

Audit of WMATA's Contract Modifications Process

November 21, 2024

OIG 25-04





Results in Brief

Audit Report of the Contract Modifications Process

Audit Objective

The audit objective was to determine the effectiveness and efficiency of the internal controls for contract modifications and the change order process at the Washington Metropolitan Area Transit Authority (WMATA).

Why We Did the Audit

- This audit was included in the FY 2024 Annual Audit and Evaluation Plan in response to concerns raised by key stakeholders regarding procurement processes.
- WMATA's electronic system of records reflected a total of approximately \$8 billion active and closed contracts for fiscal years 2022 and 2023. This figure includes the cost of the modifications to those contracts. Given the potential financial impact to WMATA of base contract modifications, our audit aimed to ensure that contract modifications for fiscal years 2022 and 2023 were properly authorized, accurately recorded, and compliant with established policies and procedures.

Recommendations

This report provides six recommendations, which should help strengthen WMATA's internal controls and enhance financial accountability in the contract administration process.

What OIG Found

There are opportunities to enhance the overall effectiveness and efficiency of WMATA's internal controls related to contract modifications and change orders. Moreover, the WMATA Office of Inspector General (OIG) identified areas where the current controls were not fully effective or efficient, highlighting significant room for improvement.

For this audit OIG selected for review a sample size of 11 contracts. The modifications for 8 of the 11 contracts generally met the scope and terms of the contract. However, for 3 of the 11 contracts reviewed, OIG found insufficient evidence that purchase orders and task orders, totaling \$114,569,642, were always administered in accordance with the scope or in accordance with the cost and pricing terms of the master contracts. In addition to problems uncovered with WMATA's electronic system of records, the audit also found that all 11 contracts lacked at least some of the documentation required to be maintained.

Specifically, OIG's audit found that:

1. Purchase orders and task orders examined did not meet the scope and terms of the contracts.
2. The electronic system of records does not provide a complete view of the contract modifications and lacks application input controls for recording changes, funding limits, and purchase orders.
3. The absence of required contract documentation limits oversight and accountability.

The identified insufficiencies demonstrate the need for continuous improvement and oversight in contract management practices.



Table of Contents

- Background 3**
- Findings & Recommendations 4**
 - Finding 1 4
 - Recommendations 1-2..... 7
 - Finding 2 9
 - Recommendations 3-4..... 11
 - Finding 3 14
 - Recommendations 5-6..... 15
- Appendices 17**
 - Appendix A: Scope and Methodology 17
 - Appendix B: Finding 1 – Criteria/Requirements 18
 - Appendix C: Finding 1 – IT and A&E Contract
Sample Selection20
 - Appendix D: Finding 2 – Criteria/Requirements23
 - Appendix E: Finding 3 – Criteria/Requirements.....24
 - Appendix F: Finding 3 – Sample Selection27
 - Appendix G: Management’s Response.....28

Background

The scope of our audit included approximately \$8 billion in base contracts and contract modifications recorded in WMATA's electronic system of records, encompassing both active and closed contracts from FY2022 through FY2023. The Procurement Best Practices Manual (BPM) serves as a comprehensive guide to WMATA's procurement process for staff and others involved. The BPM describes general procurement procedures that govern the solicitation, award, and administration of all WMATA contracts and purchases for supplies, services, equipment, and construction. The BPM also describes the procedures to follow when a contract must be amended.

According to the WMATA BPM, there are two ways to amend a contract:

1. *Contract modification* - any written alteration of the specification, delivery point, frequency of delivery, period of performance, price, quantity, or other contract provisions.
2. *Change order* - a written alteration issued to modify or amend a contract. A change order is similar to a contract modification but includes additional requirements, particularly for WMATA's construction contracts. Some facts about change orders include:
 - Change orders can be a bilateral (agreed to by all parties) or unilateral (the Authority orders a contract change without the consent of the contractor) request which directs the contractor to make changes to the contracted scope of work or specification.
 - Change orders relate primarily to changes caused by unanticipated conditions encountered during construction such as those not covered by the drawings, plans, or specifications of the project.
 - Change orders are a change to the contract, such as:
 - Contract value
 - Contract terms
 - Contracts schedules
 - Scope of work
 - Responsibilities
 - Project events: liquidated damages or force majeure
 - Change orders can be initiated for out of scope work, changes in scope, and changes in conditions.
 - Change orders can be initiated by either a contractor or WMATA.

Finding 1: Purchase Orders and Task Orders Examined Did Not Meet the Scope and Terms of the Contracts

OIG selected for review a sample size of 11 WMATA contracts to determine if purchase orders and task orders for modifications met the scope and terms and conditions of the base contract. The modifications in eight of the contracts generally met the scope and terms of the contracts. In three contracts, however, the modifications did not always meet the original scope or terms of the contract. Of those three, two of the contracts were for Architecture and Engineering (A&E) services and one contract was for the procurement of Information Technology (IT) equipment (the "IT Contract").

IT Equipment Contract

The reviewed IT Contract, which was funded with federal and non-federal funds, was awarded for the purchase of IT equipment. However, the IT Contract was used to procure professional services that were not part of the original scope of the base contract. WMATA did not provide any evidence of modifications amending the contract to include professional services. According to WMATA's BPM, any out of scope contract change must be processed as a sole source procurement or competitively solicited, which was not done for the IT Contract. In addition, the Federal Transit Administration (FTA) Circular 4220.1F for Third Party Contracting Guidance prohibits adding work beyond the original contract's scope to federally funded awards.

The IT Contract Contracting Officers (CO) authorized and issued 452 Purchase Orders (POs) totaling \$125,940,201, with 51 of the POs containing language that appeared to be related to professional services that were out of scope for the contract. A review sample of eight of the 51 POs confirmed that the services provided were indeed out of scope.¹ This information was shared with Procurement, whose staff concurred with OIG's conclusion. Since 100% of the reviewed POs were found to be out of scope, OIG reasonably concluded that the 51 identified POs, totaling \$10,631,567, were also out of scope and, therefore, were questioned costs.²

WMATA's responsible IT Program Office Process Owner ("Program Office") and Procurement staff explained that they inherited the IT Contract from prior process owners. The prior CO authorized additional POs as modifications to the IT Contract without considering the terms and conditions of the base contract. Additionally, neither the Program Office nor Procurement found

¹ Refer to Table 1 of the Appendix C for detail of OIG's IT Contract PO sample selection.

² "Questioned costs" is defined as a cost that is unnecessary, unreasonable, or unsupported.

any evidence that the modifications had the appropriate approval for an “out of scope” change to the contract.

When OIG spoke with the Contract Administrator (CA) and the Program Office, they disagreed on how the IT Contract was being administered. They could not identify who authorized the POs. According to the CA, the POs for IT services were issued because the contract was being administered like a supply contract or a “pass-thru” contract. The CA also stated that those POs were likely approved by the prior CO, who has since left WMATA, but the CA could not produce written documentation of any such approval. The IT Program Office employee stated he did not approve any POs proposed by the departments that he thought did not align with the terms and conditions of the contract. However, he also stated that departments would push him for approvals.

Based on the interviews conducted and documents reviewed, OIG found that the Program Office and the CA had significantly different understandings of the contract at issue. For example, they did not agree on the maximum value for the contract base and modifications, nor did they agree on the contract type used to issue the POs. According to the CA, the contract was a Firm Fixed Price (FFP) and Indefinite Delivery Indefinite Quantity (IDIQ) contract with a maximum order amount. However, the Program Office process owner stated that it was an FFP contract with a \$10 million base year and three \$10 million option years, totaling \$40 million. Contrary to the statement provided to OIG, an email between the Program Office and the former CA shows that there was significant confusion as to whether the contract was an FFP or not. In this email, the Program Office repeatedly asked the CA for clarification as to how \$99 million could have been spent in less than a month, which is inconsistent with the idea of an FFP contract.

A&E Services Contracts

The two A&E services contracts, which were federally funded, were awarded under a Multiple Award Task Order Contract (MATOC), a form of an IDIQ contract. The MATOC master agreement and the awarded task orders set the allowable labor rates and other direct expenses for the vendors.

FTA’s Circular 4220.1 F for federal contracts outlines the requirements for contract and contract modification cost and price analyses.³ According to this guidance, WMATA must perform a cost or price analysis concerning every procurement action, including contract modifications. The method and degree of analysis depends on the facts and circumstances surrounding each

³ Refer to “Federal Transit Administration’s (FTA’s) Third Party Contracting Guidance” section in Appendix B: Finding 1 – Criteria/Requirement.

procurement, but as a starting point, the recipient must make independent estimates before receiving bids or proposals.

OIG examined six task orders (TOs) and nine change notices (CNs) associated with these two contracts. OIG found that Procurement awarded approximately \$103,938,075 in TOs and CNs that generally exceeded the allowable rates established in the MATOC master agreement without sufficient documentation or justification in the TOs and CNs. OIG also found that two of the initially approved vendors entered into a separate joint venture (JV) agreement to provide services under the MATOC TOs. However, WMATA's MATOC master agreement did not approve any JV structure or the JV's billing rates, which exceeded the original rates included in the agreement. For example, Procurement was unable to provide any evidence that the formation of the JV met the requirements during the bid and proposal process to ensure there were no unfair competitive advantages.

In response to the OIG findings, the Procurement and the Program Office staff explained that the inconsistencies between the cost and pricing terms in the MATOC master agreement were due to the renegotiation of the cost and pricing terms during the TO award process.

The consequences of not adhering to the scope and terms of a contract and/or associated modification procedures can have significant financial ramifications for WMATA, which could result in:

- *Legal and Financial Risks:* Deviating from the established terms and conditions of a base contract exposes the organization to heightened legal and financial risks. Disputes may arise, leading to costly litigation.
- *Resource Misallocation:* Inaccurate modifications may lead to misallocation of resources, including human capital, time, and materials, as activities diverge from the originally agreed-upon scope.
- *Governance Breach:* Ignoring the base contract undermines the governance framework, fostering a culture of ambiguity and disregard for established protocols, eroding organizational cohesion and effectiveness.

Recommendations

OIG recommends that the GM/CEO:

1. Establish a formal quality management system to ensure compliance with WMATA's BPM and FTA procurement standards.

Management Response

We agree with OIG's recommendation and the Chief Procurement Officer now requires Category Managers to ensure their respective Procurement teams comply with procurement policies, follows the BPM and adheres to applicable FTA regulations by conducting quarterly spot reviews to monitor compliance. Additionally, these requirements have been formalized in both the Category Managers' as well as the Contract Managers' performance plans during the FY 2025 performance planning period.

OIG Comment

OIG considers management's comments responsive to the recommendation, but to ensure compliance, management should formalize a process to monitor the quarterly spot reviews. OIG will follow up on the planned actions during the corrective action plan phase.

2. Establish a formal selection process and minimum criteria to identify and assign qualified personnel who possess the experience, knowledge, skills, and capabilities to administer WMATA contracts.

Management Response

We agree with OIG's recommendation. The minimum criteria to ensure personnel are qualified are identified in the respective job descriptions. Respective job descriptions include minimum criteria to ensure personnel are qualified.

Procurement and Material's internal Policy Memorandum No. 21-02 also establishes the certification requirements for WMATA contracting staff to ensure they are qualified to conduct proper procurement practices, contract awards, oversight, and administration. Contracting staff are required to provide proof of certification, and a list of certified staff is maintained.

As a result of an Internal Audit, Procurement and Materials has committed to establishing a cadre called Administrative Contract Management to serve as Contracting Officer's

Technical Representative for all business units. This new team would oversee the post-award functions of all of WMATA’s contracts, provide contract quality control and assurance, ensure contract and payment compliance, facilitate the centralization of contract files, assist departments with scopes of work (SOW) creation and submission, retain institutional knowledge, process contract closeout, and serve as the point of contact for support and vendor management. Procurement leadership is developing a plan to standup the program. While this will be an ongoing effort, the timeline and budget are as follows:

Hiring, Training, Onboarding	9 Months
Contract Identification, Transition	6 Months
Full Implementation	12-18 Months

WMATA currently has approximately 685 active contracts, not including Construction contracts. Each team member would manage 20-30 contracts based on size and complexity. Based on the number of contracts awarded, no greater than 25-30 FTEs have been estimated as necessary to implement the program with an annual approximate cost of \$3.1 million. This action is currently being tracked by Audit & Compliance under CAP-37284, with an estimated completion date of June 30, 2025.

OIG Comment

OIG considers management’s comments responsive to the recommendation. The corrective actions planned by management should improve and potentially resolve the issues identified in this report. OIG will follow up on the planned actions during the corrective action plan phase.

Finding 2. The Electronic System of Records Does Not Provide a Complete View of the Contract Modifications and Lacks Application Input Controls for Recording Changes, Funding Limits, and Purchase Orders

WMATA utilizes PeopleSoft, an e-business software system that provides WMATA with tools and applications to manage general business processes. PeopleSoft supports WMATA's contract management activities through various systems to include the contract modifications process.

OIG found that the PeopleSoft system of records did not provide a holistic view of the contract activities for the 11 WMATA contracts that were reviewed. The system's modules offered too many input options, leading to confusion, and funding limits were not established to avoid cost overruns.

Contract Visibility

According to WMATA's PeopleSoft Enterprise Manual, the electronic system of records should provide a detailed view of the contract specifications, all modifications, and a summary page.⁴ OIG found that while the procurement accounting system could generate a report listing base contracts, it lacked the capability to provide a consolidated view that included the details for the base contracts along with any associated modification or amendment records. Specifically, the system did not offer a predefined report template or query option to retrieve this comprehensive information for each base contract.

This limitation posed several challenges, including:

- *Incomplete Visibility:* Without a consolidated report encompassing both the base contract information and its modifications, stakeholders lack a comprehensive view of contractual agreements and any changes made over time. The lack of visibility may hinder the ability to accurately assess the full scope of contractual obligations and associated financial implications.
- *Decision-making Implications:* Executives and decision-makers rely on timely and accurate information to make informed decisions regarding resource allocation, budget, planning, and strategic initiatives. The absence of comprehensive reporting on the base

⁴ Refer to Appendix D for the criteria/requirement of WMATA's PeopleSoft Enterprise Manual.

contracts and modifications undermines the ability to assess contract performance, monitor compliance, and identify potential risks or opportunities.

Lack of Input Controls

WMATA's procurement modification request processes are problematic for several reasons:

1. *Excessive and Confusing Options*: PeopleSoft Contract Lifecycle Management (PeopleSoft CLM), the Pre-Solicitation Management Module, presents 7 different options to the user when creating contract modification requests. The options include:

- MOD-ADMIN: Modification – Administrative
- MOD-CLAIM: Modification – Claim
- MOD-OTHER: Modification – Other
- OPTION: Exercise Option
- TASK: Task Order Contract
- TASK-IT: Task Order for IT Contracts
- JOC: Job Order Contract

According to the Program Office, too many choices can overwhelm users and lead to confusion or uncertainty when selecting the appropriate option.

2. *Undefined Criteria*: The current process lacks clearly defined criteria or guidelines for selecting the appropriate option when creating modification requests. Process owners struggle to discern which options align with the specific requirements of the procurement modification, resulting in inconsistent or inaccurate requests. As a result, the Program Office has to either follow-up with Procurement on which option to choose or guess which option to use.

3. *No Funding Limits*: For three of the 11 contracts OIG examined, which were classified as IDIQ contracts, PeopleSoft lacked the capability to record or enforce contractually specified maximum funding amounts. Additionally, there is no automated mechanism within the system to alert users when they are about to exceed the maximum funding amount defined in the contract.

4. *Missing Contract Reference Number*: PeopleSoft allows a PO to be created in the system without requiring a Contract ID number to be included for the PO. As a result, for one of the 11 contracts examined, OIG could not link the recorded PO to the base contract because the Contract ID number was not originally included in the system.

Some of the contributing factors to these deficiencies are:

1. *Training Curriculum Disparity:* The PeopleSoft CLM training predominantly emphasized the initiation and processing of new purchase requests and not the initiation or processing of modification requests.
2. *Not Adhering to the Policy in the Procurement System:* Although WMATA policies and procedures require the inclusion of contract maximum funding amount limits, the electronic system of records does not have policy enforcement mechanisms to ensure consistency between the policy and the actual execution of the contract.
3. *Insufficient Validation Controls:* WMATA's procurement accounting system lacks validation controls. Such controls are essential for ensuring the completeness and accuracy of data input during the PO creation process, particularly concerning contractual obligations.

Contract modifications or the contract funding limits not being reflected in the electronic system of record could lead to potential budget overruns and financial mismanagement. It also undermines the organization's ability to make informed decisions as to the needs and costs of procurements. Further, too many or unclear data input points in the electronic system of records can compromise the data's integrity. In addition, a lack of policy enforcement mechanisms within the electronic system of records could result in inadvertent breaches of contractual obligations, overpayments, or financial losses. Collectively, these deficiencies also heighten the risk of fraudulent activities.

Recommendations

OIG recommends that the GM/CEO:

3. Update the PeopleSoft CLM training materials to include guidance on creating modification requests, similar to new requests, and reduce or clearly define the available modification request options. Additionally, ensure this guidance is incorporated into the rollout of WMATA's new electronic records system.

Management Response

PeopleSoft CLM training materials are posted on Procurement's Data and Technology webpage under Procurement Job Aids Data and Technology Management. These training

materials include guidance on creating Administrative, Other and Claim modifications. Request options are as follows:

- Administrative - used to make changes to an existing contract, purchase order, or task order, where the change does not impact the amount or dates;
- Other – used to make changes to an existing contract, purchase order, or task order. The change typically affects the amount or dates; and
- Claims – used to request funds for a claim from a vendor to recoup funds.

In line with current transformation work, MetroSync (the Authority’s new ERP system currently being implemented) training materials will be incorporated into the rollout of WMATA’s new Oracle Fusion system, estimated for the Fall of 2025.

OIG Comment

OIG considers management’s comments responsive to the recommendation and acknowledges that MetroSync could address the issues identified in this report. OIG will follow up on the planned actions during the corrective action plan phase.

4. Create the following IT procurement system internal controls for the new electronic system of records:
 - System threshold control requirement to include an estimated IDIQ or MATOC maximum order amount.
 - System threshold control requirement to prevent a purchase order record from being created past an estimated IDIQ or MATOC maximum order amount in the procurement accounting system.
 - System existence check to put a contract number in the contract number field in the purchase order record when a PO is created that is above the simplified acquisition threshold.

Management Response

We agree with this recommendation, and Procurement and Materials will share these new requirements with the Oracle Consulting implementation team to determine what functionality is available in MetroSync (Oracle Fusion) to assist with this process. As for modifications to the current PeopleSoft Financials system, the directive has been issued that there will be no new customizations. We will provide OIG with a formal response upon receipt of Oracle Consulting implementation team’s response, no later than the Fall of 2025.

OIG Comment

OIG considers management's comments responsive to the recommendation and acknowledges that MetroSync could address the issues identified in this report. OIG will follow up on the planned actions during the corrective action plan phase.

Finding 3. Absence of Required Contract Documentation Limits Oversight and Accountability

OIG reviewed the 11 WMATA contracts to assess WMATA's compliance with Procurement's BPM and FTA guidance, which require complete contract files and a centralized file system.⁵ From the 11 contracts reviewed, OIG identified 166 associated funding modifications/task orders, of which 74 were selected for further analysis. OIG's review of the document repository found a number of missing records from all 11 contracts that are required to be maintained. Specifically, from the 74 samples selected for review, OIG could not find ten modifications/task orders, one technical evaluation team analysis, 25 independent cost estimates, and 45 counsel approval records.⁶

From the documents reviewed, OIG also learned that the MATOC agreement that included the two A&E services contracts previously discussed initially had a maximum value of \$100 million. However, a modification to the MATOC agreement increased its maximum value to \$1 billion without the required supporting documentation, such as an independent cost estimate, a reasonableness/justification finding, and/or counsel approval for the modification.

OIG identified the following factors as contributors to the lack of contract documentation:

1. *Ineffective knowledge transfer plans*: The absence of a clear knowledge transfer process limits the organization's ability to pass on critical knowledge thus limiting oversight and accountability.
2. *Absence of a centralized record of contract files*: The decentralized storage of contract files has hindered efficient access and tracking, exacerbating the challenge of ensuring completeness and accuracy.
3. *Not adhering to established policies*: Inconsistent adherence to established WMATA and FTA policies and guidance contributed to the gaps in contract support documentation.

The lack of supporting contract documentation could pose a financial and reputational risk to WMATA. Additionally, it undermines WMATA's ability to manage resources effectively, make informed decisions, and fulfill contractual obligations. Finally, lack of documentation limits both oversight and accountability over WMATA's use of federal and non-federal funds.

⁵ Refer to Appendix E for the criteria/requirement of BMP and FTA Guidance.

⁶ Refer to Appendix F for a detailed breakdown of OIG sample selections.

Recommendations

OIG recommends that the GM/CEO:

5. Establish and define performance metrics to ensure the accuracy and completeness of contract documentation. Set specific improvement targets and regularly monitor progress against these metrics. Additionally, implement training programs to support the maintenance of complete and accurate documentation.

Management Response

Procurement and Material's Internal Policy Memorandum No. 23-03, Official Repository for Contract Files and Submission of Contract Files sets forth the requirement to submit the Procurement and Conformed Contract files to the Contract Library. Effective June 2023, in addition to Contract Administrators (CAs) uploading contract files to PeopleSoft Financials and also maintaining a copy of the files on the [REDACTED] drive in their respective folders, CAs are now required to submit the Procurement and Conformed Contract files within 30 calendar days after the date of the award. Upon receipt of the aforementioned files, a compliance review is conducted to ensure that the required documentation is contained within the files. If it is determined that documentation has been omitted, the Procurement Analyst requests it from the Contract Administrator and inserts it into the respective file. Procurement Managers are accountable for ensuring their respective teams comply with this function via Performance Plans.

Additionally, Procurement and Material implemented a Contract Administrator Exit Assessment set forth by the internal Policy Memorandum No. 23-04. Prior to separation from Procurement and Materials, Contract Administrators are required to complete the Contract Administrator Exit Assessment, which is maintained in a central repository.

OIG Comment

Policy Memorandum 23-03 addresses the recommendation and should resolve the issues identified in this report. Policy Memorandum 23-03, effective June 2023, was issued at the end of our audit scope, which ended in June 2023. OIG will monitor the efficacy of the Policy Memorandum during the follow-up phase to assess its impact on addressing the issues identified in this report.

6. Establish policies and procedures for the handoff of contract data and the knowledge transfer process to ensure the continual maintenance of contract files.

Management Response

WMATA's new Enterprise Resource Planning system, MetroSync will serve as the central contract repository to maintain contract files, when launched in the Fall of 2025. In the interim, Procurement and Material's internal Policy Memorandum No. 23-03, Official Repository for Contract Files and Submission of Contract Files sets forth the requirement to submit the Procurement and Conformed Contract files to the Contract Library. Effective June 2023, in addition to Contract Administrators (CAs) uploading contract files to PeopleSoft Financial and also maintaining a copy of the files on the [REDACTED] drive in their respective folders, CAs are now required to submit the Procurement and Conformed Contract files within 30 calendar days after the date of award. This policy pertains to Simplified Acquisitions, Blanket Purchase Agreements (BPA), Task Orders, Modifications/Change Orders, Invitation for Bids (IFB), Competitive Request for Proposals (RFP), and Non-Competitive Request for Proposals (RFP). Contract Administrators and Purchasing Agents may also refer to the requisite checklist posted on Procurement's webpage under 'Contract File Checklists' for file content requirements.

Additionally, Procurement and Materials implemented a Contract Administrator Exit Assessment set forth by the internal Policy Memorandum No. 23-04. Prior to separation from Procurement and Materials, Contract Administrators are required to complete the Contract Administrator Exit Assessment. The Exit Assessment is reviewed and signed by the Category Manager as well as the Contract Administrator at least two (2) weeks prior to separation from Procurement and Materials. The form shall be maintained by the Category Manager and saved in the Contract Administrator Exit Assessment repository.

OIG Comment

OIG considers management's comments responsive to the recommendation and the corrective actions taken should resolve the issue identified in this report. While MetroSync is not yet operational, the interim policies appear to support the immediate file maintenance and knowledge transfer needs. However, residual risks remain, including potential delays in MetroSync's launch, which could hinder centralized contract management, compliance challenges with decentralized interim storage, and limited knowledge transfer for unplanned staff exits. OIG will monitor these areas through follow-up to ensure full implementation and adherence.

Scope

The scope of the audit is active and closed contracts from FY2022 through FY2023.

Methodology

To achieve the audit objective, OIG's audit methodology was as follows:

- Researched background information about WMATA's contract modifications and change order processes by reviewing WMATA's procurement policy and procedures, WMATA's procurement memorandums, WMATA's procurement-related program office policies and procedures, federal procurement and contract modifications guidance, PeopleSoft procurement system manual, and industry construction change order best practices.
- Reviewed prior audits prepared by OIG, Audit & Compliance, and other transit agencies.
- Performed interviews, walkthroughs, and follow-up discussions with WMATA personnel at various departments to understand WMATA's contract modifications and change order processes and documented the discussions.
- Performed interviews with an external agency to obtain their insight, best practices, and background on their contract modifications and change order processes, specifically for architectural and engineering contracts.
- Identified and documented entity and process internal controls for WMATA's contract modifications and change order processes through narrative, flow chart, and risk control matrices.
- Obtained a contract population and selected a sample of WMATA contracts. The sample was judgmentally selected based on contracts with the highest modification amount.
- Performed testing and analysis of the internal controls for contract modifications and/or change orders for a sample of 11 WMATA contracts.
 - The sample of 11 WMATA contracts tested were part of each of the contract categories at WMATA, which were Bus, Rail, IT, Construction, and Business Administration.

Generally Accepted Government Auditing Standards (GAGAS) Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Federal Transit Administration's (FTA's) Third Party Contracting Guidance

According to FTA's Circular FTA C 4220.1 F for federal contracts, WMATA must perform a cost analysis or price analysis in connection with every procurement action, including contract modifications. The method and degree of analysis depends on the facts and circumstances surrounding each procurement. Still, as a starting point, the recipient of federal funds must make independent estimates before receiving bids or proposals.

Cost Analysis - Circular FTA C 4220.1 F states:

The recipient must obtain a cost analysis when a price analysis will not provide sufficient information to determine the reasonableness of the contract cost. The recipient must obtain a cost analysis when the offeror submits elements (that is, labor hours, overhead, materials, and so forth) of the estimated cost (such as professional consulting and A&E contracts, and so forth). The recipient is also expected to obtain a cost analysis when price competition is inadequate, when only a sole source is available, even if the procurement is a contract modification, or in the event of a change order. The recipient, however, need not obtain a cost analysis if it can justify the price reasonableness of the proposed contract based on a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation.⁷

WMATA's Procurement Best Practices Manual (BPM)

WMATA's *BPM* provides the following guidance for contract modifications:

- *Contract Modifications*: For additional work or work outside the scope of the contract, the Authority shall not be responsible for any costs incurred unilaterally by a contractor for any additional work, or other actions by a contractor outside the scope of the written contract and written contract modifications signed by the Contracting Officer. A contractor shall not rely upon any written or oral statements or directions of employees or agents of the Authority other than the Contracting Officer for authority to perform work, alter schedules or specifications, or any other action that would normally require a written contract modification.
- *Ordering Procedures*: Individual orders shall clearly describe all services to be performed or supplies to be delivered so the full total cost or price for the performance of the work can be established when the order is placed. Orders shall be within the scope of the contract, shall be issued within the period of performance, and shall establish a maximum dollar value or fixed price beyond which the contractor is not obligated to perform without its agreement.

⁷ Circular FTA C 4220.1 F, Ch. VI.6, p.22 (Rev. 4, Mar. 18, 2013).

- *Orders Under Multiple Award Contracts*

- *Orders exceeding \$10,000 but less than \$5 million* - These orders should be placed on a competitive basis that includes providing a fair notice of the intent to purchase, a clear description of the supplies or services to be procured, and the basis upon which the selection will be made. Cost or price will be one factor in the selection decision. Other factors may include the contractor's particular qualifications for the work, schedule, and contractor availability, past performance, the contractor's description of how it would accomplish the work, and minimum order requirements. All contractors should have a fair opportunity to submit an offer and have that offer fairly considered. The Authority will have broad discretion to select the awardee. The basis for the award for the order shall be documented. Formal evaluation plans or scoring of quotes is not required.
- *Orders exceeding \$5 million* - For task or delivery orders over \$5 million, Contracting Officers must provide a clear statement of the Authority's requirements, a reasonable response period, and a disclosure of the significant factors and subfactors, including cost or price that the agency expects to consider in evaluating proposals and their relative importance. Contracting Officers may consider past performance on earlier orders, potential impact on other orders, and minimum order requirements.

Table 1. POs Issued That Did Not Reconcile to Terms and Conditions

Contract Category Area	PO No.	Item Description	PO Line-Item Amount (\$)
IT Category Contract	PO #1	Cyber Security Design Professional Services	523,720
IT Category Contract	PO #2	Contractor Professional Services other than the Contractor who was awarded the contract. (Not a Sub-Contractor)	302,841
IT Category Contract	PO #3	Professional Services	1,509,409
IT Category Contract	PO #4	IT Program Support Services	398,768
IT Category Contract	PO #5	Project Management Professional Services	309,353
IT Category Contract	PO #6	Cloud Services	63,900
IT Category Contract	PO #7	General Professional Services	123,976
IT Category Contract	PO #8	Cybersecurity Incident Response	165,690
Total of POs:			3,397,657

Table 2. TOs and/or CN Issued Not Reconciled to Cost and Pricing Terms

#	Contract	Task Order (TO)	Change Notice (CN)	Description	TO Total Amount (\$)	CN Total Amount (\$)	PoP / Duration (Days)
1	Construction Category Contract #1	██████████	NA	Radio Program Project Management – Supplemental Staff Augmentation	9,377,093	NA	730
2	Construction Category Contract #1	██████████	CN 1	Radio Program Project Management – Supplemental Staff Augmentation	NA	3,893,755	554
3	Construction Category Contract #1	██████████	CN 2	Radio Program Project Management – Supplemental Staff Augmentation	NA	5,537,614	396

Appendix C: Finding 1-IT and A&E Contract Sample Selection

#	Contract	Task Order (TO)	Change Notice (CN)	Description	TO Total Amount (\$)	CN Total Amount (\$)	PoP / Duration (Days)
4	Construction Category Contract #1		CN 3	Radio Program Project Management – Supplemental Staff Augmentation	NA	23,092,213	629
5	Construction Category Contract #1		NA	Structural Priorities Program –A & B PM/CM Staff Augmentation	13,930,199	NA	822
6	Construction Category Contract #1		CN 1	Fund Re-allocation	NA	NA	NA
7	Construction Category Contract #1		CN 2	Structural Priorities Program – A & B PM/CM Staff Augmentation	NA	6,960,184	662
8	Construction Category Contract #1		NA	Technical Writer for Quality Management Documentation	176,191	NA	263
9	Construction Category Contract #2		NA	PM/CM Support for Northern Bus Garage Construction	8,495,824	NA	457
10	Construction Category Contract #2		NA	Traction Power, AC Power Construction Management and On-Call Construction Management Support	4,426,672	NA	425
11	Construction Category Contract #2		CN 1	Traction Power, AC Power Construction Management and On-Call Construction Management Support	NA	72,520	80

Appendix C: Finding 1-IT and A&E Contract Sample Selection

#	Contract	Task Order (TO)	Change Notice (CN)	Description	TO Total Amount (\$)	CN Total Amount (\$)	PoP / Duration (Days)
12	Construction Category Contract #2		CN 2	Traction Power, AC Power Construction Management and On Call Construction Management Support	NA	8,300,621	546
13	Construction Category Contract #2		CN 6	Traction Power, AC Power Construction Management and On-Call Construction Management Support	NA	1,426,948	364
14	Construction Category Contract #2		CN 13	Traction Power, AC Power Construction Management and On-Call Construction Management Support	NA	7,335,794	366
15	Construction Category Contract #2		NA	Lighting & Station Modernization	10,912,447	0	659
Sum Totals:					47,318,426	56,619,649	
Grand Total:					103,938,075		

According to WMATA's PeopleSoft Enterprise Manual⁸, the procurement accounting system stated that it should have:

- Effective contract management requires the ability to analyze contracts quickly and to easily gain insight into the specifications of the contract. A Contract Summary should provide a more detailed view of contract specifications, such as products or services being sold, as well as the value of the contract. Pages from the summary should enable a user to review contract details.
- A contract amendment is any change made to an active contract, altering certain obligations and entitlements. An amendment could include modifications to the data contained in the contract, limit changes, changes to withholding terms and conditions, and changes to progress payment terms. Amendment processing should create an audit trail, as well as a historical record of certain changes made to the contract throughout its life cycle.
- Contract summaries are vital pieces of information for all organizations. A Review Contract Summary page should display existing contract-related information, such as where the contract is in its life cycle, associated amendments, and contract amounts (including total amount invoiced, total cash collected, total revenue recognized, and total forecasted revenue).
- The information within a contract controls multiple business processes. Users within different departments might be responsible for setting up a contract, administering the billing for the contract, administering the revenue recognition for the contract, and processing any amendments for that contract.

⁸ PeopleSoft Enterprise Manual, p.24, "PeopleSoft Enterprise Contracts for Government Contracting 9.1 PeopleBook."

Federal Transit Administration's (FTA's) Third Party Contracting Guidance

According to FTA's Circular FTA C 4220.1 F for federal contracts, WMATA must perform a cost or price analysis in connection with every procurement action, including contract modifications.

WMATA's BPM

1. According to WMATA's *BPM*⁹, Contract Administrators must assemble all relevant written records for all procurements. The procurement record includes all relevant documentation including, but not limited to, the rationale for the method of procurement, selection of contract type, contractor selection, basis for contract price, the independent cost estimate, and cost or price analysis.
2. According to WMATA's *BPM*¹⁰, the head of each Program Office performing contracting or contract administration functions shall generally establish files containing the records of all contractual actions pertinent to that office's responsibility according to the following rules:
 - The documentation in each contract file maintained by Procurement shall be sufficient to constitute a complete history of the transaction for the following purposes:
 - Providing a complete background as a basis for the decisions made at each step of the procurement process;
 - Supporting actions taken;
 - Providing information for reviews and investigations; and
 - Furnishing essential facts in the event of litigation.
 - Files to be established include, but are not limited to:
 - A file for canceled solicitations;
 - A file for each contract; and
 - A separate Contracting Officer's Technical Representative or Contracting Officer's Representative file.

⁹ WMATA's Office of Procurement and Materials Best Practices Manual, Version 0.0, dated April 15, 2022, Section 2-15 "Procurement Record and Checklist", p.46.

¹⁰ WMATA's Office of Procurement and Materials Best Practices Manual, Version 0.0, dated April 15, 2022, Section 18-9 "Authority Contract Files", p.308.

- A contract file generally consists of:
 - The procurement office contract file that documents the basis for the procurement and the award, the assignment of contract administration (including payment responsibilities), and any subsequent action taken by the contracting office;
 - The contract administration contract file that documents actions reflecting the performance of contract administration responsibilities; and
 - The Program Office contract file that documents actions prerequisite to substantiating and reflecting contract payments.

- Each file shall be maintained:
 - Normally, each file should be kept separately; however, any or all files may be combined.
 - At organizational levels that ensure:
 - Effective documentation of contract actions;
 - Ready accessibility to principal users;
 - Minimal establishment of duplicate and working files;
 - Safeguarding of confidential documents; and
 - Conformance with any procedures for file location and maintenance.
 - In an established central file system to ensure the ability to locate contract files.

- Bid or proposal information and source selection information must be protected from disclosure to unauthorized persons.

- The Authority may retain contract files in any medium (paper, electronic, etc.), or any combination of media, provided the requirements of this section are satisfied.

- Contracting Officers or authorized representatives, acting within the scope of their delegated contract authority, are authorized to execute a contract modification on behalf of the Authority. All other Authority personnel are prohibited from taking any of the following actions:
 - Executing contract modifications;
 - Acting in a manner that causes a contractor to believe that they are authorized to bind the Authority; or
 - Directing or encouraging a contractor to perform work that should be the subject of a contract modification.

3. According to WMATA's Procurement Best Practices Manual¹¹, WMATA Counsel must review and approve modifications incorporating price increases greater than \$250,000 or 10% of the contract price. Notwithstanding this threshold, program offices should seek WMATA Counsel review of any modification about which it has a concern or question.

¹¹ WMATA's Office of Procurement and Materials Best Practices Manual, Version 0.0, dated April 15, 2022, Section 18-10 "Contract Modifications", p.309.

Table 3. Missing Supporting Documentation

#	Contract	Total Funding Modifications (MOD)/ Task Orders (TO)	Funding MOD/TO Tested	Missing Documentation			
				MOD/TO Document	TET	ICE	COUN Approval
1	Bus Category Contract 1	9	2	0	0	0	2
2	Bus Category Contract 2	24	15	0	0	0	7
3	IT Category Contract	9	7	3	1	7	6
4	Bus Category Contract 3	21	7	0	0	6	6
5	Bus Category Contract 4	7	2	0	0	0	1
6	Bus Category Contract 5	15	9	0	0	2	2
7	Construction Category Contract #1	25	8*	0	0	0	4
8	Construction Category Contract #2	24	7**	0	0	0	6
9	Bus Category Contract 6	6	2	1	0	1	0
10	Rail Category Contract 1	13	2	0	0	1	1
11	Business Operations Contract 1	13	13	6	0	8	10
	Sum Totals:	166	74	10	1	25	45

*Three modifications included five change notices

**Three modifications included four change notices

M E M O R A N D U M



SUBJECT: OIG Audit Report: Audit of
WMATA's Contract Modifications
Process

DATE: November 7, 2024

FROM: Executive Vice President and
Chief Financial Officer – Yetunde Olumide

TO: OIG – Michelle Zamarin

WMATA management has carefully reviewed the Office of Inspector General's (OIG) October 10, 2024 report, "Audit of WMATA's Contract Modifications Process." We concur with OIG's recommendations and appreciate the detailed analysis. We have implemented several corrective actions and we are committed to addressing the remaining recommendations promptly and effectively to ensure continuous improvement in our processes.

Furthermore, the Procurement and Materials department is undergoing a transformation process to better align with the Authority's Strategic Transformation Plan, Your Metro, The Way Forward. This alignment will ensure streamlined processes, enhanced transparency and financial efficiencies. The transformation project is scheduled to conclude in the third quarter of FY2025 with implementation occurring immediately.

- 1) **Establish a formal quality management system to ensure compliance with WMATA's BPM and FTA procurement standards.**

Response:

We agree with OIG's recommendation and the Chief Procurement Officer now requires Category Managers to ensure their respective Procurement teams comply with procurement policies, follows the BPM and adheres to applicable FTA regulations by conducting quarterly spot reviews to monitor compliance. Additionally, these requirements have been formalized in both the Category Managers' as well as the Contract Managers' performance plans during the FY 2025 performance planning period.

- 2) **Establish a formal selection process and minimum criteria to identify and assign qualified personnel who possess the experience, knowledge, skills, and capabilities to administer WMATA contracts.**

Response:

We agree with OIG's recommendation. The minimum criteria to ensure personnel are qualified are identified in the respective job descriptions. Respective job descriptions include minimum criteria to ensure personnel

are qualified.

Procurement and Material's internal [Policy Memorandum No. 21-02](#) also establishes the certification requirements for WMATA contracting staff to ensure they are qualified to conduct proper procurement practices, contract awards, oversight, and administration. Contracting staff are required to provide proof of certification, and a list of certified staff is maintained.

As a result of an Internal Audit, Procurement and Materials has committed to establishing a cadre called Administrative Contract Management to serve as Contracting Officer's Technical Representative for all business units. This new team would oversee the post-award functions of all of WMATA's contracts, provide contract quality control and assurance, ensure contract and payment compliance, facilitate the centralization of contract files, assist departments with scopes of work (SOW) creation and submission, retain institutional knowledge, process contract closeout, and serve as the point of contact for support and vendor management. Procurement leadership is developing a plan to standup the program. While this will be an ongoing effort, the timeline and budget are as follows:

Hiring, Training, Onboarding	9 Months
Contract Identification, Transition	6 Months
Full Implementation	12-18 Months

WMATA currently has approximately 685 active contracts, not including Construction contracts. Each team member would manage 20-30 contracts based on size and complexity. Based on the number of contracts awarded, no greater than 25-30 FTEs have been estimated as necessary to implement the program with an annual approximate cost of \$3.1 million. This action is currently being tracked by Audit & Compliance under CAP-37284, with an estimated completion date of June 30, 2025.

- 3) **Update the PeopleSoft CLM training materials to include guidance on creating modification requests, similar to new requests, and reduce or clearly define the available modification request options. Additionally, ensure this guidance is incorporated into the rollout of WMATA's new electronic records system.**

Response:

PeopleSoft CLM training materials are posted on Procurement's Data and Technology webpage under Procurement Job Aids [Data and Technology Management](#). These training materials include guidance on creating Administrative, Other and Claim modifications. Request options are as follows:

- Administrative - used to make changes to an existing contract, purchase order, or task order, where the change does not impact the amount or dates;
- Other – used to make changes to an existing contract, purchase order, or task order. The change typically affects the amount or dates; and
- Claims – used to request funds for a claim from a vendor to recoup funds.

In line with current transformation work, MetroSync (the Authority's new ERP system currently being implemented) training materials will be incorporated into the rollout of WMATA's new Oracle Fusion system, estimated for the Fall of 2025.

- 4) Create the following IT procurement system internal controls for the new electronic system of records:**
- a) System threshold control requirement to include an estimated IDIQ or MATOC maximum order amount.**
 - b) System threshold control requirement to prevent a purchase order record from being created past an estimated IDIQ or MATOC maximum order amount in the procurement accounting system.**
 - c) System existence check to put a contract number in the contract number field in the purchase order record when a PO is created that is above the simplified acquisition threshold**

Response:

We agree with this recommendation, and Procurement and Materials will share these new requirements with the Oracle Consulting implementation team to determine what functionality is available in MetroSync (Oracle Fusion) to assist with this process. As for modifications to the current PeopleSoft Financials system, the directive has been issued that there will be no new customizations. We will provide OIG with a formal response upon receipt of Oracle Consulting implementation team's response, no later than the Fall of 2025.

- 5) Establish and define performance metrics to ensure the accuracy and completeness of contract documentation. Set specific improvement targets and regularly monitor progress against these metrics. Additionally, implement training programs to support the maintenance of complete and accurate documentation.**

Response:

Procurement and Material's internal [Policy Memorandum No. 23-03, Official Repository for Contract Files and Submission of Contract Files](#) sets forth the requirement to submit the Procurement and Conformed Contract files to the Contract Library. Effective June 2023, in addition to Contract Administrators (CAs) uploading contract files to PeopleSoft Financials and also maintaining a copy of the files on the [REDACTED] drive in their respective folders, CAs are now required to submit the Procurement and Conformed Contract files within 30 calendar days after the date of the award. Upon receipt of the aforementioned files, a compliance review is conducted to ensure that the required documentation is contained within the files. If it is determined that documentation has been omitted, the Procurement Analyst requests it from the Contract Administrator and inserts it into the respective file. Procurement Managers are accountable for ensuring their respective teams comply with this function via Performance Plans.

Additionally, Procurement and Material implemented a Contract Administrator Exit Assessment set forth by the internal [Policy Memorandum No. 23-04](#). Prior to separation from Procurement and Materials, Contract Administrators are required to complete the Contract Administrator Exit Assessment, which is maintained in a central repository.

6) Establish policies and procedures for the handoff of contract data and the knowledge transfer process to ensure the continual maintenance of contract files.**Response:**

WMATA's new Enterprise Resource Planning system, MetroSync will serve as the central contract repository to maintain contract files, when launched in the Fall of 2025. In the interim, Procurement and Material's internal [Policy Memorandum No. 23-03, Official Repository for Contract Files and Submission of Contract Files](#) sets forth the requirement to submit the Procurement and Conformed Contract files to the Contract Library. Effective June 2023, in addition to Contract Administrators (CAs) uploading contract files to PeopleSoft Financial and also maintaining a copy of the files on the [REDACTED] drive in their respective folders, CAs are now required to submit the Procurement and Conformed Contract files within 30 calendar days after the date of award. This policy pertains to Simplified Acquisitions, Blanket Purchase Agreements (BPA), Task Orders, Modifications/Change Orders, Invitation for Bids (IFB), Competitive Request for Proposals (RFP), and Non-Competitive Request for Proposals (RFP). Contract Administrators and Purchasing Agents may also refer to the requisite checklist posted on Procurement's webpage under 'Contract File Checklists' for file content requirements.

OIG Audit Report: Audit of WMATA's Contract Modification Process
Page 5

Additionally, Procurement and Materials implemented a Contract Administrator Exit Assessment set forth by the internal [Policy Memorandum No. 23-04](#). Prior to separation from Procurement and Materials, Contract Administrators are required to complete the Contract Administrator Exit Assessment. The Exit Assessment is reviewed and signed by the Category Manager as well as the Contract Administrator at least two (2) weeks prior to separation from Procurement and Materials. The form shall be maintained by the Category Manager and saved in the Contract Administrator Exit Assessment repository.

cc: Senior Executive Team
VP & Chief Risk and Audit Officer - Elizabeth Sullivan

To Report Fraud, Waste, or Abuse

Please Contact:

Email: hotline@wmataoig.gov

Website: wmataoig.gov/hotline-form/

Telephone: 1-888-234-2374

Facsimile: 1-800-867-0649

Address: WMATA
Office of Inspector General
Hotline Program
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