



Internal Audit Report

Project Labor Accounting 2015-2016

Report Number: 2016-03 | Report Date: June 1, 2016

Executive Summary

Audit Report No.: 2016-03

June 1, 2016

WE AUDITED management practices and procedures associated with project labor accounting.

AUDIT OBJECTIVE was to determine whether management has implemented effective controls to provide reasonable assurance of accuracy and completeness in the recorded/reported project labor information.

The audit examined management controls in place as 2015.

WHAT DID WE FIND?

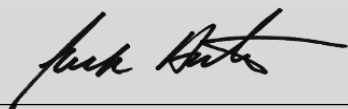
Project labor accounting refers to agency processes to record, collect, compile and report staff labor hours associated with the agency capital projects and operational modes. Staff record hours to projects in the agency Enterprise One payroll system. Management uses the collected information for internal and external reporting purposes, and the information is relied upon for Board and management decision making.

Accounting for project labor is important and necessary for several reasons including but not limited to the following:

- To identify and accumulate grant eligible labor costs.
- To comply with the reporting requirements of National Transit Database (NTD), which is one of many considerations to determine federal funding allocations as well as future grant awards.
- To ensure the complete reimbursement of labor project costs of Sound Transit staff working on other governments' and entities' projects.

In 2015, Sound Transit staff recorded approximately 460,000 and 105,000 hours to projects and operating modes, respectively. As of February 2016, the agency had approximately 677 employees, 366 of whom charge time to 73 different projects and/or operating modes (Link Light Rail, Tacoma Link, Sounder Commuter Rail and ST Express Bus).

The audit concluded that management has implemented controls, and the controls are effective to reasonably ensure the labor recorded to projects and operating modes is accurate and complete.



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Background

Project labor accounting refers to agency processes to record, collect, compile and report staff labor hours associated with the agency capital projects and operational modes. Staff record hours to projects in the agency Enterprise One payroll system. The collected information is used for internal and external reporting purposes.

Accounting for project and operating labor is important and necessary for several reasons:

- Although the agency typically draws down entire grant funds with costs other than payroll, direct payroll costs are eligible for drawdown on some of the agency grants.
- Generally Accepted Accounting Principles (GAAP) requires that costs including labor associated with building assets be capitalized as a part of the asset.
- The agency is required to meet National Transit Database (NTD) reporting requirements. Transit agencies report operations and capital labor separately, and operations labor is further detailed by modes and functions (vehicle operations, vehicle maintenance, non-vehicle maintenance and general administration).
- The project and operating labor data is used in determining federal funding allocation statistics, as well as future grant awards.
- Project labor is tracked to ensure that the agency can be appropriately reimbursed for work by Sound Transit staff on behalf of other governments and entities.
- The Agency Progress Report is published monthly for the purposes of status reporting on the Agency capital programs to the Federal Transit Administration (FTA) and other interested parties. It also serves as a mechanism for reporting staff and consultant utilization.

As of February 2016, the agency had 677 employees, many of whom directly support capital projects or the four operating modes (Link Light Rail, Tacoma Link, Sounder Commuter Rail and ST Express Bus). Approximately 366 of those employees charge time to 73 different projects and/or operating modes.

Project and operation mode hours for the last five calendar years are noted below.

(in thousands)	2012	2013	2014	2015	2016*
Capital Projects	332	353	392	460	162
Operating Modes	100	95	100	105	38
Total	432	448	492	565	200

Source: Sound Transit Enterprise One Payroll System

*Hours are estimated as of May 2016

Audit Objectives

To determine whether management has implemented effective controls to provide reasonable assurance of accuracy and completeness of project labor recorded and reported.

Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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.

We gained an understanding of agency processes related to project and operations labor accounting through data analysis, documentation reviews, and personnel interviews. We identified risks in management processes and assessed management controls in place to mitigate those risks. Considering the preliminary effectiveness of the management controls, we determined to focus on the accuracy and completeness of labor hours recorded and reported.

We examined management controls in place as of 2015.

To determine whether management has implemented effective controls to provide reasonable assurance of accuracy and completeness of project labor recorded and reported, we conducted the following procedures:

1. Confirmed that all current projects and operating modes were available in the E-1 payroll system for coding.
2. To test control effectiveness, we selected 21 approving managers and 24 employees based on various criteria, including, number of projects worked on, representation across the agency, trends seen in project hours recorded, and number of employees a manager must approve. Each individual was interviewed separately.

The approving managers were asked to share their procedures for,

- Providing staff with instructions for managing and/or recording time.
- Maintaining awareness of employees' work and schedule, as well as delegated staff approvals.
- Reviewing and approving time in the E-1 payroll system.
- Correcting or adjusting time in the E-1 payroll system.
- Allocating administrative time.

The other employees were asked to discuss matters including,

- Training and/or instructions on how to manage and/or record time.
- Steps taken for tracking and inputting time into the E-1 payroll system.
- Allocation of time. Example, is it based on actual hours worked, percentage of time worked or on a staffing plan.

3. Verified that labor totals reported in the monthly Agency Progress Report and annual National Transit Database (NTD) agreed to actual payroll data.

Conclusion

Management has implemented controls, and the controls are effective to reasonably ensure the labor recorded to projects and operating modes is accurate and complete.