

Washington State Auditor's Office
Accountability Audit Report

**Central Puget Sound Regional Transit
Authority
(Sound Transit)
King County**

Report Date
December 20, 2012

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WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

January 7, 2013

Board of Directors
Sound Transit
Seattle, Washington

Report on Accountability

We appreciate the opportunity to work in cooperation with your Authority to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on the Sound Transit's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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King County
December 20, 2012

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Audit Summary

**Sound Transit
King County
December 20, 2012**

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of Sound Transit from January 1, 2011 through December 31, 2011.

We evaluated internal controls and performed audit procedures on the activities of the Authority. We also determined whether the Authority complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Compliance with transit security and police contracts
- Open public meeting minutes
- Fare enforcement
- Expenditures
- Change orders – public works and professional services
- Self-insurance programs

RESULTS

In most areas, the Authority complied with state laws and regulations and its own policies and procedures.

However, we identified a condition significant enough to report as a finding:

- Sound Transit lacks adequate internal controls to ensure it properly monitors its security and police contracts, resulting in late fees of \$126,147 and unallowable costs of \$191,525 over a 4½-year period. In addition, Sound Transit paid invoices totaling \$17,113,873 without sufficient supporting documentation over a 4½-year period.

Related Reports

**Sound Transit
King County
December 20, 2012**

FINANCIAL

A financial statement audit was performed by a firm of certified public accountants. That firm's report is available from the Authority. Unqualified opinions were issued on the financial statements and compliance with federal grant programs and there were no material weakness in internal control.

PERFORMANCE AUDITS

Initiative 900, approved by voters in 2005, gives the State Auditor's Office the authority to conduct independent performance audits of state and local government entities. Performance audits may include objective analysis on ways to improve program performance and operations, reduce costs and identify best practices.

We issued the Sound Transit: Performance Audit of the Citizen Oversight Panel, Adjustments to Planned Investments, Construction Management and Ridership Forecasts performance audit report in October 2012. That report is available on our Web site.

Description of the Authority

**Sound Transit
King County
December 20, 2012**

ABOUT THE AUTHORITY

In 1992 the Washington State Legislature authorized King, Pierce and Snohomish counties to create a single agency to plan, build and operate a high-capacity transit system within the Puget Sound region's most heavily traveled corridors. On September 17, 1993, the Central Puget Sound Regional Transit Authority, which today operates under the name Sound Transit, was established. The Authority comprises five subareas within the contiguous urbanized areas of Snohomish, King and Pierce counties. The service area is home to approximately 2.7 million people, or 80 percent of the three-county population.

In 1996 voters approved a Regional Transit System Plan – Sound Move – that extends from 1997 through 2016. The plan incorporates elements of commuter rail, express bus and light rail. To date, the Authority has implemented the following services: 74 miles of commuter rail services providing nine round trips daily between downtown Seattle and Tacoma and four round trips daily between Seattle and Everett, 24 express bus routes with a fleet of 261 buses, 1.6 miles of light rail line in Tacoma and 13.4 miles of link light rail line from downtown Seattle to Sea-Tac Airport.

The Authority is governed by an 18-member Board of Directors, 17 of who are appointed by the executives of member counties and confirmed by the Council of each member county. Membership is based on the population from that portion of each county within the Authority's service area. The final member is the Secretary of the Washington State Department of Transportation.

The Authority is supported primarily through sales taxes, motor vehicle excise taxes, rental car taxes, passenger fares and grants from federal and state agencies. The Authority's 2011 budget totaled approximately \$1.1 billion and included approximately \$765 million in capital outlay. The Authority has approximately 585 employees.

ELECTED OFFICIALS

These officials served during the audit period:

Board of Directors:

Snohomish County Executive
City of Issaquah Deputy Council
President
City of Lakewood Councilmember
City of Bellevue Councilmember
City of Seattle Council President
King County Executive
City of Sumner Mayor
City of Tacoma Deputy Mayor
Washington State Secretary of
Transportation
King County Councilmember
City of Seattle Mayor
King County Councilmember
King County Councilmember
City of Everett Council President
King County Councilmember
City of Mukilteo Mayor
City of Redmond Mayor
Pierce County Executive

Aaron Reardon, Chair

Fred Butler, Vice Chair
Claudia Thomas, Vice Chair
Claudia Balducci
Richard Conlin
Dow Constantine
Dave Enslow
Jake Fey

Paula J. Hammond, P.E.
Joe McDermott
Mike McGinn
Julia Patterson
Larry Phillips
Paul Roberts
Peter von Reichbauer
Joe Marine
John Marchione
Pat McCarthy

APPOINTED OFFICIALS

Chief Executive Officer
Chief Deputy Executive Officer
Chief Financial Officer

Joni Earl
Celica Kupersmith
Brian McCartan

AUTHORITY CONTACT INFORMATION

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Seattle, WA 98104-2826

Phone: (206) 689-4924

Website: www.soundtransit.org

AUDIT HISTORY

We audit the Authority annually. We have not reported findings for the past five audits. However, we are reporting one finding for this audit period.

Schedule of Audit Findings and Responses

Sound Transit King County December 20, 2012

- 1. Sound Transit lacks adequate internal controls to ensure it properly monitors its security and police contracts, resulting in late fees of \$126,147 and unallowable costs of \$191,525 over a 4½-year period. In addition, Sound Transit paid invoices totaling \$17,113,873 without sufficient supporting documentation over a 4½-year period.**

The Authority contracted with a local enforcement agency and a private security company to provide security services. The contract with the local enforcement agency was for approximately \$33.3 million from July 1, 2008 to December 31, 2013. The contract with the private security company was for \$28 million from July 1, 2008 to June 30, 2013.

We reviewed the payments for both contracts to determine if they were adequately supported and paid according to the contract requirements. Our audit found:

Late Fees

The Authority paid \$126,147 in late fees for invoices from the private security company. The Chief of Security noted during the audit that he had been budgeting for the late fees.

Unallowable costs

The employee responsible for reviewing the private security company's invoices is not adequately trained to do so and is not aware of contract requirements. We found the employee approved invoices with billing rates that were more than the contracted rates. Specifically:

- The contract states the Authority will not pay more than what is stated in the contract. Currently, the contract billing rate is the hourly rate plus a 30 percent markup for overhead and profit. We noted the Authority paid the private security agency at time and half for holiday work, totaling \$189,879, and for attending court appearances, totaling \$1,532, not allowed by the contract.
- The Authority overpaid \$114 because the incorrect contract billing rate was used.

Inadequately supported costs

The Authority approved and paid invoices totaling \$17,081,913 that lacked adequate detail to show the purpose of the expense. The person responsible for reviewing and approving the invoices does not review them to ensure services were provided and amounts are supported by adequate details. The employee relies on the local enforcement agency to do that review. The contract states the local enforcement agency must submit monthly invoices to the Authority for one-twelfth of the estimated annual cost and, at the end of each year, submit a reconciliation showing total actual expenditures compared to budgeted expenditures.

We noted the Authority did not enforce this requirement. It allowed the agency to bill based on actual expenditures and did not require the agency to provide documentation supporting the actual costs. Moreover, the invoices were submitted semi-annually between 2008 and 2011, rather than monthly, and the Authority has not received invoices for the first nine months of police services in 2012.

We also noted the Authority paid overtime for security officers. The contract states the Authority will not pay overtime unless authorized in writing by the Authority. We noted the Authority paid \$31,960 in unapproved overtime.

Authority management did not establish adequate internal controls to ensure staff responsible for approving security and police services invoices, only after reviewing sufficient detail showing charges are reasonable and within the scope of the contract.

We recommend the Authority:

- Obtain sufficient details and documentation on security and police invoices to support charges before paying the invoices.
- Provide training to the staff reviewing the security and police service invoices and ensure they have adequate understanding of the contract requirements.
- Comply with contract requirements or amend the contract to reflect current practices.

When performing our audit we considered the following requirements:

The *Budgeting Accounting and Report Standards Manual* (BARS Volume 1 Part 3 Chapter 1 Section C).

The Authority provides the following information related to the findings of this audit:

Sound Transit appreciates the auditor's efforts and the opportunity to comment and respond. We agree with the auditor's finding that recommends improvements to our processing of monthly invoices from both the King County Sheriff's Office (Sheriff's Office) and our contracted private security company.

We are taking actions immediately to implement the auditor's recommendations. Although we recognize the need to improve in this area, we would also like to describe

the processes and procedures already in place to monitor the performance of both the Sheriff's Office and the security firm. While invoice review should be strengthened as recommended by the audit, it is important to acknowledge that Sound Transit has strong contract management in place to ensure the security services are received consistent with the contract obligations. Sound Transit and the public have received high level security services through these contracts.

Sound Transit monitors the services it receives under its security and police contract through the development and review of detailed service level plans that take into account location, staffing and service level requirements as well as projected needs for overtime for special events or other additional service requirements to meet public safety needs. Monthly activity results are tracked for purposes of managing service delivery in connection with public safety needs in the field and the frequency of different types of incidents.

Specific to the findings of the auditor:

Late fees – *The Agency has procedures to provide visibility to late payments however they were not understood or followed for the private security contract. In the desire to track services and costs associated with specific facilities and transit services, coding procedures were established that were unduly burdensome and delayed processing time. Process improvements have been identified and will be implemented that will reduce staff time and effort and will provide more time for invoice review, while still preserving strong cost tracking necessary for effective management.*

Unallowable costs – *Contractor entitlement to holiday pay and court appearances under the contract was incorrectly interpreted and applied and should have been characterized as part of the all-inclusive rate provided under the current contract. Sound Transit has commenced pursuit of any recoveries it may be entitled to from the service provider.*

Inadequately supported costs – *Policing services are provided by the Sheriff's Office in a manner consistent with services provided to other governmental entities within the County at billing rates and cost allocations consistently used for all entities contracting for police services. In order to obtain more detailed cost information earlier and throughout the year, the Sheriff's office accommodated a request by the Agency for different billing arrangement whereby monthly actual amounts were billed for labor costs. After this change was made, the supporting information that was previously received and reconciled by the Agency on an annual basis was not provided with the monthly invoices. Another result was delays in the submission of invoices by the Sheriff's Office as the new approach was not consistent with how it processed billings to other governmental entities. Sound Transit is now receiving supporting billing detail and the Sheriff's Office invoicing is more current.*



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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