



Board of Directors Delegated Authority to Board Committees and CEO

**Board of Directors Meeting
July 26, 2018**

SOUND TRANSIT

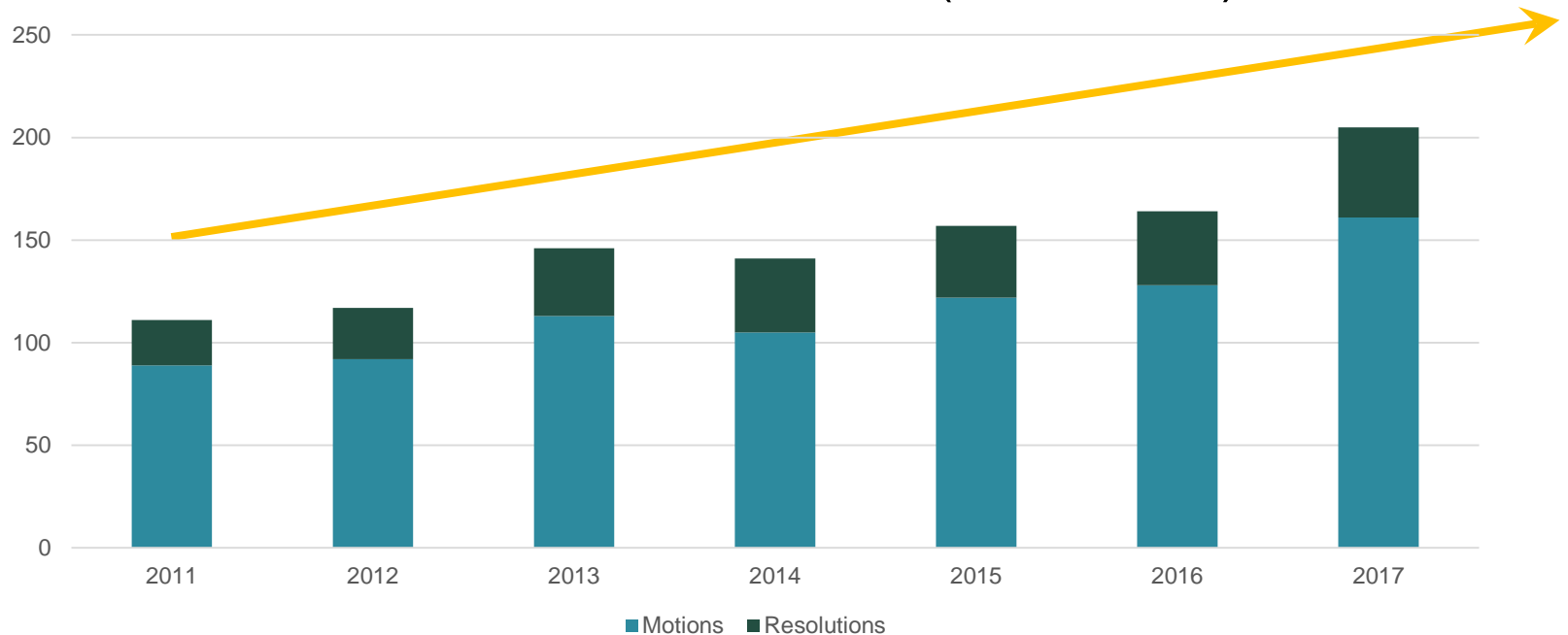
Objectives for the Board Process Review



- Optimize the Board’s time on the key issues and challenges facing the agency
- Expand opportunities for the Board to engage in more meaningful and frequent policy discussion
- Enhance Board engagement in the project development process, consistent with the System Expansion Implementation Plan

Recent Trends in Annual Board Actions

Number of Annual Actions (2011-2017)



Summary of the Next Five Years

- Intensified Board engagement needed for:
 - Project development in collaboration with jurisdictions for expedited project timelines
 - Dramatic increase in the number of contract actions
 - Critical decisions on capital delivery approaches
 - Fundamentals of operating business models
 - Policy debate and decision-making
 - Continued oversight of dynamic financial plan and budget development



Why Are We Doing This?

- 116 miles of light rail providing a true seamless network throughout the region
- BRT connecting residents rapidly to light rail and commuter rail
- Expanded and extended commuter rail to more district commuters
- Residents will enjoy a real choice to avoid congestion that will be far worse than it is today

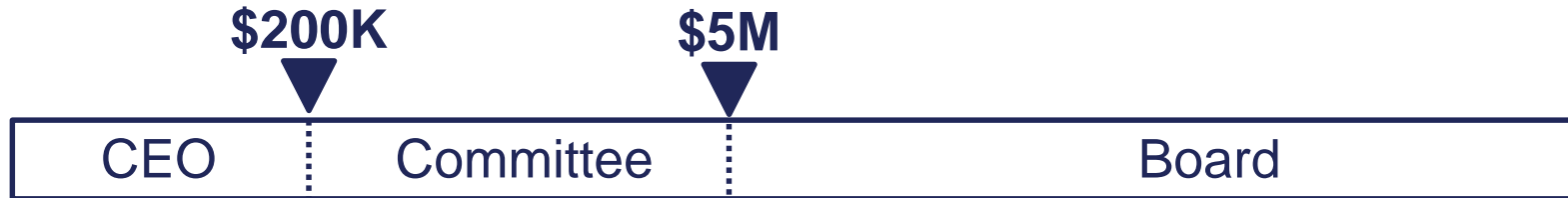


Today's Discussion Focuses on Changes to Delegated Approval Levels

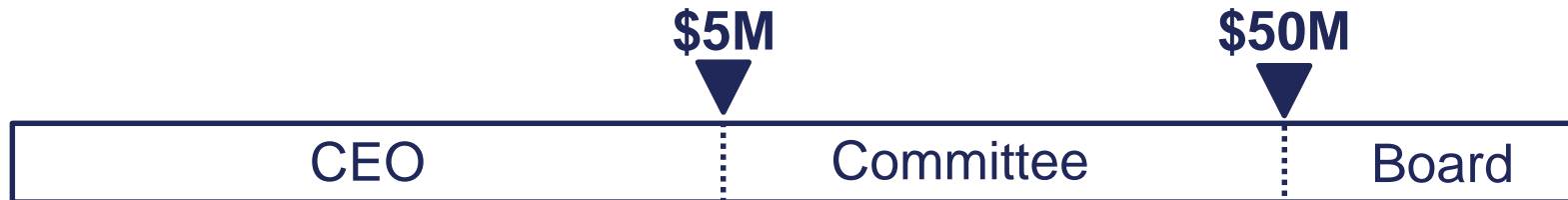
- Board policy delegates approval authority to the Board committees and CEO for contracts, agreements and real property.
- At the May 2018 Board Workshop, the Board discussed how to balance approval levels between the Board and CEO to most efficiently meet the dramatically increasing volume of actions as the agency delivers major projects in all five subareas.
- The workshop direction was to increase Board committee approval authority to \$50M and CEO approval authority to \$5M.

Board Workshop Direction: Rebalance Contract Approval Levels

- Currently, the Board approves 93% of the annual procurement dollars, and the committees approve 5%.

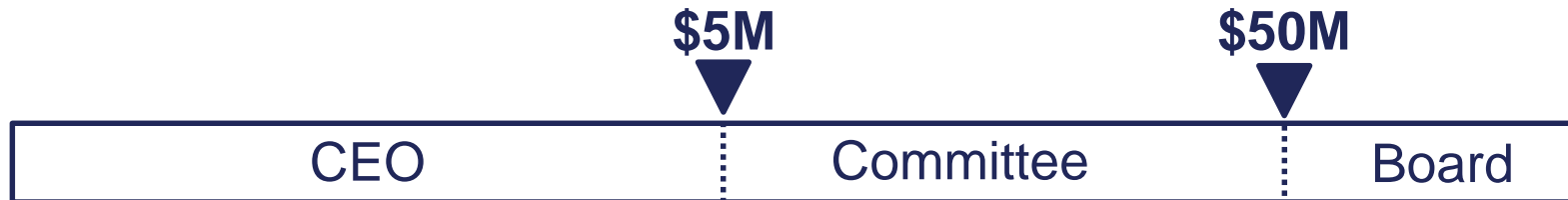


- Under the new levels, the Board would approve 68% of the annual procurement dollars, and the committees would approve 26%.



Data Shows the Impact of the New Approval Levels

- **Full Board (approval level above \$50M):** Annual actions would decrease by 14% (~17 actions)
- **Board Committees (approval level \$5M to \$50M):** Annual actions would decrease by 43% (~26 actions)



Data Shows the Impact of the New Approval Levels

- **CEO (approval level up to \$5M):**
 - CEO would approve 6% of annual procurement dollars (2% currently)
 - Contract types under \$5M include professional services, small engineering services contracts, small construction and construction management contracts, and small service vehicle contracts



Other Contract Approval Levels Also Rebalanced per the Board Workshop

- Sole source contract awards and modifications (less than 0.2% of all dollars)
 - Board committees: Set at the same \$50M level (currently no delegated authority)
 - CEO: Set at the federal threshold of \$150K (currently \$100K)
- Proprietary contract awards and modifications (less than 1% of all dollars)
 - No change to the existing full delegation to the CEO, yet will strengthen conditions for use of this contract type
 - Allow subscription (e.g., software as a service) contracts

Board Workshop Direction: More Frequent Reporting on Contracts

- Currently, the Board receives a quarterly report of CEO contract awards.
- Under the new direction, the Board will receive a monthly report of CEO-executed contracts including any contract modifications:
 - Competitive contracts \$150K*-\$5M (\$100-200K currently)
 - Sole source contracts \$25K-\$150K* (\$10-100K currently)
 - Proprietary contracts \$150K* and up (\$100K and up currently)

*Federal threshold: The CEO will notify the Board of any changes. 11

Board Workshop Direction: Set Different Approval Requirements for Some Contracts

- Any contract that establishes or modifies a Board policy must be approved by the Board regardless of dollar value.
- The CEO may not execute:
 - Any contract not included in a current budget authorization
 - Any contract with a term exceeding 15 years including options
 - Any construction contract with a proposed price that exceeds Sound Transit's cost estimate by 20% or more

Alignment of Approval Levels for Agreements, Real Property and Grants

- Agreements with governments, rail entities and nonprofits
 - Set Board committee level at \$50M
 - Increase CEO authority from \$200K to \$5M, same as for contracts
 - Allow agreements with public and private rail entities and nonprofits
- Real property agreements
 - Keep Board committee approval level at \$5M
 - Increase CEO approval level from \$200K to \$500K; for temporary use agreements, the term limit will increase from five to 10 years
- Grants – The CEO may file applications for grant funding and accept and execute grant awards and agreements with grantor agencies

Other Existing Categories of CEO Authority will Not Change

The Board currently fully delegates approval authority to the CEO for the following:

- Routine expenses of government
- Relocation agreements with public and private utilities
- Legal services, claims, settlements and judgements
- Employee compensation and benefit programs and retirement plans
- Agreements for reimbursable services to others

Some Existing Categories of CEO Authority will Change Slightly

- Preliminary project planning: Increase CEO's approval level to spend approved budget on early planning activities for system expansion projects from \$200K to \$500K
- Contract modifications within a Board/committee approved contingency: Allow CEO to use approved contingency for any type of contract, not just capital project contracts
- Emergencies: Increase the Board ratification threshold from \$100K to the federal threshold, which is currently \$150K

Some Existing Categories of CEO Authority will Change Slightly

- Uncollectible debts: Increase CEO's approval level to write-off uncollectible debts from \$200K to \$5M
- Betterments: Allow the CEO to authorize contract modifications for betterments on any type of contract, not just professional services or construction contracts, within the existing \$500K limit

Board Workshop Direction: Maintain Strong Controls for Accountability

- The CEO must regularly inform and consult the Board about business transactions, policies and issues of significance.
- For special circumstances, the Board may require or authorize different procedures or performance as may be deemed appropriate.
- Board approval is required when the CEO may have a conflict of interest, pursuant to ST Code of Ethics.

Board Workshop Direction: Maintain Strong Controls for Accountability

- The CEO, procurement & contracts staff, and finance staff, with an agency cross-functional team, are working to align internal controls and processes with the Board's new approval levels to ensure continued transparency and effectiveness.
- The Board will now receive an annual report on the integrity and performance of the agency's procurement and contracts program.

Next Steps

- The Board process review will be completed by the end of 2018.
- September Board actions
 - Procurement, Agreements and Delegated Authority Policy
 - Board Committee responsibilities
- October-November Board discussion and actions
 - Board Rules





Four Approval Authority examples reviewed at the Board Workshop

- For competitively-procured contracts:
 - Current Approval Authority – Committees \$5M; CEO \$200K
 - Example A – Committees \$10M; CEO \$500K
 - Example B – Committees \$20M; CEO \$1M
 - Example C – Committees \$20M; CEO \$2M
 - Example D – Committees \$50M; CEO \$5M
- Currently, the Board approves 93% of the annual procurement dollars, and the committees approve 5%.

Example A

- Committee delegation increased to \$10 million; CEO delegation increased to \$500K
 - **Decreases** the number of annual actions approved by the Board by 5%, or around 6 actions.
 - **Decreases** the number of annual actions delegated to the committees by 6%, or around 4 actions.



Example A

- Board controls 89% of the annual procurement dollars.
- Committee controls 9% of the annual procurement dollars.
- CEO controls 2% of annual procurement dollars

- Examples of contract types under \$500K: maintenance and repair contracts, professional services, equipment and supplies



Example B

- Committee delegation increased to \$20 million; CEO delegation increased to \$1 million
 - **Decreases** the number of annual actions approved by the Board by 11%, or around 13 actions.
 - **Decreases** the number of annual actions delegated to the committees by 9%, or around 6 actions.



Example B

- Board controls 80% of the annual procurement dollars.
- Committee controls 18% of the annual procurement dollars.
- CEO controls 2% of annual procurement dollars.
- Examples of contract types under \$1 million: maintenance and repair contracts, professional services, small engineering services contracts



Example C

- Committee delegation increased to \$20 million; CEO delegation increased to \$2 million
 - **Decreases** the number of annual actions approved by the Board by 11%, or around 13 actions.
 - **Decreases** the number of annual actions delegated to the committees by 30%, or around 18 actions.



Example C

- Board controls 80% of the annual procurement dollars.
- Committee controls 17% of the annual procurement dollars.
- CEO controls 3% of the annual procurement dollars.
- Examples of contract types under \$2 million: professional services, small engineering services contracts, small construction and construction management contracts



Example D

- Committee delegation increased to \$50 million; CEO delegation increased to \$5 million
 - **Decreases** the number of annual actions approved by the Board by 15%, or around 17 actions.
 - **Decreases** the number of annual actions delegated to the committees by 43%, or around 26 actions.



Example D

- Board controls 68% of the annual procurement dollars.
- Committee controls 26% of the annual procurement dollars.
- CEO controls 6% of the annual procurement dollars.
- Examples of contract types under \$5 million: professional services, small engineering services contracts, small construction and construction management contracts, small service vehicle procurements



Internal Controls

Internal controls over the processes described in this presentation (procurement and contracts, agreements, and real property) are many.

They take the form of Board established controls and CEO established (administrative) controls.

Existing Board Controls

- The Board has established a comprehensive system of selective delegated authority to the Committees and CEO.
- CEO may exercise delegated approval authority *only* when within a Board approved budget or fund.
- CEO will regularly inform and consult the Board, with discretion to elevate any matter or transaction “of significance to other agency”.
- The Board may require or authorize procedures or performance as may be deemed appropriate for special circumstances.
- Conflicts of interest of the CEO – Approval by a committee or the Board is required in any case where the CEO has a conflict of interest.

Proposed New Board Controls

- Any contract award that establishes or modifies a Board policy shall go directly to the Board for approval to award regardless of dollar value.
- Any contract award for which the proposed term exceeds fifteen (15) years including options shall go directly to Committee or Board for approval to award when the dollar value is greater than \$150K (SAT).
- Any construction contract award for which the proposed price exceeds the government estimate by 20% or more shall go directly to Committee or Board for approval to award.
- Also proposed is a new annual report to the Board on the integrity and performance of the agency's procurement and contracts program.

Administrative Control Principles

Agency administrative controls are based upon:

- Segregation of duties
- System access controls
- Full and open competition
- Standardized documentation
- Standardized review and approval protocols
- Procurement integrity
- Continuous process improvement
- Quality assurance
- Rigorous, frequent audit reviews (internal and external)

Proposed New Administrative Controls

- For contract awards within the CEO's approval authority:
 - CEO approval required in order to ratify any unauthorized awards, modifications or commitments, regardless of dollar value.
 - CEO approval required if the proposed price of a construction contract exceeds the government estimate by 10% or more.
- Routine review of proposed contract awards within the CEO's authority to identify any features that would establish or modify a Board policy.
- Annual report to the CEO on the integrity and effectiveness of the CEO's internal delegation of authority structure.
- Annual report to the Board on the integrity and performance of the agency's procurement and contracts program.