing tax identification number (TIN) verification on new vendors using the IRS online TIN matching tool.

Additionally, WMATA has policy instructions on “Vendor Invoice Prompt Pay” and “Payroll Overpayments and Underpayments,” department specific standard operating procedures for procurements or petty cash, as well as the accounting manual requirements for accounts payable (A/P) disbursements.

However, WMATA has not established a comprehensive improper payment program to facilitate the identification and validation of improper payments. For example, WMATA has not:

- Identified WMATA transactions that can be susceptible to improper payments;
- Performed an improper payment risk assessment;
- Designed controls to detect and reduce improper payments;
- Utilized data analytics tools such as the “DNP” Portal, as a detective internal control, to help ensure payments were appropriate; and
- Reported improper payment metrics to WMATA leadership.

Why this Occurred

A comprehensive program was not established because WMATA does not have a WMATA-specific requirement for identifying and reducing improper payments.

Why this is Important

WMATA is a steward of significant public resources, as its total annual disbursements for FY2019 was \$2.1 billion. A comprehensive improper payments program would provide transparency to WMATA’s improper payment error rate. Further, the program would ensure that WMATA has a defined proactive process to safeguard its resources against future improper payments and to recover funds when improper payments occur.

Recommendation

We recommend the General Manager/Chief Executive Officer:

1. Implement a comprehensive improper payment program, including:
 - (a) Identifying WMATA transactions that can be susceptible to improper payments;
 - (b) Performing improper payment risk assessments;
 - (c) Designing controls to prevent, detect, and reduce improper payments;
 - (d) Utilizing data analytics tools to detect and prevent improper payments; and
 - (e) Reporting improper payment metrics to WMATA leadership.

Objective, Scope, and Methodology

The objective of the review was to determine whether WMATA appropriately monitors disbursements. The scope of the review included FY2019 WMATA A/P disbursements and was based on RSM's analysis of potential improper payments and other forensic procedures.

To address the review objective, our review methodology was as follows:

- Reviewed and discussed RSM's analysis of potential improper payments and other forensic procedures.
- Reviewed RSM's work papers on the examination of potential improper payments.
- Researched Federal Government improper payment guidance to identify improper payment best practices.
- Reviewed WMATA policy instructions, department specific standard operating procedures, and accounting guidance related to A/P disbursements.
- Provided the improper payments analysis compiled by RSM to the Office of Accounting.
- Conducted interviews and discussions with personnel in the Office of Accounting.

This evaluation was conducted in accordance with the Council of Inspectors General on Integrity and Efficiency "*Quality Standards for Inspection and Evaluation*." Those standards require that we plan and perform the evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. OIG believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective.


Management's Response



M E M O R A N D U M

SUBJECT: Response to OIG's Management Assistance Report, *Review of WMATA's Improper Payments* DATE: June 16, 2021

FROM: EVP/CFO - Dennis Anosike 

THRU: GMGR – Paul J. Wiedefeld 

TO: OIG – Geoffrey A. Cherrington

The following is the Executive Vice President/Chief Financial Officer's response to OIG's Management Assistance Report, *Review of WMATA's Improper Payments*.

OIG Recommendation:

We recommend the General Manager/Chief Executive Officer (GM/CEO):

1. Implement a comprehensive improper payment program, including:
 - a. Identifying WMATA transactions that can be susceptible to improper payments;
 - b. Performing improper payment risk assessments;
 - c. Designing controls to prevent, detect, and reduce improper payments;
 - d. Utilizing data analytics tools to detect and prevent improper payments; and
 - e. Reporting improper payment metrics to WMATA leadership.

Management's Response:

Management agrees with OIG's recommendation. To address the recommendation, Management plans to develop and implement a more comprehensive improper payment review program that incorporates selected post-payment detection activities. Specifically, implementation activities will include:

1. Documenting policies and procedures that define roles, responsibilities and key internal controls designed to prevent, detect, and reduce improper payments;
2. Utilizing a risk-based approach to target high-risk transactions that may be more susceptible to improper payments;
3. Performing audits to verify the propriety of transactions and to ensure adherence to policies and procedures;
4. Leveraging data analytics tools to identify potential improper payments;

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5. Identifying root causes of improper payments and deploying improved controls to prevent/reduce further occurrences, as applicable;
6. Recouping improper payments, as appropriate;
7. Training those involved with executing program activities; and
8. Periodic metrics reporting.

Management will deploy the program in stages and will pilot certain improper payment activities beginning with FY2019 vendor payment transactions. The program will be fully implemented by June 30, 2022.

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