

Testimony
of
Helen Lew, Inspector General
Washington Metropolitan Area Transit Authority
before the
Subcommittee on Federal Workforce, Postal Service and the District of Columbia
United States House of Representatives

April 29, 2009



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Helen Lew, Inspector General
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Mr. Chairman and Members of the Subcommittee:

I would like to thank you for the opportunity to testify today about our work in the subject matter areas you identified in your April 15, 2009, request letter.

BACKGROUND

I am the first Inspector General appointed by the Board of Directors (Board) of the Washington Metropolitan Area Transit Authority (WMATA). The Office of Inspector General (OIG) was authorized by a Resolution of the Board in 2006, and I began my tenure in May 2007. I report to the Board, and as such I am independent of management. Congress recently passed legislation¹ that, if adopted by the three Compact signatory jurisdictions,² would establish OIG statutorily.

Much like a federal agency OIG, we conduct audits, investigations, and evaluations relating to WMATA activities to prevent and detect fraud, waste, and abuse and promote economy and efficiency. The WMATA Board Resolution also specifically tasked us to “supervise the Authority’s annual independent audit of financial accounts and perform a quality assurance review of the audit.” Accordingly, we oversee the external audit firm³ that conducts WMATA’s annual financial statements audit and the Single Audit⁴ on major federal programs. Additionally, we coordinate external audits

¹ Title VI of the Passenger Rail Investment and Improvement Act of 2008, Public Law 110-432.

² The District of Columbia, Maryland and Virginia.

³ Currently, Clifton Gunderson LLP.

⁴ An audit of a federal grantee receiving \$500,000 or more in federal funds to determine compliance with the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

performed by the Government Accountability Office, the U.S. Department of Transportation's Federal Transit Administration (FTA), and the U.S. Department of Homeland Security.

We track recommendations that result from our audits and audits conducted by our external auditor to ensure that management implements appropriate corrective action. We keep the Board informed of management's corrective action implementation through reporting to the Board's Subcommittee on Audits and Investigations.

Our investigations run the gamut from employee misconduct, both criminal and administrative, to lack of compliance with internal policies and procedures. In those cases where it is appropriate, we make recommendations to management based upon our investigations and track management's response. Our Investigations Office operates a Hotline that employees, contractors, and members of the public may use to report information about fraud, waste, and abuse.

We have issued three Semiannual Reports, which are available publicly on our office's web page, www.wmata.com, as are our performance audits. The Semiannual Reports provide a high-level overview of all our work during a six-month period.

This Subcommittee set out four subject areas for this hearing: current financial condition and internal controls, proposed operational and/or service changes, latest safety and security initiatives and pending capital improvement projects and funding updates. I will highlight our work and that of our external auditor in two of the four areas—internal controls and capital improvement projects.

INTERNAL CONTROLS

In our two most recent performance audits, we found internal control deficiencies in WMATA's fare media sales system and the process for accounting and reporting capital expenditures from federal grant funds.

Internal Control Review of Fare Media Sales: Our audit of WMATA's fare media sales⁵ found that the Point-of-Sales System, maintained by a contractor, lacked proper internal controls and management oversight. For example, log-on identification codes and passwords used by clerks and supervisors were not unique or confidential. There was no analysis of system logs, system reviews, exception reports and edit checks. There also was no WMATA employee assigned responsibility for overseeing the day-to-day operations of the Point-of-Sales System. Management concurred with our findings about the system and is working to improve oversight and internal controls over this system. Sales clerks and supervisors now have unique system access. Management is in the process of evaluating the feasibility of upgrading the current Point-of-Sales System or integrating this system with WMATA's current and planned systems to ensure improved security, management controls, access, reporting capabilities and maintenance.

We also found that WMATA's decentralized organizational structure for fare media sales, which is spread over four offices, does not ensure proper oversight and accountability. Management concurred with our finding and recommendation and is studying the feasibility of reorganizing under one office.

We had numerous other findings about lack of internal controls in fare media sales.⁶ Management has taken corrective action to address these control deficiencies.

Review of Capital Projects: Our audit of WMATA's accounting of capital expenditures from federal grant funds⁷ found a few instances, totaling about \$313,600,⁸ where WMATA did not use grant funds in accordance with the grant agreement. For example, a \$264,000 expense for special computers was improperly charged to a grant for bus purchases. Although these computers were used in connection with bus operations,

⁵ *Internal Control Review of Fare Media Sales*, Internal Operations No. 09-04 (Dec. 30, 2008).

⁶ These include security equipment at some sales offices was not working, consignments of fare media maintained at sales offices were not reconciled when found to be short, and some redeemed (used) fare cards were not being shredded because of equipment failure.

⁷ *Review of Capital Projects: Internal Controls*, Internal Operations No. 09-03 (Dec. 23, 2008).

⁸ This was less than one percent of our sample.

they were not eligible for the grant funds because they were not installed in the buses. A \$46,600 expense for motorcycle purchases was improperly charged to a grant for rail maintenance.

Management concurred with our findings and recommendations. It has reversed these expenditures by applying the charges to the alternative funding sources. Management also has reorganized its grant management process to improve oversight and internal controls.

External Auditor's Financial Statement Audit Opinion and Related Reports: Our external auditor issued an unqualified audit opinion on WMATA's financial statements as of June 30, 2008.⁹ This type of opinion means that WMATA's financial statements were fairly presented in all material respects in accordance with generally accepted accounting principles. Our external auditor identified 11 significant deficiencies as a result of the audit,¹⁰ such as:

- Capital asset reporting was inadequate because of limitations in the computer tracking system that prevents management from recording accurate capital asset acquisition dates.
- Certain inventory items maintained in the computerized inventory tracking system lacked documentation.
- Financial statement preparation personnel in the Office of the Chief Financial Officer were not sufficiently knowledgeable to provide complete and accurate statements. (We recognize that new senior management is now in place, including a new Chief Financial Officer, Controller and Treasurer.)

⁹ The *Independent Auditor's Report on WMATA's Financial Statements as of June 30, 2008*. The financial statements are comprised of the "Statement of Net Assets," "Statement of Revenues, Expenses, and Changes in Net Assets" and "Statement of Cash Flow."

¹⁰ These deficiencies were included in the *Independent Auditor's Report on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards*.

- Information technology (IT) controls were inadequate in several respects, including: not promptly revoking user access upon employee termination, user accounts were not periodically recertified, no final information systems security policy, no disaster recovery plan and an inadequate environmental control. These IT control issues could have security implications.

To date, the above deficiencies have not been corrected.

The *Single Audit Report*¹¹ stated that WMATA complied, in all material aspects, with federal requirements for all of its major federal programs for the year ended June 30, 2008. However, there was one instance of noncompliance relating to safeguarding of bus equipment purchased with federal funds.

CAPITAL IMPROVEMENT PROJECTS

Our work in the area of capital improvement projects takes the form of contract attestations and contract performance audits. In contract attestations, we look at a contractor's proposed or claimed price and cost data and recommend, if appropriate, adjustments for consideration in contract negotiations. Since May 2007, we have performed 141 contract attestations. We reviewed over \$124 million in contractors' proposed/claimed costs and recommended reductions of over \$26.3 million.¹²

Contract performance audits focus on whether a contractor is meeting the terms of the contract, including milestones and costs. I will discuss two such audits, both relating to the Regional Fare Collection Program.¹³ WMATA awarded multi-million-dollar contracts to two companies to implement a regional fare collection program which would integrate fare payment in the Washington/Baltimore region and to operate a Regional Customer Service Center (Service Center). The project experienced serious delays. We found

¹¹ *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 Circular A-133.*

¹² Because these reports are based upon contractor proprietary information, the reports are not posted on the OIG website and are not publicly distributed.

¹³ *Review of Issues and Concerns on Cubic Contract, Contract Audit No. 08-053 (Feb. 19, 2008); Review of Issues and Concerns on ERG Contract, Contract Audit No. 08-025 (April 29, 2008).*

that Cubic Transportation Systems (Cubic), which was supposed to upgrade the WMATA bus fare boxes and provide additional upgrades to SmarTrip card and fare collection equipment, did not meet its deadlines. We found that this was primarily because of an untimely decision by Cubic not to support the original software and WMATA's delay in making a decision to implement upgrades to the original software. We recommended a number of measures to mitigate the effect of future delays, reduce the risk of obsolete technology, and improve the timeliness of decisions and on-time performance, with which management agreed.

The second contract was awarded to ERG Transit Systems (USA), Inc. (ERG) to operate the Service Center. Cubic's delay adversely affected ERG's performance. In addition, the level of staffing required to meet the contract performance requirements for the Service Center was underestimated, and as a result, performance measures fell short when changes were made to SmarTrip or fare collection policies. We also found that the contract did not include software licensing and software maintenance agreements, thereby placing WMATA at risk. Management concurred with our recommendations. Although some corrective actions have been completed, WMATA is considering other options for fare collection.

In summary, we have accomplished much in the two years since our office came into existence. I am confident that we have added value in identifying areas in WMATA's programs and operations that need improvement. Management has been responsive to our performance audit recommendations, concurring with and implementing corrective action to address the vast majority of them.

As we go forward, we expect that our contract attestations and contract performance audits, in particular, will play a valuable role in maximizing the efficient use of funds for capital projects under the American Recovery and Reinvestment Act and any additional federal funding of WMATA. In addition, we are in the process of developing risk-based strategies to help us focus our limited audit and other resources. We look forward to

continuing to fulfill our independent oversight role and working with the WMATA Board and the General Manager.

Mr. Chairman, this concludes my prepared testimony. I will be pleased to respond to questions from you or other Members of the Subcommittee.