

## SOUND TRANSIT

### MOTION NO. M2007-13

A motion of the Board of the Central Puget Sound Regional Transit Authority sunsetting the operations of the Performance Audit Committee and commending committee members for their important work.

#### **Background:**

The Performance Audit Committee was created in 2003 by the Board through Motion No. M2002-99 to "plan, direct and monitor performance-based audits focusing on agency deliverables and outcomes." The committee is comprised of two board members, two members of the Citizen Oversight Panel, and citizens representing the five subareas of the Central Puget Sound region. Since its creation, the committee has conducted performance audits of the Agency's Regional Express Operations and the Capital Projects Management System.

Initiative I-900 was passed by the voters in November 2005. This initiative provided the authority and funding for performance audits by the State Auditor. In light of this new responsibility by the State, the Sound Transit Executive Committee met at its January 4, 2007 regular meeting to review the responsibilities of its oversight bodies and to determine whether the Performance Audit Committee is a duplication of auditing responsibilities with the State.

I-900 audits are funded through the state – all other state, federal, subarea and independent audits and oversight work is funded by Sound Transit.

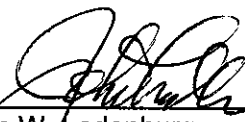
The agency's other oversight bodies – the Audit and Reporting Subcommittee, Citizen Oversight Panel, and Diversity Oversight Committee – are not affected by I-900 and will continue their work.

The Performance Audit Committee has produced a number of valuable recommendations to the agency, which have been or are currently being implemented; including the performance management system and lessons learned. The Board commends and thanks the members of the committee for their time and effort in ensuring that taxpayer money in the Central Puget Sound region is spent efficiently and effectively.


#### **Motion:**

It is hereby moved by the Board of the Central Puget Sound Regional Transit Authority to sunset the operations of the Performance Audit Committee and commend committee members for their important work.

APPROVED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on January 25, 2007.

  
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John W. Ladenburg  
Board Chair

ATTEST:

  
\_\_\_\_\_  
Marcia Walker  
Board Administrator

**Performance  
Audit  
Committee**

CHAIR

Virginia Gunby

VICE CHAIR

Vic Sood

January 22, 2007

Dave Enslow

Mr. John Ladenburg, Chair  
Board of Directors  
Sound Transit  
401 South Jackson Street  
Seattle, WA 98104-2826

Richard Marin

RE: Sound Transit's Executive Committee's Recommendation to the Board to Take  
Action to Sunset the Performance Audit Committee

Dave Asher

Dear Mr. Ladenburg:

Paul Masten

We are writing to you and the Board to thank you for the opportunity to report to you on the work of the Performance Audit Committee (PAC). At the 1/4/07 meeting of the Sound Transit Executive Committee, the members agreed that they would recommend a Motion to the 1/11/07 Board meeting to suspend the Performance Audit Committee's (PAC) future activities based on the initiation of audits of Sound Transit by the State Auditor's Office as a result of the voter-approved Initiative 900 requiring that the State Auditor to initiate Performance Audits in 2007 at Sound Transit. We understand that it was felt that the continued work of the PAC would be an additional cost and potential duplication of the proposed State Performance Audit which is to begin in January. We can appreciate the Board's position and want to thank the Board for the support that it has provided to the PAC during the years. We would like to take this opportunity to present a brief history of the PAC and report on our accomplishments as we close out our activities.

Daniel Parker

Larry Shannon

**PAC History:**

1. Section 5 of the RTA Resolution # 75 passed the 1995 Regional Transit Authority Resolution on 8/23/96 stated that "The RTA will conduct an annual comprehensive performance audit through independent audit services, and appoint and maintain a Citizen's Oversight Committee (COP) for the ten year construction period."
2. In 2001 an outside Project Review Committee (PRC), Chaired by Charles Royer, and a Sound Transit Board Stakeholder's Group was appointed to strengthen oversight of the agency's program and projects and the quality of work, and make recommendations to Sound Transit, to ensure that Sound Transit delivered the light rail project approved by the voters 'on time and budget.'

3. On 1/27/03 a letter, with the first "Sound Transit Report Card", was sent to the Seattle Chamber of Commerce in response to their 11/21/01 letter relating to questions on the agency's progress on new commitments. It responded positively to the Chamber's recommendation that the "RTA fund and give authority to conduct annual performance audits."
4. The Board had approved Motion M-2002-99 on-3/3/03-creating an independent seven-member Performance Audit Committee including 2 COP members, 2 Board members and 3 citizens with performance audit experience, one from each county. Sound Transit also prepared the 2002 State of the Agency "Milestone's Report" to communicate the improvements in the agency's accountability and performance to the regional public.

**Under the adopted Motion establishing the PAC, the PAC was to "plan, direct and monitor performance-based audits, focusing on agency deliverables and outcomes."**

5. Ray Gould, a former COP member, was elected the first Chair of the first PAC. With two meetings a month the new PAC established an initial pace of activity that was intensive, to set up the new Committee.
6. Dave Asher served as the second Chair, 2004-2005, and Virginia Gunby, retired COP member, is the current Chair, with Vice Chair Vic Sood. 2006

### **Accomplishments of the PAC**

- Established and Adopted a Work Plan 4/9/03 and Performance Audit Committee Policies, Principles, Mission, Operating Principles and Procedures-4/23/06
- Developed Performance Audit Selection Criteria 5/12/03
- Adopted a Performance Audit Protocol for Selecting Proposed Audits-The PAC members presented, debated and prioritized areas to be considered for a Performance Audit, using the adopted criteria/standards and prepared draft Scopes of Work and the final Scope for an new Audit. A PAC sub-committee worked with the Sound Transit contract staff to prepare for releasing the RFP, and to draft an audit work plan and schedule with the PAC members.
- The Committee adopted Scopes of Work that defined the overall objectives of the chosen audit. PAC reviewed the RFP, the review process and a schedule for interim and final reports by the selected contractor.
- PAC contacted the COP and sent written requests for the public and organizations requesting recommendations on the areas of Sound Transit that needed a Performance Audit. PAC also held Public Hearings for receiving public recommendations for future Sound Transit Performance Audits.
- The PAC adopted 6-month Work Plans, toured Sound Transit projects, requested and received staff updates on PAC requested areas of major interest, and were briefed by the Sound Transit staff on current projects, budget and programs.

### **Performance Audits Conducted**

1. REX Transit Operations by Booz/Allen/Hamilton in 2004 resulted in 22 recommendations. A report was presented to the Board and Sound Transit followed up with adjustments to its transit operations contracts and reporting on service standards.
2. Capital Programs Audit-2005-6- Follow-up study of this work was planned for 2007. On 12/13/06 Sound Transit Staff Prepared a "PAC Capital Projects Audit Status Report." Of 15 Audit recommendations only one was not implemented but is "Under Consideration."
3. PAC was also in the final interviewing process of negotiating a "Third Party" performance Audit contract when the Executive Committee met on 1/4/07 and a decision was made to suspend contract negotiations.

### **Final Audit Close-Out Report**

In December 2006 the PAC completed the final review and close-out of the follow-up by Booz/Allen/Hamilton of the 1<sup>st</sup> Performance Audit on Rex Transit Operations, and that report is available for the Board. Briefly, this follow-up determined that of the original 22 recommendations; 17 had been fully implemented, 3 were partially implemented, and 2 were not implemented, but no further action is required.

The three recommendations that were partially implemented were:

1. ***Leveraging prior experience in future planning*** – Sound Transit is in the process of moving forward with the ST 2 plan and the implementation results will likely be fully evident very soon.
2. ***Engaging the transit partners in service planning*** – Sound Transit has routinely conducted service planning meetings with its transit partners and the joint service schedule milestones and maintenance activities will continue well into the future.
3. ***Implement procedure for responding to and logging complaints*** – Sound Transit and the partner agencies are continuing to working together towards improving the systems that are available for tracking and responding to complaints, with the intent of improving oversight of trends and response to customer complaints.

The two recommendations that were not implemented are:

1. ***Expanding Senior Operator Training*** – Sound Transit and its partners provide uniform training to all operators and felt that they should not single out a particular category for refresher training but they would provide such training as circumstances warrant.
2. ***Branding for Regional Express*** – Sound Transit's Marketing campaign is focused providing marketing for all of the Sound Transit services for the range of Sound Transit operational modes.

The PAC found that Sound Transit had sufficiently implemented these recommendations to close-out all actions related to the original audit. PAC supports continuation of the new comprehensive 2006 Service Standards and Performance Measures for REX, Sounder and Tacoma LINK, that benefited from the independent PAC Transit Operation's Audit.

**Recommendations:**

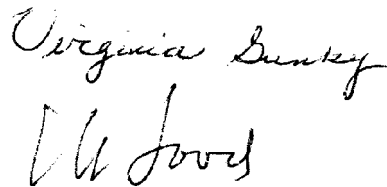
**Our PAC members believe that the citizen oversight of the independent Performance Audits at Sound Transit has been very important in the evolution of Sound Transit's programs. We understand the Board's concern for duplication of effort, due to the Initiative 900's requirement that the elected State Auditor's office do this work.**

**Our members request support from the Board to complete the following actions:**

- 1. Completion of an independent follow-up of the Capital Program Performance Audit. It should be funded by the Board and the COP be requested to oversee the process and the product to assure that the recommendations of the original audit have been complied with and the results reported to the Sound Transit Board.**
- 2. As previously recommended by the COP, the PAC members support the following action. As a result of the REX Transit Operation's Audit discussions and findings, we urge that the Board not preclude consideration of competitively bid private operator bids before the next round of five-year transit operation's contract negotiations. We believe opening up the process, in order to compare the costs and benefits of the private versus public contractual agreements may benefit Sound Transit and the taxpayers of the region.**

Thank you very much for your support of the Performance Audit Committee's volunteer efforts to seek improved performance, accountability and openness in the specific programs and projects of Sound Transit since the PAC was established in 2003. We particularly want to thank the Board and Sound Transit staff members and Hamid Qaasim and Jason Suzaka who worked with us at our monthly PAC meetings.

Yours truly,

The image shows two handwritten signatures in black ink. The first signature is 'Virginia Gunby' and the second is 'Vic Sood'. Both are written in a cursive, flowing style.

Virginia Gunby, Chair, Sound Transit Performance Audit Committee  
Vic Sood, Vice Chair, Sound Transit Performance Audit Committee

**Members of the Performance Audit Committee:**

Citizen Members

Dave Asher  
Paul Masten  
Daniel Parker  
Larry Shannon

Board Members

Dave Enslow  
Richard Marin

Enclosures:

- Attachment A: Summary of the PAC Criteria- (Adopted 5/12/03 as part of the PAC's Performance Audit Selection Process)
- Attachment B: Performance Audit Policy
- Attachment C: Performance Audit Committee Principles

**Attachment A:  
Summary of the PAC Criteria- (Adopted 5/12/03 as part of the PAC's  
Performance Audit Selection Process)**

The following adopted PAC Audit Selection Criteria were used for the evaluation and selection of the three Performance Audits.

- Measure their Performance with Benchmarks or Performance Indicators
- Potential for Efficiency Improvements.
- Potential for Effectiveness Improvements.
- Complexity of Operations.
- Adverse Publicity and/or Political Exposure.
- High Priority/High Value
- Sensitivity to Fraud and Abuse
- Changes in the Program. (to see if they are working as intended)
- Service Priority (the higher the service priority the higher the priority for an audit)
- PAC Will Not Duplicate Current, On-going or Adequately Conducted Audit Work

## **Attachment B: Performance Audit Policy - Adopted April 23, 2003**

### **1.0 Overview**

#### **1.1 Purpose**

The purpose of these policies is to establish the principles and processes by which the performance audit function for Sound Transit will operate.

#### **1.2 Definition**

“Performance auditing is a systematic process of objectively obtaining and evaluating evidence regarding the performance of an organization, program, function or activity. Evaluation is made in terms of its economy and efficiency of operations, effectiveness in achieving desired results and compliance with relevant policies, laws and regulations, for the purpose of ascertaining the degree of correspondence between performance and established criteria and communicating the results to interested users.”

1 (Governmental Finance Officers Association)

Sound Transit’s performance audit function will provide an independent, third party review of management’s performance and the degree to which the performance of the audited entity meets pre-stated expectations.

#### **1.3 Background**

Prior to finalizing *Sound Move*, Sound Transit Board adopted a set of Financial Policies (Appendix B). The Financial Policies reflect the Board’s policy intent for implementing the financial framework, for ensuring that the ten-year construction program is completed on time and within budget, and for providing the tools to the Board to appropriately manage toward and respond to future conditions. In addition, the policies address the Board’s commitment to public accountability by stating,

“Sound Transit will: a) Conduct an annual comprehensive performance audit through independent services; b) Appoint and maintain for the ten-year construction period a citizen’s oversight committee, charged with an annual review of Sound Transit’s performance audit and financial plan, for reporting and recommendations to Sound Transit Board.”



## **2.0 Performance Audit Committee Structure**

### **2.1 Development of the Performance Audit Committee (PAC)**

Sound Transit's performance audit function will be overseen by a Performance Audit Committee (PAC). The membership of the PAC will include members from the Sound Transit Board, the Citizen Oversight Panel and five citizen members, one from each subarea of the Sound Transit district. The Executive Department will staff the committee. Responsibility of PAC includes:

- a) Defining operating principles for the performance audit function.
- b) Approving clear and concise scopes of work. Majority of PAC decides scopes of work.
- c) Approving annual audit budget in terms of dollars and hours.
- d) Evaluating audit results and ensuring an internal review process.
- e) Reporting audit results to Sound Transit Board and its committees, Citizen Oversight Panel, and public.
- f) Assessing effectiveness of the performance audit function.
- g) Ensuring and reviewing Sound Transit's response to audit results.

### **2.2 PAC Annual Commitment**

The PAC will meet as necessary to initiate the performance audit process, receive and assess results, and communicate results to the Sound Transit Board and its committees and to the Citizen Oversight Panel. Listed below are audit program milestones with associated dates for the PAC throughout the year:

- a) The PAC will meet in the current year to approve and prioritize performance audit scopes of work developed by the PAC.
- b) Performance audits will be conducted and completed throughout each year and presented to the PAC as completed. The PAC will receive status reports of the performance audits periodically during the year.
- c) Preliminary results will be reported to the PAC. The PAC will work with the performance auditor to make sure a final report is completed within the agreed upon schedule. Executive management will coordinate responses between performance auditor and staff.
- d) Sound Transit's performance auditors will present final audit reports to the PAC and Sound Transit management as audits are completed.

### **3.0 Sound Transit Staff Responsibilities**

Sound Transit staff responsibilities fall into two different categories: auditee staff and program management staff.

#### **3.1 Auditee Staff**

Auditee staff are those individuals responsible for the areas being audited as defined by the scopes of work. Auditee staff are responsible for the following:

- a) Providing timely information to performance auditors.
- b) Reviewing and providing timely responses to program management staff, and ultimately to the PAC.
- c) Providing input on future performance audit topics.

#### **3.2 Program Management Staff**

Program management staff includes the positions of Deputy Executive Director and/or designee. Program management staff are responsible for the following:

- a) Developing scopes of work with auditee staff as instructed by the PAC.
- b) Recommending scopes of work to PAC.
- c) Reviewing audit results.
- d) Coordinating audit responses between auditee staff and performance auditor.
- e) Making interim reports on audits to the PAC
- f) Presenting final audit results with the auditor to the PAC and responding to inquiries about audit results.

### **4.0 Sound Transit Performance Auditor's Responsibilities**

The performance auditor will be retained through a performance audit services contract which is administered by the Deputy Executive Director and/or designee. Responsibilities include:

- a) Performing all work with due professional care in accordance with Generally Accepted Governmental Auditing Standards.
- b) Remaining independent throughout the engagement.
- c) Reporting both negative and positive results of audits.
- d) Developing proactive procedures with staff to scopes of work.
- e) Reporting audit results to PAC.

**Attachment C:  
Performance Audit Committee Principles – Adopted April 23, 2003**

**Outline**

**Motion 2002-99-1 -Established PAC and Assigned Responsibilities (A-G)**

**A. Performance Audit Committee’s Mission**

**B. Sound Transit Board Directed Governing Principles**

1. Membership, Qualifications
2. Term of Office
3. County Citizen Members, Vacancies
4. Ethics Policy (Note: 1997 Sound Transit Ethic’s Policy written for Board members, Officers and employees)

**C. Performance Audit Committee’s Governance and Operating Principles**

1. Open Meetings within the Regional District
2. Quorum, Absences
3. Officers
4. Objectivity and Integrity
5. Access to Data, Records and Reports
6. Economy and Efficiency
7. Compliance
8. PAC Reporting to Board, COP and Public
9. Monitoring Completed Audits

**D. Performance Audit Committee’s Procedural Principles**

1. Rules of Procedure
2. Committee Staffing
3. Selection and Evaluation of Performance Auditors
4. Evaluation of Overall Audit Function
5. Communications- PAC, Board, Public

## **Motion 2002-99-1 -Established PAC and Assigned Responsibilities (A-G)**

Sound Transit's Motion No. M2002-99-1, as adopted by the Board on March 13, 2003, states that the Performance Audit Committee's purpose is to plan, direct and monitor performance-based audits, focusing on agency deliverables and outcomes. Specifically the PAC will be responsible for –

- \*A. Defining operating principles for the performance audit function,
  - B. Approving clear and concise scopes of work.
  - C. Recommending annual audit budget in terms of dollars and hours during the annual budget process.
  - D. Evaluating audit results and ensuring an internal review process.
  - E. Reporting audit results to the Sound Transit Board and its committees, Citizen Oversight Panel, and the public.
  - F. Assessing effectiveness of the performance audit function, and
  - G. Ensuring the review of Sound Transit responses to audit results.
- (\*Sound Transit Motion 2002-99-1 excerpt)

### **A. Performance Audit Committee's Mission**

The Mission of the Sound Transit Performance Audit Committee is to be an independent committee that will choose and oversee selected and appropriate performance audit reviews of the agency to improve the performance, delivery of projects and overall quality of operations, and to report their findings regularly to the Board and to the regional community.

### **B. Sound Transit Board Directed Governing and Operating Principles**

**1. Membership, Qualifications-**The PAC is established through Sound Transit Motion No. M2002-99-1, and any amendments to it. It is comprised of two members of the Sound Transit Board, two members of the Citizen Oversight Panel and five independent citizens with expertise in performance auditing, one citizen from each subarea –North King, South King, East King, Pierce and Snohomish counties. Each citizen member must be a registered voter within the Sound Transit district.

The Executive Director will gather nominees for the five independent citizen positions through consultation with Sound Transit Board members, the COP Chair, and the professional auditing community. The Executive Director shall review the qualifications of the nominees and present the Board Chair and the COP Chair with a slate of candidates for their consideration and possible joint approval. Qualifications of nominees includes: understanding of Sound Transit's mission; knowledge and experience in performance audit processes; and experience in the public sector and large construction projects.

**2. Terms of Office-** Initially the five citizen PAC members are appointed to either a two year or a three year term, to allow for staggered terms, and may be re-appointed up to a

maximum of six years. The two appointed COP members are subject to the COP appointment terms. The two appointed Board members are subject to Board appointment terms.

**3. Filling Citizen Member Vacancies-** Nominations to fill positions and vacancies shall be made by the Executive Director to the Sound Transit Board Chair and the COP Chair. Nominations will be reviewed and appointed jointly by both chairs as stated in Motion No. M2002-99-1, adopted by the Board on March 13, 2003.

**4. Ethics Policy-**All PAC members shall agree to abide by the Sound Transit Board's code of ethics (Resolution No. 81) adopted on February 27, 1997, or as it may be amended.

### **C. PAC Governing and Operating Principles-**

**1. Open Meetings in the Regional District-** The PAC will be held in open public meetings to ensure the public has the opportunity to comment and participate. The PAC will hold its meetings in accessible public places within the Sound Transit district. At least ten meetings per year will be held as scheduled by the PAC.

**2. Quorum-** A majority of the appointed PAC members shall constitute a quorum for the purpose of acting on committee business. The committee may meet in the absence of a quorum and discuss agenda items that do not require action. A member unexcused absence for three or more meetings will result in replacement of the member.

**3. Officers-** The members of the PAC will appoint an interim Chair to preside during the initial organizing process and until there is a complete Committee of nine members. Committee members will then elect a permanent Chair and a Vice-Chair to serve one year, subject to re-election to additional terms at the will of the Committee. The Chair will preside at all meetings and act as the designated spokesperson for the PAC and liaison between the Sound Transit staff and any consultants. The Vice-Chair will serve in that capacity in the Chair's absence.

**4. Objectivity and Integrity-** Members of the PAC shall remain independent in all aspects of managing the performance audit function. If members cannot perform their duties without bias, they will recuse themselves from the particular conflict and inform the committee of this action.

(See Sound Transit Resolution No. 81-2/27/97)

**5. Access -**The PAC and the contracted auditors will have access to all data, records and explanations as needed from the staff and auditors.

**6. Economy and Efficiency-**The PAC will ensure that all expenditures for the performance audit purposes will be used for beneficial and agreed upon tasks. Before selecting and contracting for a specific performance audit issue, the PAC will review other Sound Transit completed and contracted financial and performance audits, covering similar subjects, to avoid duplicate audits.

**7. Compliance-**Throughout the audit process the PAC will report to the Board any noncompliance with state or federal laws or regulations, along with a response from agency staff, and refer to the Board any matter(s) that require further investigation.

**8. Reporting-Board, COP, Public -** The PAC chair will provide an annual report and quarterly status reports to the Board and the Citizen Oversight Panel (COP) detailing the activities of the committee and/or results of any completed Performance Audits. Performance Audits will be reported out of the committee to the Board and may include minority reports, if available.

An Annual Report including the proposed budget will be made available to the Board, the COP and to the public, at the time that the Sound Transit Board considers the agency's proposed annual budget.

**9. Monitoring Completed Audits-**The Executive Director will report to the PAC, Sound Transit Board, and the public on the implementation of completed audit recommendations, and advise the Board of any relevant findings.

#### **D. PAC Procedural Principles**

**1. Rules of Procedure-** The PAC will act as a committee-of-the-whole in all circumstances, except when a matter requires more frequent and detailed review. The PAC may appoint a smaller task force to study a specific matter or issue and report their findings back to the PAC.

**2. Committee Staffing-**The Board Administrator's staff member will perform administrative work to include but not limited to preparing summaries of meetings, meeting notices, calendars, agendas, distributing relevant reports and information, and maintain committee records, etc. for the PAC.

Under the direction of the PAC, the Sound Transit staff will assist in the development of a request for proposals for seeking performance audit consultants.

Independent staff may be contracted by the PAC when or if needed to assist in the development of proposals, in the selection of performance audit consultant(s) and/or the review of any draft and final reports, or the monitoring completed audits.

**3. Selection and Evaluation of Performance Auditor(s)-**The PAC will select the person, firm or agency to perform the audit after due deliberation and consultation and the adoption of a clear and concise scope of work and budget.

**4. Evaluate Overall Audit Function-**The PAC will regularly assess the overall effectiveness of the performance audit function and report their findings to the Board, and the COP.

**5. Communications-PAC, Board, Public** - PAC members agree to maintain courtesy, respect and a general tone that will foster an atmosphere of dialogue, and acknowledgement of adverse views presented in their meetings.

Communications to the Board from the PAC will be presented in written summaries of meetings, presentations by the Chair or consultant of preliminary findings and/or final audit reports. Any summary or report will be released to the public after it is presented to the Board.

Suggestions or public inquiries relating to the committee's work and /or performance audits shall be through public testimony, or letter.

The PAC will make timely annual budget recommendations for inclusion in the Sound Transit budget.

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