



**Washington Metropolitan Area Transit Authority
Inspector General's Semiannual Report to the
Board of Directors, No. 5
July 1, 2009 – December 31, 2009**



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INSPECTOR GENERAL'S MESSAGE TO THE BOARD OF DIRECTORS

February 9, 2010

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, 2009, through December 31, 2009. The audits, investigations, and other activities highlighted in this report illustrate our on-going commitment to promoting accountability, efficiency, and effectiveness in WMATA's programs and operations.

Over the last six months, OIG issued 35 audit products, including audit reports, alternative audit products, and audit waivers. We reviewed pricing information with a proposed value of \$22,103,094 and suggested \$9,520,767 in net audit adjustments. We also closed 24 investigations and processed 130 complaints.

One of the highlights during this reporting period was completing, obtaining WMATA Board of Director approval, and issuing the financial statement audit deliverables submitted by our external auditors (Clifton Gunderson LLP) almost three months ahead of last year's schedule. WMATA received an unqualified or "clean" opinion on its comparative financial statements. At the same time, we issued three information-technology-related audit reports, identifying internal control weaknesses relating to the lack of contract and management oversight over information technology projects and WMATA's information security program. Failure to address these weaknesses increases WMATA's risk that projects are not completed satisfactorily and/or that the security program does not operate as intended.

I would like to thank the Board of Directors and the General Manager for their continued support and look forward to working with them in furthering our mission and values, as well as in promoting a safe and effective transit system.

/s/

Helen Lew
Inspector General

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 about deficiencies in WMATA activities, as well as the necessity for and progress of corrective action. The OIG shall follow generally accepted audit standards for all audits, and shall supervise WMATA's annual independent audit of financial reporting. The Inspector General (IG) shall report to the Board of Directors (Board) and head the OIG. The IG shall appoint an Assistant Inspector General for Audits and an Assistant Inspector General for Investigations. The IG prepares a quarterly report to the Board's Subcommittee on Audits and Investigations and a semiannual report to the Board of Directors.

The OIG began operations on May 14, 2007, when the 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 to assist in achieving the highest levels of program and operational performance in WMATA.

Our Core Values are:

Excellence in our people, our processes, our products, and our impact;

Accountability and compliance with professional standards; and

Integrity in everything we do, ensuring that our products are fair, balanced, and credible.

Excellence - We have a commitment to excellence 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 vision of providing "The Best Ride in the Nation" and its values of safety, professionalism, integrity, continuous improvement, and respect for all.

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 — Audit and Investigations. The Audit 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, or 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 Investigation 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 OIG Audit component for audit consideration, or another agency, as appropriate.

OIG had 27 full-time employees as of December 31, 2009, the majority of whom do audits. Our staff is comprised of auditors, investigators, an information specialist, an investigative analyst, and an office administrator with educational backgrounds in accounting, finance, computer science, law, criminal justice, management information systems, and business. Seven of our staff have graduate degrees; and more than half of the staff have professional certifications as accountants, internal auditors, fraud

examiners, investigator, information systems auditors, government financial managers, and inspectors general.

AUDITS

During this reporting period we issued 35¹ audit products in the form of audit reports, alternative products, such as attestations and alert memoranda, and audit waivers.

Audit Resolution and Follow-Up

Board Resolution 2006-18 requires us to provide Semiannual Reports listing each report for which management has not completed corrective action. Table 1 shows recommendations described in the previous Semiannual Report (SARS) on which corrective action has not been completed as of December 31, 2009.

Summary of Audit Reports Issued

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

- **Financial Statement Audit Reports**

Clifton Gunderson, LLP, Certified Public Accountants & Consultants (CG) conducted the audits, and we performed oversight and monitoring procedures to ensure completion of the audit deliverables. In October 2009, we received the financial statement audit related reports² – **WMATA’s Basic Financial Statements Years ended as of June 30, 2009 and 2008 with Independent Auditor’s Report** and **WMATA’s Single Audit Report for the year ended June 30, 2009**, which 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 Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB A-133*. 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 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*

¹ This number includes two financial statement audit-related reports that were prepared by the external auditor.

² The WMATA Board accepted the reports on October 22, 2009.

Government Auditing Standards contained 10 significant deficiencies³ in internal controls over financial reporting. The 10 significant deficiencies are capitalization of construction costs (repeat from previous year), capital asset report (repeat from previous year), salary and hourly pay change documentation (repeat from previous year) and cash deposits. The remaining six significant deficiencies related to information technology controls (three of the six were repeats from previous years). Also, there is one non-compliance finding relating to indirect cost rate approval.

- **Review of Access Controls of Major Financial and Information Systems** – (Information Technology No. 10-002, issued October 14, 2009) - We conducted an audit of Access Controls of Major Financial and Information Systems to determine whether: (1) WMATA has adequate Information Technology (IT) administrative security controls (such as policies and procedures) in place to deter unauthorized access, alteration, theft, or damage to financial and management information systems, and: (2) whether WMATA has adequate logical security controls in place to restrict access by unauthorized users to system information stored electronically or allow errors and irregularities to go undetected.

We found WMATA does not have adequate administrative and logical security controls in place on the mainframe and client-server to prevent unauthorized access by employees and contractors to financial and management information including, personally identifiable information (PII). Specifically, we found: (1) user account identifications (IDs) are not effectively managed by Metro Information Technology Security (MITS), (2) MITS did not ensure re-certification of user ID roles and privileges, and (3) there was inadequate password management for certain PeopleSoft applications.

The Assistant General Manager for the Department of Information Technology (AGM) disagreed with our findings in a September 29, 2009, response to a draft of this report, but she did not provide adequate reasons for her disagreement or data to support her position, as requested. The AGM did agree with seven of our nine recommendations.

- **Review of PeopleSoft Remediation Project** – (Information Technology No. 10-001, issued October 21, 2009) - We conducted an audit of the PeopleSoft Remediation Project to determine whether the project is following a sound system development approach and meeting program expectations.

³ A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

We found WMATA did not follow a sound system remediation methodology on the Human Resource and Payroll (HRPR) Project. Specifically, IT did not adequately: (1) conduct a cost feasibility study, (2) conduct an assessment of alternative solutions, and (3) develop system requirements. IT also did not (1) develop a project master plan, (2) develop and implement a risk management program, and (3) develop system requirements. Moreover, we found that IT did not meet its program expectations for the HRPR Project of completing the project within the \$4 million estimated project cost and one year time frame. Further, the procurement vehicle used to acquire the services (time-and-materials contracts) and budget process may have contributed to approximately \$2.9 million in cost overruns and numerous project delays.

In the General Manager's October 2, 2009, response to a draft of this report, he had issues with "some aspects" of our two findings. Management agreed with all seven of our recommendations and provided some corrective actions that they have or intend to implement.

- **Audit of Martek Global Services, Inc., Contract No. CO-6048** – (Contract Audit No. 09-037) - We conducted a contract performance audit of Contract No. CO-6048 awarded to Martek Global Services, Inc. to provide services in two areas--design and development of database applications and design and development of media-based training.

We found that WMATA did not adequately manage the Martek contract to ensure that data migration from the legacy system, TrainingServer, to the PeopleSoft ELM system would be completed and within budget. Specifically, WMATA directed the contractor to perform general database support services rather than the data migration services prescribed in Task Order No. 1 of the contract.

In addition, while we found that contract payments made to Martek were proper, WMATA did not have adequate budgetary controls over task order payments to ensure funds were available to complete the data migration services, as well as to install the ELM system. This system was never installed. Lastly, WMATA must continue to use the legacy system after having spent more than \$400,000 on the ELM system.

We made five recommendations for improvement, three of which management agreed with in the General Manager's September 30, 2009, response to a draft of our report. Management neither agreed nor disagreed with the remaining two recommendations, which focused on budgetary controls and maintenance and support of the legacy training module.

Summary of Alternative Products Issued

From July 1, 2009, through December 31, 2009, we issued 22 attestation reports. Our attestation engagements are performed within the context of their stated scope and

objective(s) and can cover a broad range of financial and non-financial subjects. They can also be part of a financial audit or performance audit. They include the examination, review, or performance of agreed-upon procedures on a subject matter, or an assertion about a subject matter and the reporting on the results. Because these reports 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 work appears in Table 2.

Some key types of attestation reports issued by OIG include pre-negotiation, billing rate, Buy America, 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** (9 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. One of these reports (OIG 10-001) involved a contract that included funding under the American Economic Recover and Reinvestment Act. During the reporting period July 1, 2009, through December 31, 2009, we issued 9 Pre-negotiation Attestation Reports. We reviewed pricing information with a proposed value of \$22,103,094 and suggested \$9,520,767 in net audit adjustments.
- **Billing Rate Attestation Reports** (2 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. During the reporting period July 1, 2009, through December 31, 2009 we issued two Billing Rate Attestation Reports.
- **Buy America Attestation Reports** (1 report) The Federal Transit Administration (FTA) requires a pre-award and post-delivery certification that the manufacture of the rolling stock-vehicles (rail, bus and MetroAccess) is in compliance with the FTA Buy America Act regulations. The pre-award audit is conducted prior to the contract award and the notice-to-proceed. The post-delivery audit is conducted prior to delivery of the rolling stock vehicle. At the end of the reviews, certifications are issued stating whether the manufacturer is in compliance with the FTA Buy America regulations. This report (CAM 10-002) involved a contract that included funded under the American Economic Recover and Reinvestment Act. During the reporting period July 1, 2009, through December 31, 2009, we issued one Buy America Attestation Report.
- **Pre-award Attestation Reports** (6 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. During the period July 1, 2009, through December 31, 2009, we issued six Pre-Award Attestation Reports.

- **Other Attestation Reports** (4 reports). We also performed other attestation services as requested by management PRMT, including Advisory Memoranda on contract issues and attestation reviews of contractor claims. During the period July 1, 2009, through December 31, 2009, we issued four such Attestation Reports.

Other Audit Products

We issued eight audit waivers in response to requests from contracting officers to waive audits of cost and pricing information when this information is available and considered adequate.

INVESTIGATIONS

During the reporting period July 1, 2009, through December 31, 2009, we received a total of 142 complaints through the OIG Hotline, in writing, and in person. We processed 130 matters that included both complaints requiring investigative attention that did not result in an investigation and those referred directly to other complaint resolution processes. We opened 18 investigations and closed 24 investigations (a summary is provided in Table 4).

OTHER OIG ACCOMPLISHMENTS

Other OIG accomplishments during this reporting period include:

- Inspector General Lew facilitated two discussions—“Public Transportation Oversight” and “Inspector General Reform Act of 2008”—on October 22, 2009, and participated as a panelist on a discussion on “Challenges at Local, State, Federal & Quasi Government Inspectors General” on October 23, 2009, at the Association of Inspectors General’s Fall 2009 Conference in Washington, D.C.
- Inspector General Lew participated in a panel discussion on “Metro Partners and Oversight” before WMATA’s Riders Advisory Council on December 2, 2009, in the Jackson Graham Building in Washington, D.C. She discussed the role and responsibilities of the WMATA OIG.

- Inspector General Lew gave a presentation, entitled “WMATA—IG Oversight,” before the Washington, D.C. Chapter of the Association of Government Accountants on December 9, 2009, in Washington, D.C. She discussed some challenges as WMATA’s first Inspector General, as well as challenges that WMATA faces now and into the future.
- Special Agent Hugh Fox received his Certified Inspector General Investigator credential from the Association of Inspectors General on August 7, 2009. He was also appointed to two Association committees: (1) conferences and professional development, and (2) training.
- From July 2009 to December 2009, OIG management continued to participate in weekly New Employee Orientation training to acquaint recently hired employees of the role and mission of the OIG and to provide them with contact information.

Table 1: Recommendations Described in Previous SARs on Which Corrective Action Has Not Been Completed as of December 31, 2009

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						
OIG 08-002	Review of Internal Controls Related to Accounts Payable (SAR 1, page 3)	12/28/07		2	2	March 2010*
OIG 08-005	Review of Trapeze the Bus Rail Scheduling and Dispatch System (SAR 2, page 3)	03/25/08		1	4	Jan. 2010*
OIG 09-004	Internal Control Review of Fare Media Sales (SAR 3, page 3)	12/30/08		1	10	June 2010*
Contract Performance						
OIG 08-053	Review of Issues and Concerns on Cubic Contract (SAR 2, page 4)	02/19/08		1	1	April 2010
External Audits						
	Single Audit Report Year ended June 30, 2007 (With Independent Auditor's" Report Thereon) (SAR 1, page 4)	09/28/07		1	4	FY 2012
	Single Audit Report Year ended June 30, 2008 (With Independent Auditor's" Report Thereon) (SAR 4, page 2)	12/22/08		7	5	FY 2011
* Expected completion date changed from previous report.						

Table 2: OIG Audit Reports and Alternative Products on WMATA Programs and Activities July 1, 2009, through December 31, 2009

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
AUDIT REPORTS					
<u>Information Technology</u>					
IT 10-001	Review of PeopleSoft Remediation Project	10/21/09			7
IT 10-002	Review of Access Controls of Major Financial and Information Systems	10/14/09			9
<u>Contract Performance Audit</u>					
OIG 09-037	Audit of Martek Global Services, Inc.	10/02/09			5
<u>External Audits</u>					
	Basic Financial Statements Years ended as of June 30, 2009 and 2008 with Independent Auditor's Report	10/22/09			
	Single Audit Report for the year ended June 30, 2009 which 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 Applicable to Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB A-133	10/22/09			11
<u>Contract Attestations</u>					
<u>Pre-Negotiation Attestation Reports</u>					
CAA 10-001	Contractor's Proposal RFP# ES9143/CPR Bus and Rail Scheduling System Software Upgrade	08/05/09			

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CAA 10-002	Contractor's Proposal Contract FN5059, PCO No. 23 Supply Six (6) Oil Filled Transformers	08/17/09			
CAA 10-003	Contractor's Proposal Contract FQ9162/WJG Installation of PROTECT Chemical Intrusion System, McPherson Square Rail Station	08/25/09			
CAA 10-004	Contractor's Proposal Contract FP7027, PCOs No. 004 and 005, Deletion of GFRP Encapsulation System and Miracote Application for Rhode Island Avenue Metrorail Station Aerial Piers	08/25/09			
CAA 10-005	Contractor's Proposal Contract No. YR-9096/TGB Sole Source Procurement to Supply 400 Gearbox High Speed Couplers with Hardware	09/24/09			
CAA 10-006	Contractor's Proposal Contract No. FN8041 Electrical Work for the New Rail Lift System	10/29/09			
CAA 10-007	Contractor's Proposal Contract ES9145/BMM Sole Source Procurement for Designing and Implementing Fluid Management System	11/05/09			
CAA 10-008	Contractor's Proposal Contract CO5034 SmarTrip® Regional Customer Service Center, Request for Updated Equitable Adjustments (REA)	11/19/09			
CAA 10-009	Contractor's Proposal Contract No. FRS259, Task Order No. 020, Modification No. 029 PROTECT System Comprehensive Maintenance Services	11/30/09			
<u>Billing Rate Attestation Reports</u>					
CAM 10-009	Review of Proposed Rates, Contract CO5102 – FY 2010 Vehicle Engineering Program	10/05/09			
CAM 10-011	Review of Proposed Rates, Contract ES9145/BMM, Fluid Management System Installation	11/03/09			

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Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
<u>Buy America Attestation Report</u>					
CAM 10-002	Pre-Award Buy America Certification Audit RFP No. ES9147/SR 80 Metro Access Raised Roof Vans	07/16/09			
<u>Pre-Award Attestation Reports</u>					
CAM 10-001	Evaluation of Pre-Award Financial Data, Contract CQ9021/MJ Bus Surveillance Camera/VR Maintenance Services	07/02/09			
CAM 10-003	Evaluation of Pre-Award Financial Data, Contract No. ES9093 Bus Body Modification (Bus II) at the Carmen Turner Facility	07/16/09			
CAM 10-004	Evaluation of Pre-Award Financial Data, Contract No. FQ8143 Rehabilitation of Red Line Metrorail System – DuPont Circle to Silver Spring Station	07/24/09			
CAM 10-008	Evaluation of Pre-Award Financial Data, Contract No. YR0001 Westinghouse Modular Escalator Rack and Axle	09/14/09			
CAM 10-010	Evaluation of Pre-Award Financial Data, Contract No. FQ8001 Site Preparation and Demolition of SE Bus Garage Replacement	10/27/09			
CAM 10-013	Evaluation of Pre-Award Financial Data, Contract No. ES9135/FRV Replacement of Five (5) Prime Movers	12/01/09			
<u>Other Attestation Reports</u>					
CAM 10-005	Advisory Memorandum, Implementation of Energy Conservation Measures in WMATA Facilities	07/31/09			
CA M10-006	Advisory Memorandum, Electrical Construction Type Services	08/13/09			

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
CAM 10-007	Advisory Memorandum, Contract FO5145, Unit Prices	09/04/09			
CAM 10-012	Advisory Memorandum, Electrical Type Services	11/24/09			

* 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 offer or's accounting system and financial capability to perform the contract.

**Table 3: Other OIG Reports on WMATA Programs and Activities
 July 1, 2009, through December 31, 2009 (Not used)**

**Table 4: Investigative Activity Statistical Profile
 July 1, 2009, through December 31, 2009**

Statistic	No.
Complaints Received	142
Complaints Closed and Referred ⁴	130
Investigations Opened	18
Investigations Closed	24
Matters Pending at end of Reporting Period (Investigations and Complaints)	26

⁴ Includes both complaints requiring investigative attention that did not result in an investigation and those referred directly to other complaint resolution processes.