



Audit Report

Interlocal Agreements for Non-Capital Projects Audit

Report Number: 2020 - 07 | Report Date: February 16, 2021

Executive Summary

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WE AUDITED the current Interlocal Agreement (ILA) process to assess the controls in place over (1) coordination and review over ILAs in accordance with policies, procedures and regulations; and (2) monitoring over the work performed & review of supporting documentation to justify the receipt of contractual deliverables.

AUDIT OBJECTIVES were to determine whether Sound Transit (ST or agency) has effective controls in place over the agency's ILA process to ensure:

- Proper coordination and review of ILAs meet the requirements of applicable policies, procedures, and regulations.
- Proper monitoring over the work performed & review of supporting documentation to justify the receipt of contractual deliverables.

The audit examined the agency's oversight process and management controls in place as of November 2020.



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WHAT WE FOUND?

In alignment with Sound Transit's plan for system expansion and transit services throughout the region, the agency enters into agreements with private entities and other governments for the procurement of materials, services, and work. Pursuant to Washington State Law and applicable requirements, the agency executes ILAs for increased efficiency and cooperates with other localities on the basis of mutual advantage. From January 1, 2018 to November 1, 2020, the agency executed 122 Agreements with an estimated contract value of at least \$536 million (M).

The Agency Agreement (AA) division (under Procurement & Contracts) supports 'interagency collaboration' by providing technical expertise and facilitating reviews of various agreements agency-wide (e.g., Legal, IT, PEPD, DECM, etc.). Currently, the agency's contract administration and management (CAM) processes is dispersed to Agreement Managers and respective divisions ensuring adherence to contractual terms and conditions.

Of the 'ILAs for non-capital projects' (or non-construction) identified within the period examined, 'One Regional Card for All' (ORCA) – was determined to have the most significant monetary impact and scope. Pursuant to the RCW 39.34 Interlocal Cooperation Act, ST has entered into an agreement with six other agencies for the provision of a Regional Fare Coordination System (RFCS or 'ORCA') in order to streamline fare payments across transit providers.

For the past five years, ST's share of the ORCA have increased by 56% from \$1.5M in 2015 to \$2.4M in 2019 (audited amount).

We found that there are no findings related to the agency's management controls over 'ILAs for non-capital projects'. Controls that are in place are effective and reasonably ensure proper coordination and review of agreements meet the requirements of applicable policies, procedures, and regulations; and proper monitoring over the work performed & review of supporting documentation to justify the receipt of contractual deliverables.

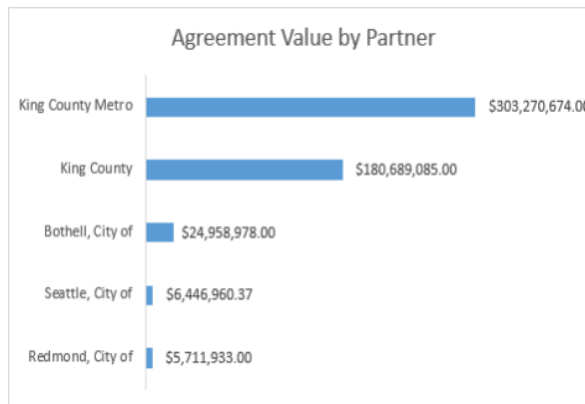
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Background

In alignment with Sound Transit’s (ST or agency) plan for system expansion and transit services throughout the region, the agency enters into agreements with private entities and other government units for the procurement of materials, services, and work. Pursuant to Washington State Law and applicable requirements¹, the agency executes Interlocal Agreements (ILAs) for increased efficiency and cooperates with other localities on the basis of mutual advantage. From January 1, 2018 to November 1, 2020, the agency executed 122 Agreements with an estimated contract value of at least ~\$536 million (M). See table and diagram below for ‘agency-wide agreements’².

Year	# of Agreements	\$ Value	%
2018	48	\$8,648,604	2%
2019	46	512,519,018	96%
*2020	26	14,703,776	3%
Total	122	\$535,871,398	



Retrieved from: Agreement Section Database and agency purchase order (PO) Summary report (dated, 11/01/20).

Note: *Represents non-annualized amount (as of 11/01/20).

In 2017, the Agency Agreement (AA) Division (under Procurement & Contracts) was established to support ‘interagency collaboration’ by providing technical expertise and facilitating reviews of various agreements agency-wide (e.g., Finance, IT, PEPD, DECM, etc.). Per agency policies and procedures, AA division also maintains the agreement database & filing system for tracking; and generates ad-hoc reports (e.g., CEO reporting) based on stakeholder needs.

The agency’s Contract Administration and Management (CAM) processes is dispersed to Agreement Managers and respective divisions. While the agency has general guidelines³ related to the CAM process, project management at the operational level is key in ensuring adherence to contractual terms and conditions.

ILAs for Non-Capital Projects

Of the ‘ILAs for non-capital projects’ (or non-construction) identified within the period examined, ‘One Regional Card for All’ (ORCA) – was determined to be the most significant in monetary impact and scope. Pursuant to the RCW 39.34 Interlocal Cooperation Act, ST has entered into an agreement with six other agencies⁴ for the provision of a regional fare coordination system (RFCS or ‘ORCA’) in order to streamline fare payments across transit providers.

¹ Revised Code of Washington (RCW) 39.34 Interlocal Cooperation Act.

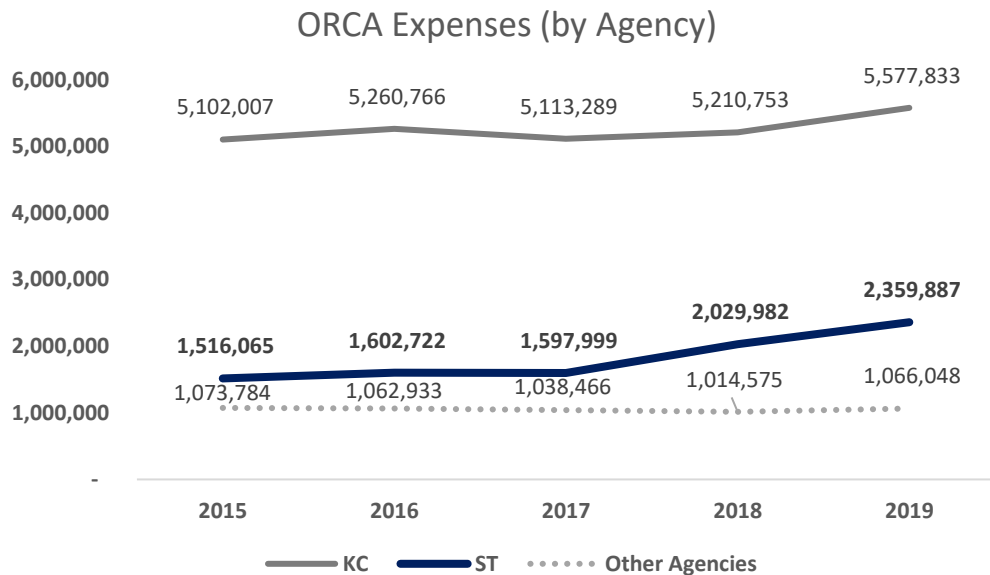
² ‘Agreement Value by Partner’ represents top 5 of the highest spend by vendor. The remaining 35 vendors all had values of less than \$4M across all three years.

³ Refer to Scope & Methodology section for more detail.

⁴ ORCA consists of seven members: Community Transit, Everett Transit, King County Metro, Kitsap Transit, Pierce Transit, Sound Transit, and Washington State Ferries.

Currently, ORCA is jointly⁵ governed by two ILAs comprised of: (1) The Amended 2009 (Legacy ORCA) and (2) 2019 ILA (Next Gen ORCA)⁶ which establishes the framework for existing services; and replacement of the ORCA system for future operations, respectively. The replacement project is in the ‘design/development phase’ and is estimated to transition to the new system in late 2021. Under both agreements, ST maintains dual function roles as the (1) ‘Fiscal Agent (or host agent)’⁷ who facilitates ORCA program activities; and (2) ‘Individual Agent (or participating agency)’ committed to fund ORCA regionally-shared costs.⁸

One key area of ‘contract management’ is ensuring compliance with the terms of various contracts by the ORCA vendors, the Regional ORCA Operations Team (ROOT or ‘Region’) and the participating agencies. Contract payments are based on completed milestones and recur, typically monthly, involving millions of dollars. As of 2019, ST and King County (KC) accounted for the lion share of expenses, totaling \$7.9M (or 88%) of the total \$9M. Of those total expenses, ST’s share has increased by 56% from \$1.5M in 2015 to \$2.4M in 2019 (audited amount) for the past five years.



Retrieved from: RFCS Financial Statement Audits (FY 15-19) – Schedule of Operating Activity (by Agency).

Related to our scope of review, 9 vendors were identified with contract values of \$128M for the region. We established an audit population of 113 payments (operational and capital), totaling, \$3.2M of the total \$12.2M (Region Share) for two key contracts (Vix and INIT).

The invoicing process is guided by policies and procedures prescribed by ORCA Regional and ST. Region Project Managers approve contract deliverables and validate invoices for

⁵ 2019 ILA section D; Board Motion No. M2018-140 Interlocal Cooperation Agreement for Implementation, Operation and Maintenance of the ORCA System (dated, 11/15/18) and Joint Board Memorandum of Decision (dated, 09/10/18) mandates that the ORCA ILA will be in effect concurrently with the Legacy ILA.

⁶ Current ORCA ILAs consists of: (1) ‘2009 ILA’ or ‘Amended and Restated Interlocal Cooperation Agreement for Design, Implementation, Operation and Maintenance of the Regional Fare Coordination System’ (dated, 04/14/09); and (2) ‘2019 ILA’ or Interlocal Cooperation Agreement for Implementation, Operation and Maintenance of the ORCA System (dated, 06/13/19).

⁷ ST assists ORCA Region in administering programmatic functions (not all inclusive): Program Budget, Policy Development, Joint Board Administration, Security Coordination, Billing & Payment, ILA Administration, Fiscal Agent Coordination, Audits, and ORCA Records Management.

⁸ Per the ILAs, ‘participating agencies’ are allocated a cost share of expenses wherein ST maintains 26.4% for operational costs; and 29% for capital costs to date.

accuracy for all vendors and cost types (Operational & Capital). Ongoing field inspections and routine performance meetings (operating and administrative) are held with all agencies. Draft invoices are then prepared by ORCA Finance and are disbursed to agencies for disposition and final remittance (based on allocation share).

Additional oversight for the Next Gen ORCA project includes the ORCA Steering Committee that meets on a bi-weekly basis. Representatives consists of 'ST Host Agents' (e.g., Deputy-CEO, CIO, Legal Counsel, etc.), Board Members and Region Directors, presiding over matters related to the agreements (e.g., approval of budget, change orders, etc.).

Audit Objectives

To determine whether Sound Transit has effective controls in place over the agency's Interlocal Agreement (ILA) process to ensure:

- Proper coordination and review of ILAs meet the requirements of applicable policies, procedures, and regulations.
- Proper monitoring over the work performed & review of supporting documentation to justify the receipt of contractual deliverables.

Scope and Methodology

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards (GAGAS). 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, and reported upon below provides a reasonable basis for our findings and conclusions based on our audit objectives.

Over the course of the audit, we gained an understanding of the ILA process at the agency and department/division level through data analysis, observation, documentation reviews, and personnel interviews. We identified risks in the processes and assessed management controls in place to mitigate those risks. Based on our assessment of management control effectiveness, we focused on controls over the agency's process related to: (1) coordination and review over ILAs in accordance with policies, procedures and regulations; and (2) monitoring over the work performed & review of supporting documentation to justify the receipt of contractual deliverables as of November 1, 2020.

The audit reviewed reports, policies and processes for the period of performance as of November 1, 2020.

Objective 1:

To determine whether Sound Transit has effective controls in place over the agency's Interlocal Agreement (ILA) process in ensuring proper coordination and review of ILAs meet the requirements of applicable policies, procedures, and regulations, we performed the following procedures:

1. We obtained agreements listing from 'Agreements Database' and corroborated data with agency reports (e.g., PO Summary, etc.) to capture all active agreements (e.g., IGA, ILA, etc.) and payments posted. We determined an audit universe of 122 agreements, with an estimated value of \$536M. Of the 122 identified, we selected all

- (3) agreements categorized as ILAs on the basis of: Agreement type, complexity, and prior audit coverage.⁹
 - a. Of the 3 ILAs, we focused on examining controls related to the ORCA ILAs.
2. We reviewed agency policies, procedures and applicable requirements to determine the adequacy of contract/agreement administration and management.¹⁰
 - a. Gained access to agency repositories and related platforms (e.g., ORCA SharePoint, Content Server – LiveLink, etc.) and assessed details of specific contracts.
3. We conducted interviews and process walkthroughs to determine if controls were working effectively as intended. Individuals interviewed included (1) Sound Transit: Agreement Director, Senior Compliance Analyst-Finance, Sr. Legal Counsel, Deputy Executive Director-Fares, Grants & Revenue, Director-Financial Reporting & Operations, FIN-Financial Accounting, and Deputy Director-Fares; and (2) Regional ORCA¹¹: Deputy Director-ORCA Finance, ORCA Regional Fare System Director, Business Manager-Regional Fare Systems.
 - a. We also coordinated with agency external financial auditors (i.e., Partner; and Sr. Manager); and obtained access to prior work performed (e.g., audit programs, sample selections, etc.) to minimize duplicative efforts. **Note:** Auditors determined there were no scope overlap for this engagement.

Objective 2:

To determine whether Sound Transit has effective controls in place over the agency's Interlocal Agreement (ILA) process in ensuring proper monitoring over the work performed & review of supporting documentation to justify the receipt of contractual deliverables, we performed the following procedures:

1. We verified, through primary observation, among others, monthly Site Manager and Joint Board meetings to determine the level of management review of work performed.
2. For the period examined, we established an audit population of 113 payments (operational and capital), totaling \$3.8M of the total \$14.2M (Region Share) for two key contracts (Vix and INIT)¹². From the population, performed 'risk based testing' for the preceding contracts, totaling \$3.8M (ST Share) of the total \$12.2M. Specific audit procedures applied were as follows:
 - a. We obtained access to ORCA SharePoint (contract filing system) records and examined 40 payments and supporting documentation to selected criteria per contract terms (i.e., contract pricing, project records, acceptance certification, payment schedules, risk registers, etc.).
3. We examined recorded costs traced from ORCA SharePoint's source documents

⁹ **Data Limitation:** Audit Division notes that while three ILAs were selected, further examination of ORCA ILA estimated known amount (ST Share) was not reflected in the current Agreement's Database. This was communicated as an 'exit letter item' during our final communications to management (i.e., Exit Conference).

¹⁰ Agreed-upon criteria were comprised of: **Policies** (e.g., Board Resolution No R2018-40 Procurement, Agreements and Delegated Authority Policy (dated, 09/27/18); Procurement & Contracts Administration Manual (PCAM) to include PCAM – Section D "Development and Administration of Agreements" (dated, 07/2020); and Agency Policy 604 – Procurement, Agreements and Spend Control (rev., 09/16/19); **Procedures** (ORCA Invoice Receiving Process, etc.); and **applicable requirements** (e.g., RCW 39.34 Interlocal Cooperation Act; and ILA & contractual requirements).

¹¹ ORCA Region Team (or ROOT) is a separate entity housed at Sound Transit. While ROOT was once part of ST under Fares Team, it was severed in Summer 2020 due to re-organization within the agency.

¹² For additional audit emphasis, we examined ORCA ILAs and contracts comprised of: (1) 2009 & 2019 ILAs; and (2) ORCA Contracts (i.e., Contract No. RTA/RP 0119-17 Systems Integrator for next generation ORCA INIT Innovations in Transportation, Inc. and Vix Technology (USA) Inc. (or Vix) – Contract for the Development, Implementation, Operation and Maintenance or RFCS.

(e.g. invoices package) to ST's financial records (e.g., E1/BOE¹³ reports) to determine if cost allocations were proper and expenses incurred were completely recorded.

- a. We analyzed an additional 43 invoices (i.e., 21 Operations and 12 Capital payments) for appropriate coding of expenses, utilization of accurate allocation rates, timely payment/entry into General Ledger and whether total payments recorded matched source documents (invoices).
4. Lastly, we performed internal benchmarking in determining best practices or methodologies related to existing Project Management practices within the agency.¹⁴

Conclusion

We conclude there are no findings related to the agency's management controls over 'ILAs for non-capital projects.' That the observed management controls over ILAs are effective to reasonably ensure proper coordination and review of agreements meet the requirements of applicable policies, procedures, and regulations; and proper monitoring over the work performed & review of supporting documentation to justify the receipt of contractual deliverables.

¹³ ST's financial system are comprised of E1 (Enterprise One) and BOE (Business Objects) reporting.

¹⁴ Audit Division Prior Audit Coverage were comprised of: (1) Construction Progress Payment Audit Report (dated, 10/17/19); and (2) Budget Process Review during Project Development Audit (dated, 03/19/20). Audit Division notes that preceding internal audits concluded that the agency's project management practices (as it pertain to progress payments and budgeting development process) were effective in achieving key objectives.