



FINAL REPORT

Central Puget Sound Regional Transit Authority
2024 CAPITAL PROJECTS TIME CODING PERFORMANCE AUDIT

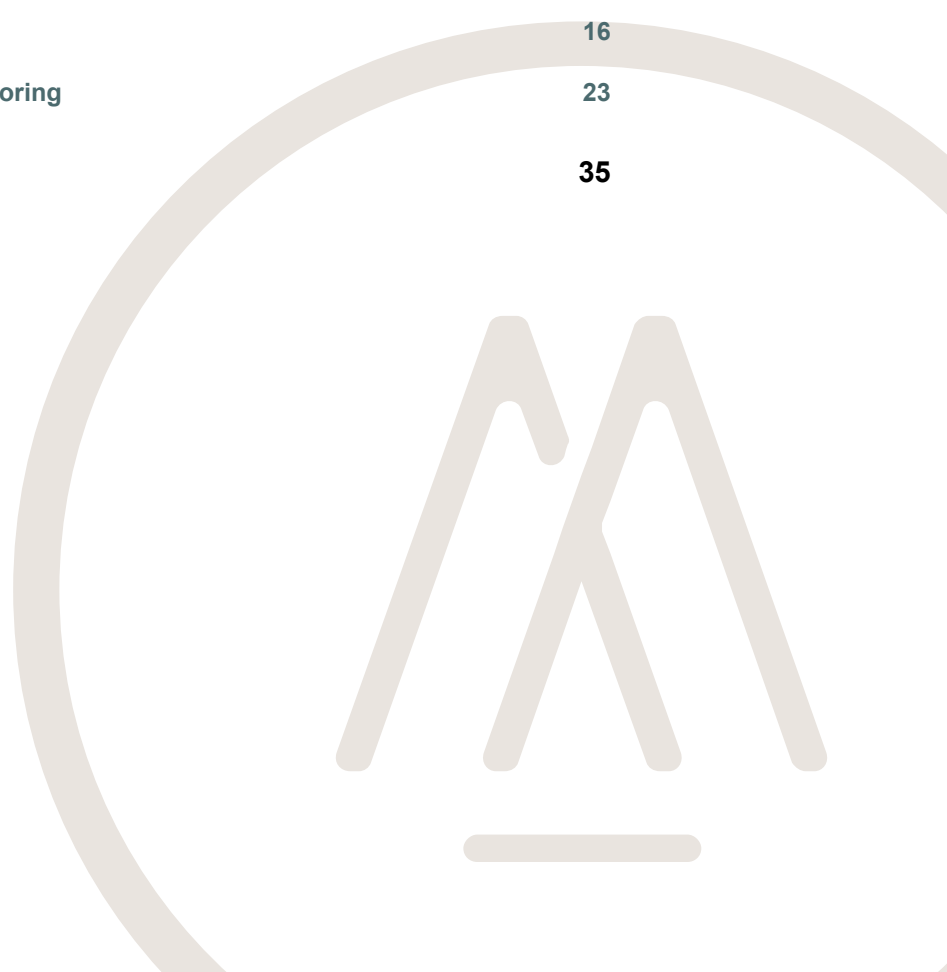
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I. EXECUTIVE SUMMARY

A. BACKGROUND, SCOPE, AND METHODOLOGY

Central Puget Sound Regional Transit Authority (Sound Transit, or the Agency) engaged Moss Adams LLP (Moss Adams) to conduct a performance audit of internal employee charging practices for capital projects. This audit includes a review of existing processes and policies governing the allocation of employee time reporting towards three capital projects: East Link Starter Line, Northgate Link, and Hilltop Link projects.

The primary objectives of this performance audit were to:

- Identify any inconsistencies or discrepancies in employee time charging practices.
- Provide recommendations to improve consistency and accuracy in time charging practices.

We conducted this performance audit between August 2024 and November 2024. It consisted of four major phases: 1) Project Initiation and Management, 2) Fact-Finding, 3) Analysis, and 4) Reporting. Our analysis was informed by employee interviews, document review, an employee survey, research on industry best practices, and data analysis – and was designed to identify opportunities to increase the efficiency and effectiveness of Sound Transit's operations.

During our fieldwork, we encountered barriers in conducting our planned labor testing due to significant limitations in available labor reporting evidence. The available reporting varied by project and included only individual employee names (excluding titles), individual hours charged per month, and total team budget charges in aggregate (i.e., without a detailed listing to cross-reference to specific employees or their hours). The Agency did not have budget-to-actual reporting based on employee hours worked. These constraints hindered our ability to perform as comprehensive of an analysis of labor costs and prevented us from validating compliance with established policies and procedures and their alignment with labor reporting best practices. Consequently, our findings may not fully reflect the organization's adherence to labor-related policies. We discuss this limitation in Finding No. 6 of our report.

It is important to note that, unlike for a financial audit, a finding within a performance audit does not necessarily indicate a significant failure of the organization. Rather, findings are intended to identify opportunities for improvement as the organization strives to achieve optimal effectiveness. Similarly, recommendations are specific suggestions or courses of action derived from performance audit findings, aimed at improving efficiency, effectiveness, and accountability within an organization's operations or programs.

B. SUMMARY OF FINDINGS AND RECOMMENDATIONS

Findings and Recommendations are grouped into three themes: 1) Policies and Procedures, 2) Time Charging Practices, and 3) Labor Reporting and Monitoring. They are summarized in the following table and presented in greater detail in provided in Section III of this report.

Each finding has been categorized in alignment with Sound Transit's risk categories:



1. **Operational:** Issues related to the efficiency and effectiveness of day-to-day business operations, such as resource utilization, workflow bottlenecks, or process inefficiencies.
2. **Compliance:** Findings that highlight non-adherence to legal, regulatory, or internal policy requirements. This category is critical as it may involve legal risks or penalties.
3. **Effectiveness & Efficiency:** Findings that affect the organization's ability to achieve its objectives efficiently and effectively. This can involve the performance of systems, processes, or personnel.
4. **Financial:** Findings related to inaccuracies or mismanagement in financial reporting, budgeting, or accounting. These could involve over/under-reporting or insufficient controls.
5. **Internal Control:** Issues related to the failure or weaknesses in control mechanisms designed to prevent fraud, errors, or other irregularities in operations and financial management.
6. **Risk Management:** Findings that indicate gaps in identifying, assessing, or mitigating risks that could impact business continuity or success.
7. **Safety & Security:** Findings related to physical security, IT security, or safety hazards that could pose a threat to employees, assets, or information systems.
8. **Strategic:** Findings that highlight misalignment between operations and long-term business goals or strategy, which may impact the organization's future direction.
9. **IT/Technology:** Findings related to systems, software, hardware, cybersecurity, and IT governance that impact data integrity, system reliability, or compliance.
10. **Human Resources:** Issues related to personnel management, such as hiring practices, employee performance evaluations, training, and adherence to labor laws.

FINDINGS AND RECOMMENDATIONS		
Policies and Procedures		
	Finding	Employees are generally unaware of Agency-wide policies and procedures related to time charging, such as the requirement to track time in 15-minute increments or the option to charge non-project time to their home business unit (HBU).
1.	Recommendation	Provide additional training and regular communications to ensure employees are aware of the MyTime timekeeping policies to create consistent expectations and more accurate labor charging to projects.
	Risk Category	Compliance
	Finding	Sound Transit lacks key policies and procedures for reporting, tracking, and reviewing charged time.
2.	Recommendation	Develop and implement clear policies and procedures and employee training for timekeeping that includes the direct labor distribution and overhead labor allocation models, and budgeting, to promote consistency in understanding and executing time coding, reviewing, and reporting.
	Risk Category	Internal Control



FINDINGS AND RECOMMENDATIONS		
Time Charging Practices		
3.	Finding	In the absence of clear criteria for overhead costs, teams that are concentrated on specific projects may be incorporated into the overhead rate instead of the projects they support, leading to potentially inflated overhead costs and underreported project labor costs. This impacts the accuracy of both operational and project budgets.
	Recommendation	Develop clear guidelines for overhead cost allocations that more closely align cost accounting practices to activities performed by employees and consultants. Implement a regular review of overhead rates to ensure they accurately reflect the Agency's cost structure.
	Risk Category	Financial
4.	Finding	Employees indicated that all work hours for direct-charge employees must be charged to a specific project, which contradicts Agency policies and presents the risk that labor charges to capital projects as well as operations may be incorrect.
	Recommendation	Reinforce Agency time charging expectations to promote consistent and accurate labor reporting to individual projects. Develop additional guidance on charging administrative time to a specific project vs. HBU to ensure this time is charged consistently across teams, especially if they work on multiple projects simultaneously.
	Risk Category	Compliance
Labor Reporting and Monitoring		
5.	Finding	Timecards are approved by an employee's organizational supervisor instead of the project supervisor. The Agency does not have a clearly defined timecard approval policy or procedure; organizational supervisors reported a limited ability to consistently verify charged time or adjust timecards after the payroll cycle.
	Recommendation	Establish a standard operating procedure for project managers and directors to collaborate with employee supervisors in order to verify the reasonableness of time charged to their projects.
	Risk Category	Internal Control
6.	Finding	There is limited project reporting available, making it difficult to gauge the accuracy and alignment of internal labor charges with the project and operating budgets. Internal labor budgets are difficult to update, even when updates are needed to accommodate organizational changes. Consultants were utilized in place of direct hires, potentially creating an inaccurate picture of actual labor used.
	Recommendation	Sound Transit should train project leaders on which reports are available, how to access them, and the purpose of each. Reconsider restricting salary data from reports where that information is required to obtain the necessary budget



FINDINGS AND RECOMMENDATIONS	
	computations; examine consultant usage and how consultant labor is accounted for; and regularly update budgets.
Risk Category	Effectiveness & Efficiency



II. PROJECT OVERVIEW

A. INTRODUCTION AND SCOPE

Sound Transit is a Seattle-based transit authority responsible for addressing the growing transportation needs of the Puget Sound region, which has experienced significant population growth and urbanization over the past few decades. Sound Transit operates a variety of transit services, including light rail, commuter rail, and bus services, with the aim of improving mobility, reducing traffic congestion, and enhancing the overall quality of life for residents.

The Agency's flagship project is the Link Light Rail system, connecting key areas within the region, including downtown Seattle, the Seattle-Tacoma International Airport, and various suburbs. The expansion of the light rail system is part of a broader effort to create an integrated transit network that encourages public transportation use and supports sustainable urban development. The rail expansion comprises of multiple capital projects to which Sound Transit employees code time.

The primary objectives of this performance audit are to:

1. Identify inconsistencies or discrepancies in employee time charging practices.
2. Provide recommendations to improve consistency and accuracy in time charging practices.

This audit focused on the three sampled capitals projects detailed below: the East Link Starter Line, Hilltop Link, and Northgate Link rail extension projects.

PROJECT	PROJECT BUDGET	PROJECT LABOR AS OF FYE 2023 ¹	% OF BUDGET AS LABOR
East Link Starter Line ²	\$4.031 billion	\$144,745,000	3.59%
Hilltop Link	\$282.7 million	\$27,319,000	9.66%
Northgate Link	\$1.864 billion	\$109,263,000	5.81%

PROJECT	2024 PROJECT BUDGET	2024 PROJECT LABOR	% OF 2024 BUDGET AS LABOR
East Link Starter Line ²	\$206,241,000	\$14,361,000	6.96%
Hilltop Link	\$9,557,000	\$2,646,000	27.69%
Northgate Link	\$11,105,000	\$750,000	6.75%

¹Reported as life-to-date project agency administration in the 2024 Financial Plan and Adopted Budget.

²The East Link Starter Line extension project is split into two phases, with the starter line being a 6.6 mile stretch of the 14-mile rail extension.



B. METHODOLOGY

PHASE	DESCRIPTION
1. Project Initiation and Management	This phase concentrated on comprehensive planning and project management, including identifying employees to interview, identifying documents to review, communicating results, and regularly communicating project status.
2. Fact-Finding	<p>This phase included staff interviews, document review, an employee survey, and research into industry standards.</p> <ul style="list-style-type: none">● Staff Interviews: We conducted interviews with approximately 21 Sound Transit staff members, meeting with some personnel more than once, to gain insights into the current operational environment, document strengths, and identify opportunities for improvement related to the capital project labor budgeting and recording processes. Interviewees included Sound Transit leadership, department representatives, and key stakeholders.● Document Review: We reviewed a variety of planning materials, organizational charts, internal documents, system-generated reports, financial statements, accounting documents, policies and procedures, websites, and other information provided by Sound Transit staff.● Survey: We conducted a survey of all employees charging time to the sampled projects (East Link Starter Line, Hilltop Link, and Northgate Link extension projects). The survey was open from September 11 to September 23, 2024. Out of the 360 employees invited to take the survey, 115 submitted either full or partial responses (a participation rate of 32%). Summarized survey results have been included in Appendix A.● Research into Industry Standards: Based on the improvement opportunities identified, we conducted research to ascertain industry standards and best practices.
3. Analysis	We evaluated the importance and impact of collected data in order to develop recommendations designed to increase the accuracy, efficiency, and consistency of capital project timekeeping. While we initially planned to perform testing and analysis on labor charged to sample projects, our audit was limited by the availability of labor data for review.
4. Reporting	We communicated the results of our analysis with Sound Transit leadership, presenting our findings and recommendations in a draft report that was reviewed with management to validate the facts and confirm the practicality and relevance of recommendations before finalizing the report.

C. STATEMENT OF GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (GAGAS) COMPLIANCE

We conducted this performance audit in accordance with 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.



D. COMMENDATIONS

Based on insights gathered through interviews, document review, and survey results, Sound Transit has many commendable organizational qualities and practices, including:

- **Adaptability:** Sound Transit employees continuously demonstrate their ability to adapt to changing circumstances by combining information from various reports, creating individualized procedures used to verify labor recording, and working diligently to charge projects in an accurate and equitable manner.
- **Workplace Culture:** A working environment centered around transparency, trust, and respect is key for long-term collaboration and operational success. Sound Transit employees regularly shared that their relationships with colleagues are mutually respectful and trustworthy. These traits are highly conducive to overall productivity and employee satisfaction.
- **Committed Employees:** Sound Transit operates with a number of long-term employees that have a wealth of institutional knowledge who are able to provide valuable insight on current and historic successes, as well as areas for potential improvement. These employees are highly motivated to improve Sound Transit's operations.

We would like to commend Sound Transit's management and staff for their willingness to assist us in this assessment process. These commendations, coupled with our findings and recommendations, provide an overview of areas of strengths and weaknesses, as well as outline opportunities to improve operations and reduce risk at Sound Transit.



III. FINDINGS AND RECOMMENDATIONS

Based on analysis of the data gathered from interviews, an employee survey, document review, and industry research, we prepared a comprehensive set of findings and recommendations presented under three category headings: 1) Policies and Procedures, 2) Time Charging Practices, and 3) Labor Reporting and Monitoring. The findings and recommendations for each category are detailed below.

A. POLICIES AND PROCEDURES

Inconsistent Policy Awareness

1.	Finding	Employees are generally unaware of Agency-wide policies and procedures related to time charging, such as the requirement to track time in 15-minute increments or the option to charge non-project time to their home business unit (HBU).
	Recommendation	Provide additional training and regular communications to ensure employees are aware of the MyTime timekeeping policies to create consistent expectations and more accurate labor charging to projects.
	Risk Category	Compliance

Agency staff demonstrated inconsistent awareness of time charging policies and procedures. The MyTime Guide for Exempt (Salaried) Employees Who Charge to Projects instructs employees to charge time in 15-minute increments, and for capital project charging employees to allocate non-project-related labor to their HBU. The majority of interviewees reported being unaware that these policies existed, or unaware of how to access the timekeeping instructions. Additionally, there were employee concerns about capital project-related labor not being charged to capital projects.

15-Minute Increments

The majority of interviewees were not aware of the requirement to charge time in 15-minute increments. When interviewees indicated that they were aware of the 15-minute increment policy, none of them reported actually following it, opting for half-day or full-day time charging instead. Additionally, most interviewees reported that they and their co-workers only filled out their timecards once per week or once every two weeks, generally relying on a combination of memory and calendar entries to re-create time for the previous week or pay period. This approach was reinforced by survey responses. Of the 92 employees who responded to this question, six employees (7% of respondents) indicated that they charge in 15-minute increments, and 82% of respondents reported that they charge their time in hourly or full day increments.



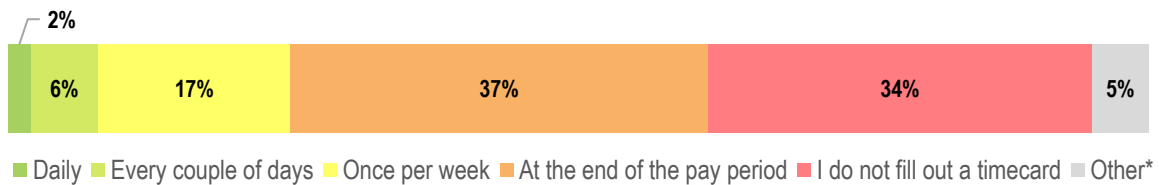
Q2: In what increments do you charge your time? (92 respondents)*



*Total adds up to 101% due to rounding.

Of the 107 employees that responded, 36 employees (34% of respondents) indicated that they do not fill out a timecard. Of the remaining 71 respondents, 54 employees (50% of total respondents) indicated that they complete their timecard at the end of the pay period, at the end of the week, or every couple of days. Relying on memory to charge time to capital projects could result in inaccurate labor charges to each assigned project.

Q1: How often do you fill in your timecard? (107 respondents)*

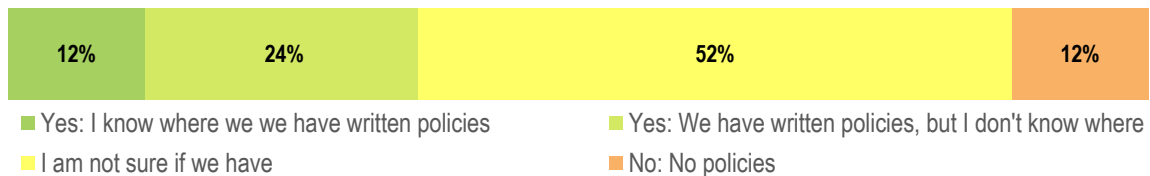


*Total adds up to 101% due to rounding.

Written Policy and Procedures

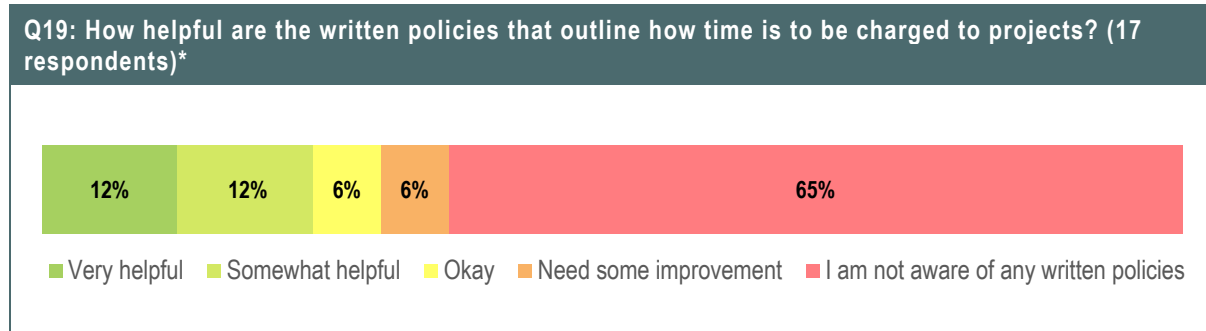
Of the 17 employees that responded regarding written policies that outline how time is to be charged, only two employees (12% of respondents) said they were aware of the policies and how to find them. The remaining 15 employees (88% of respondents) indicated some level of uncertainty. Nine respondents said that they know written policies exist, but were unsure of where to find them; two respondents said they were unsure if policies exist, or how to find them; and four respondents said that they were completely unaware of such policies.

Q18: Are there written policies that outline how time is to be charged to projects? (17 respondents)





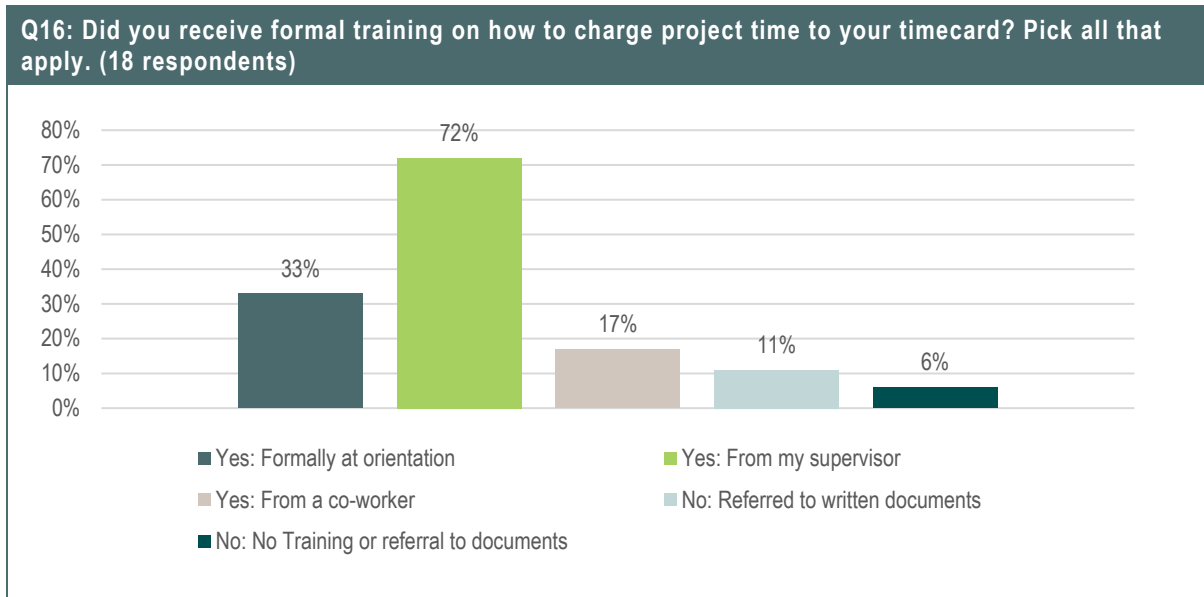
When asked if the written policies regarding time coding are helpful, 12 of the 17 employees (71% of respondents) said that they are unaware of any written policies (11 respondents) or that the written policies need some improvement (one respondent). Please note that this number of survey respondents does not meet the threshold required to be considered reliable; however, it should be noted that these results generally align with the information gathered through employee interviews, and may be considered on an anecdotal basis.



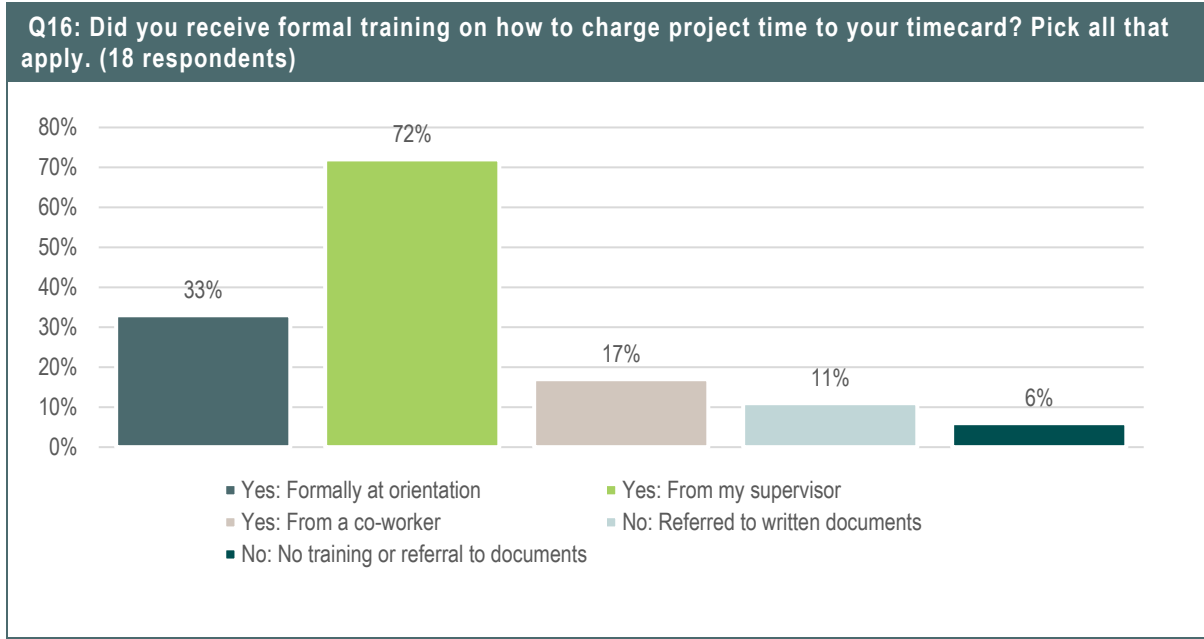
*Total adds up to 101% due to rounding.

Training

Employees reported inconsistent training practices, with most interviewees and survey respondents indicating that they were minimally trained by their supervisor or a co-worker on an ad hoc basis. None of them referenced the formal training that all employees received when MyTime was put into operation six years ago, despite the majority of the interviewees having been employed by Sound Transit at that time. While it is not uncommon for employees to not recall a training that occurred many years ago, the fact that none of the employees recalled having this training or are using the training materials provided (coupled with the widespread employee misunderstandings of timekeeping policies) suggests that this training may not have successfully provided the desired long-term adoption of proper timecard entry procedures.



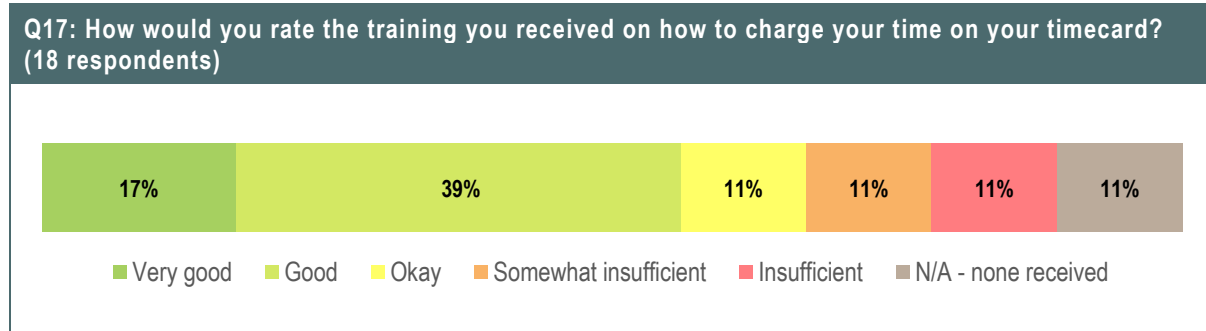
When asked if they received formal training on charging project time, six of the 18 employees (33% of respondents) said they received training at their formal orientation, 13 employees (72% of respondents) said they received training from their supervisor, three employees (17% of respondents) said they received training from a co-worker, and three employees (17% of respondents) said they did not receive formal training at all. Please note that this number of survey respondents does not meet the threshold required to be considered reliable; however, it should be noted that these results generally align with the information gathered through employee interviews, and may be considered on an anecdotal basis.



When asked to rate the timecard training they received, 10 employees (56% of respondents) rated it as very good or good. Two employees (11% of respondents) rated it as okay. The remaining six



employees (33% of respondents) said it was either somewhat insufficient, insufficient, or that they did not receive any training at all.



When all of the above is taken together, the information gathered suggests that there is a significant gap in policy communication, timekeeping training, and enforcement of timekeeping policy, which creates a risk that labor hours have been incorrectly charged to capital projects. In the absence of consistent policies and procedures that are reinforced by training, teams have developed their own guidance on charging time to capital project. This presents the risk that teams are charging their time inconsistently with one another, as well as with Agency expectations.

Recommendation

Sound Transit should conduct mandatory timekeeping refresher training at regular intervals (such as yearly), ensuring that new employee orientation training contains a robust timekeeping training section and that all employees (current and future) are made aware of where written timekeeping policies and procedures are located so they may be easily referenced when needed. This would help reduce misconceptions about the current timekeeping policy requirements, including that:

- All current employees follow a standardized timekeeping policy.
- Employees are aware of where to find the written policy and procedures.
- Employees receive regular reminders of proper timekeeping policy to prevent misinformation from becoming institutionalized knowledge again in the future.
- All new employees are accurately trained.

MANAGEMENT RESPONSE	
Management Agreement	Management agrees with the finding.
Owner	Finance (Payroll)
Target Completion Date	12/31/2024
Action Plan	Management agrees that some employees may be unaware of Agency-wide policies as documented in the MyTime Guide on the HUB and covered in orientation and on-boarding training.



	<p>Finance, together with People and Culture, will:</p> <ol style="list-style-type: none"> 1. Review the MyTime Guide documentation to ensure it reflects current policy. 2. Send communications via email and HUB articles, as appropriate, with links to the information to employees with emphasis on policies such as recording time in 15-minute increments. 3. Consider highlighting this policy, along with the other policies already presented, in the bi-weekly payroll reminders that are distributed agency-wide. 4. Conduct additional, periodic training for time charging employees.
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Incomplete Policy Environment

2.	Finding	Sound Transit lacks key policies and procedures for reporting, tracking, and reviewing charged time.
	Recommendation	Develop and implement clear policies and procedures and employee training for timekeeping that includes the direct labor distribution and overhead labor allocation models, and budgeting, to promote consistency in understanding and executing time coding, reviewing, and reporting.
	Risk Category	Internal Control

Sound Transit’s matrixed organizational structure and deployment of staff across various projects requires it to account for project labor costs through the following: 1) Tracking direct labor for each project, 2) a direct labor distribution model used to allocate labor hours for certain staff and their direct report employees to projects on a percentage basis, and 3) an overhead cost allocation model used to distribute administrative and shared service function costs to projects. While these methodologies are somewhat documented within the Finance Division, the underlying logic guiding them are not. The resulting opacity over who makes these determinations and the process used leads to heightened confusion across the Agency, and contributes to challenges in achieving a uniform timekeeping process and in adequately reviewing, reporting, and tracking project labor time.

Project Labor Reporting and Tracking

The Agency does not have policies and procedures that define how Sound Transit project leaders should report the labor charges made to their projects. While the East Link Starter Line, Hilltop Link, and Northgate Link extension project teams share the common practice of generating monthly Annual Budget Plan vs. Actual and Project Staffing Detail reports, there is no policy to instruct all departments and project teams to do this consistently. Additionally, during our fieldwork, one of the project cost coordinators provided a recently created Power BI report that the other project coordinators were not familiar with. This demonstrates that a lack of a project labor reporting policy can lead to employees running reports according to individual preferences. This flexibility can be beneficial for managing projects, but it also reduces the Agency’s ability to achieve organization-wide labor reporting consistency. It can also lead to additional confusion across teams, particularly those that use different reports and reporting formats.



Direct Labor Distribution Assignments

Sound Transit's Finance department maintains a spreadsheet to document which business units have employees whose time should be either directly distributed (assigned a hybrid or purely allocation-based method) or directly charged to projects. The decision is made through a joint effort between Accounting and the Financial Planning & Analysis (FP&A) team members through discussion with business partners and based on their understanding of each business unit function.

Interviewees varied in how familiar and aware they were of this process, but generally agreed on a desire for more transparency to understand how costs were being allocated to their projects. While Agency staff systematically engage in discussions and analysis, there is currently no policy in place to define a rationale or analytical logic to guide these discussions, and ultimately to determine whether a business unit should be assigned to code time with an HBU-centric, project, or hybrid charge method. Without a documented policy or procedure to define criteria for this decision, Sound Transit faces risks that assignments are made inconsistently and contribute to the confusion and challenges in tracking project labor costs.

Determining Overhead Agency Functions

Similarly to directly distributed staff labor, the Agency's approach to determining and assigning organizational functions to overhead lacks defined policies and procedures, and contributes to project labor reporting challenges. While there is documentation to inform staff on how to allocate staff time as overhead labor costs, there is no documented policy or procedure that explains the rationale for classifying functions into overhead. Staff reported an effort to do their due diligence to apply a well-founded analytical logic for this decision; however, the Agency does not have a documented process that defines which elements should be evaluated when designating a function or cost as overhead. Without a defined process, it is possible that Sound Transit is inconsistent in their classification, limiting the efficiency of their timekeeping and reporting practices.

Project Labor Charge Reviews

Sound Transit does not have a policy for reviewing project labor costs. Agency employees are split among project teams and each are responsible for managing the project, including labor costs, as they compare to budgeted amounts. However, without documented guidance, the Agency risks project labor costs are irregularly reviewed, or reviewed to unequal extents.

Interviewees generally highlighted that review procedures are up to each team to devise. During our interviews, one of the project leaders demonstrated the extensive review steps they execute to analyze the appropriateness of both actual and projected labor charges by individuals, which included cross-referencing the reports provided. In contrast, the other project leaders review project labor charges monthly, with heightened focus on variances between months. Interviewees explained that budget analysts commonly facilitate discussions between project managers and department teams to understand and document the causes of labor variances. While these practices can help ensure that important aspects of project labor charges are captured, they bring risks that the Agency is not optimally aligning their project review practices with the scope and potential impact of each project. In other words, without a policy to guide the extent to which each project shall be reviewed and investigated, Sound Transit staff may be over-reviewing projects that are very regular in project staff and time charges, while under-reviewing complex projects that may see the involvement of various members across several teams.



Combined with inadequate timecard review processes and policies (discussed in Finding No. 4) and limited policies and guidance on reviewing and revising labor budgets, the current project labor landscape poses challenges in monitoring coded project labor costs and is not conducive to identifying and resolving labor reporting and inputting variances.

Budgets

In addition to key time charging policies, Sound Transit also lacks a policy to ensure Agency staff revisit project budgets over time to review them for accuracy and adjust them. Interviewees reported that Sound Transit develops project budgets annually based on staffing plans provided by project and team leaders, but projects are effectively bound by the baseline budget created for the project. Furthermore, once budgets are created, they are reportedly not engaged with until the next budget cycle when they are rolled forward. Current budgeting practices are not effective, and grow increasingly inaccurate as faults in timekeeping and labor reporting practices compound over time. Many interviewees expressed that the Agency has grown more complex, but labor budgets on capital projects have not been adjusted to account for additional teams contributing to the project.

Recommendation

It is essential for the Agency to develop and implement clear policies and procedures and provide employee training regarding the Agency’s project time charge reporting, tracking, and reviewing practices, which should encompass its direct labor distribution and overhead labor allocation models, as well as budgeting practices. Ideally, the policies should outline a framework and the specific elements necessary to inform all decisions and classifications made to support accurate labor reporting. This can include reporting templates, procedural review and signoffs, and documentation of notes for deviations from the norm, or other discrepancies. Similarly, budget policies should include details about set intervals for budgetary review, important reports and performance indicators, and parameters around when and how a budget should be adjusted.

With these policy details in place, the Agency can mitigate operational disruption and loss of institutional knowledge, particularly if longstanding employees that are the primary holders of process expertise retire, leave the organization, or are otherwise unavailable. Ultimately, closing policy gaps requires the Agency to ensure it has complete guidelines to inform its employees of all aspects of its core business and operations. A comprehensive policy environment would allow any Sound Transit employee to identify the answers to any question they may have; can support consistent awareness, understanding, and application of agency-wide time coding; and uphold public and stakeholder confidence by ensuring that the Agency demonstrates good faith in maintaining compliance with all relevant reporting standards, requirements, and best practices.

MANAGEMENT RESPONSE	
Management Agreement	Management agrees with the finding.
Owner	Strategy Office and Agency Oversight
Target Completion Date	March 28, 2025
Action Plan	Management acknowledges the findings and seeks to clarify that the finding is in relation to the reporting, tracking and review of charged time by project teams,



	<p>versus the reporting, tracking and review of time charged by employees and their direct supervisors for payroll purposes. ST payroll systems, policies, and procedures exist, and are closely monitored, to manage the recording and approval of time by employees and their supervisors.</p> <p>Use of the payroll system to report, track and review time charges by project teams is a limitation of current systems. This issue is well known and is being addressed in the ERP/EAMS and PMIS projects. Systems that will allow for these activities to take place separate and aside from payroll are critical in order to address these concerns and are requirements in our future system</p>
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B. TIME CHARGING PRACTICES

Overhead Cost Allocation

3.	Finding	In the absence of clear criteria for overhead costs, teams that are concentrated on specific projects may be incorporated into the overhead rate instead of the projects they support, leading to potentially inflated overhead costs and underreported project labor costs. This impacts the accuracy of both operational and project budgets.
	Recommendation	Develop clear guidelines for overhead cost allocations that more closely align cost accounting practices to activities performed by employees and consultants. Implement a regular review of overhead rates to ensure they accurately reflect the Agency's cost structure.
	Risk Category	Financial

As opposed to employees that directly code to projects, some Sound Transit employees are categorized within shared services functions (like accounting, security, and IT) and considered indirect costs. These employees charge time to their business unit for later allocation across projects in proportion to the expenditures of each project. According to interviewees, all coded overhead employee time is aggregated on a quarterly basis for allocation across projects to ensure all project labor costs are captured.

Allocation

This allocation is based on a formula designed to match services provided by shared service division employees to the services received by each project. We received reports of concerns around the accuracy of the allocation process, and some employees on operational teams questioned their inclusion in overhead costs because their daily work typically focused on specific projects. Both interviewees and survey respondents shared that while they are part of operational teams, they regularly perform quality control tasks or attend meetings for specific projects but continue to charge their time for allocation through overhead. Similarly, interviewees highlighted that labor completed by consultants is not charged directly to the projects they support, but instead is captured as consultant costs within operating expenses, potentially contributing to underreported project labor costs and inflated overhead costs.



The opacity of how Sound Transit determines whether a function or division is considered overhead and allocable prevents Agency employees from understanding why overhead costs are being charged to the projects they manage, and many reported feeling as though overhead charges are immutable and non-negotiable. Project directors expressed concerns with overhead charges being applied equally, even when the project may be experiencing delays and therefore not needing the level of service previously anticipated for a shortened time period. In these events, the overhead labor charge lasts longer on the project, and ultimately results in a higher overall charge than was originally anticipated. This can also result in inaccurate project and operating costs and future budgets.

The Agency bases their categorization of a division or function as overhead based upon the group's business function and impact. Accounting and Finance staff assess the impact that function has and may have on capital projects as a whole. Consequently, some overhead costs may appear counterintuitive. For example, work done to develop engineering standards for a specific transit system component in a specific project may still be considered overhead and allocated across projects because the result of that work could be applicable to additional projects that also use the component or engineering standards. In this context, some interviewees highlighted that tracking the time dedicated to creating the work would be ineffective, and leveraging work done for one project on other projects without accounting for the resources on them would not capture labor accurately either.

While the overhead allocation process is systematic and described in the Agency's Prophix process guide, the Agency does not have a policy to define the criteria for overhead functions nor to guide the discussions held to identify functions as overhead. Without such a policy, overall Agency visibility and understanding of overhead allocations is limited. Additionally, the Agency faces risks that some employees and teams that concentrate on specific capital projects are captured disproportionately within overhead, particularly if their work was specific to particular projects and/or not broadly associable to other projects.

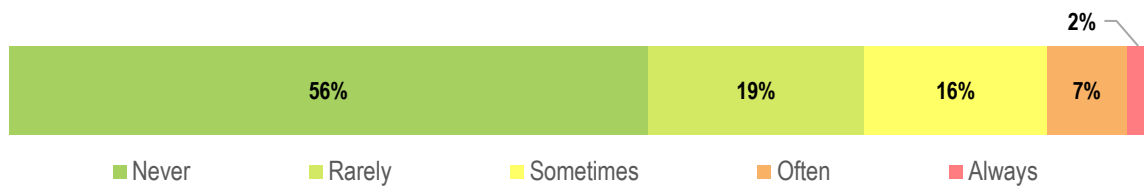
Combined with the practice of capturing consultants as operating costs, Sound Transit may be regularly reporting deflated labor costs. These inaccuracies may be detrimental for the Agency when capital projects are completed and transitioned to operational models, as true labor costs may surface as excessive and unviable.

Survey Results

The questions below were asked of all employees (those who charge time directly to projects, as well as those who do not). Among employees who do not charge time directly to projects, 25% of survey respondents reported that they always, sometimes, or often devote 25% or more of a pay period's hours toward a single project (11 out of 43 respondents). This indicates that some of these employees whose labor is not charged directly to projects devote a substantial amount of their time working on specific projects.

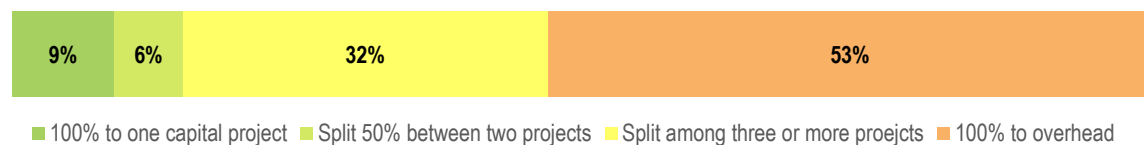


Q5: How often do you devote 25% or more of a pay period's hours toward a single capital project? (43 respondents)



When asked how their time is allocated, 44 employees (45% of respondents) reported working on a capital project on a daily basis. Interestingly though, when asked how they charge their time, only 19 employees indicated they charge directly to projects (20%). That means that 27% of those who work on projects on a daily basis are not charging to them.

Q3: In your daily work, how is your time allocated? (97 respondents)



Q4: How do you charge your time? (97 respondents)



Recommendations

Sound Transit should develop clear guidelines for overhead cost allocations that more closely align cost accounting practices to activities performed by employees and consultants. Employees should ideally be able to identify what was included in their project's overhead allocations and why. To support this, Sound Transit should develop clear guidelines for overhead cost allocations that more closely align cost accounting practices to activities performed by employees and consultants. Overhead allocation policies and procedures should be comprehensive to explain guiding principles, easily accessible by all Agency employees, and include the following:

- **Overhead Criteria:** Sound Transit should determine parameters for what overhead costs entail. The criteria could include elements such as whether work done for a given project could be used for other projects, and how many other projects must benefit from the work before considering it in overhead.



- **Clear Definitions:** Sound Transit should clearly define the key activities performed by employees and consultants through workshops or interviews with teams. This can help Sound Transit delineate overhead costs from project-centric labor.

Consider conducting a labor cost project walkthrough to highlight contentious and commonly misunderstood costs. Once the overhead allocation model has been recorded, it could serve as a training resource moving forward.

Sound Transit should also incorporate regular review of the criteria used to identify functions and divisions as overhead to ensure overhead costs accurately reflect the Agency's cost structure. Combined with adequate documentation of the overhead allocation process and the factors that drive the allocations, the increased visibility of overhead would enable project leaders and employees within project cost control functions to enhance their understanding of Sound Transit's organization, operations, and strategies at play.

MANAGEMENT RESPONSE	
Management Agreement	Management agrees with the finding.
Owner	Finance
Target Completion Date	May 2025
Action Plan	<p>While Management believes that clear criteria exist for the determination of overhead costs and their allocation, Management concurs with the need for these to be further clarified and enforced.</p> <p>For reference, the currently established policies and practices are documented and managed by the Finance division and are consistent with generally accepted accounting principles and are consistently applied over time and throughout the agency. The overhead allocations have been reviewed and approved by external oversight bodies.</p> <p>Management agrees that the current financial systems are limited in allowing employees flexibility to charge or not charge time to projects. Using the payroll system for project time tracking reduces agility in time reporting, affecting policies on time sheets, direct distribution, and overhead allocation. This issue is recognized and is being addressed in the ERP/EAMS and PMIS projects. New systems separate from payroll are essential for accurate project costing and are planned for future implementation.</p> <p>Additionally, if policies are found in any way to be lacking documentation will be augmented and created if necessary.</p>



Capital Project Direct Time Charging

4. Finding	Employees indicated that all work hours for direct-charge employees must be charged to a specific project, which contradicts Agency policies and presents the risk that labor charges to capital projects as well as operations may be incorrect.
Recommendation	Reinforce Agency time charging expectations to promote consistent and accurate labor reporting to individual projects. Develop additional guidance on charging administrative time to a specific project vs. HBU to ensure this time is charged consistently across teams, especially if they work on multiple projects simultaneously.
Risk Category	Compliance

Administrative Time Recording

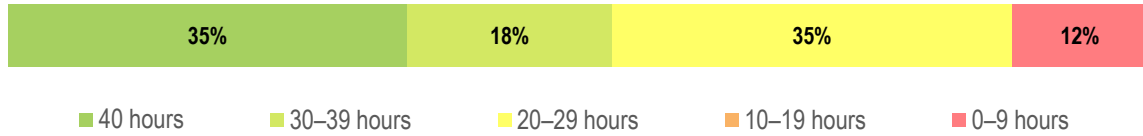
Interviewees reported that employees who charge directly to a project must charge all 40 hours per week that way (with the only exception being for hours charged to PTO or education/training), and that there is no mechanism for direct-project employees to charge administrative time to anything other than a project code. In other words, they believed that all worked time (including non-project administrative time) was to be charged as project labor on a specific project.

During interviews, the majority of employees we spoke to (both those who charge directly to project codes and those who did not) expressed concerns that the requirement for directly-billed employees to charge administrative time to project labor codes was creating project labor inaccuracies. When asked where this information came from, employees reported that it was taught during orientation by their manager and/or by co-workers, and they reported teaching this to other employees as well. In fact, only two of the 21 interviewees knew that Sound Transit's written procedure, located in the MyTime Guide for Exempt (Salaried) Employees Who Charge to Projects, not only allowed direct-project employees to charge non-project time to their HBU, but actually required them to do so. The two employees who knew the correct policy both worked in Finance and Accounting in administrative roles dealing with labor allocation; they did not work directly on a project.

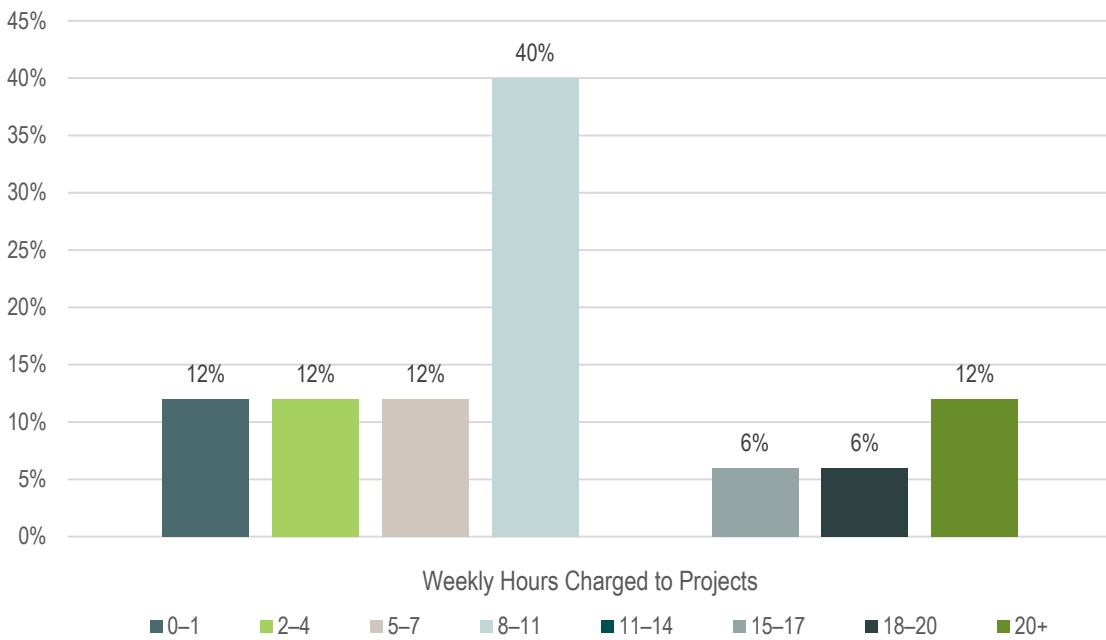
The survey results similarly demonstrated a lack of awareness of policy requirements to charge administrative hours to the HBU. When asked how many hours per week they charge to projects, six employees (35% of respondents) said they charge 40 hours to capital projects. Yet, when asked how many hours they spend on administrative tasks or other activities not related to projects on an average week (excluding training and PTO), 16 employees (88% of respondents) said that they spend two or more hours per week on tasks unrelated to capital projects; some reported spending 20 hours or more per week. While this survey response size is too small to create a statistically reliant response rate, it is interesting to see that the answers anecdotally confirmed that employees are charging unrelated administrative time to projects.



Q9: How many hours per week do you charge to capital projects? (17 respondents)



Q10: In an average week, how many hours per week do you spend on administrative tasks or other activities not related to a capital projects? (Excluding training and PTO.) (17 respondents)



In practice, business units that directly charge time to projects are paid through the capital program to keep expenditures for operations and the capital program separate. When employees are charging their time to individual projects, this results in a direct expense to the project. However, if a direct charge employee codes non-project time to their HBU, as set forth in Agency policy, this expense still applies to the capital program and would be distributed across the projects that the employee works on. It is common practice for agencies with large capital programs to keep capital-funded and general-funded employee expenses separate in this manner. However, this process is unclear among employees who are charging time directly to projects and should be clarified to support consistent and accurate labor charges across the many projects in the agency's portfolio.

Recommendations

Sound Transit should reinforce Agency capital time charging expectations to promote consistent and accurate labor reporting. This can be achieved by clarifying the language around this policy within the MyTime Guide for Exempt (Salaried) Employees Who Charge to Projects, providing employee training on project labor recording, and having employee supervisors and project leads review labor



being charged. These clarifications will be particularly useful for business units that work on multiple projects, since their labor allocations likely differ project by project.

Clarifying Language

It will be important to create and expand current project labor policy and procedures to define what is considered administrative vs. dedicated project time, since topics within this area are not always clear-cut. For example, is attending an all-agency staff meeting a project expenditure? Sound Transit should develop this type of additional guidance to create a comprehensive time recording system, help clarify project labor charging policy, and ensure that time is charged consistently across teams.

Training

Given how widespread the misconceptions about policy and procedures for charging project labor are (including the misconceptions that direct-charging employees must charge all non-PTO and education hours to an individual project, and that there is no mechanism to charge non-project related administrative time to the HBU), it will be necessary to provide training to all direct-charging employees, their supervisors, and project leads. The goal is to replace the current misconceptions with a clear understanding of the timekeeping policy and procedures. Once this training has been completed, it will also need to be incorporated into new employee orientation, and the training materials should be added to a centralized reference repository accessible by all employees.

Review

Once all employees, supervisors, and project leads have been trained on the proper project labor timekeeping policy and procedures, it will be important that timecards are properly reviewed to ensure that policy and procedures are being followed accurately. See Finding No. 5 below for additional recommendations in this area.

MANAGEMENT RESPONSE	
Management Agreement	Management partially agrees with the finding.
Owner	Finance
Target Completion Date	March 28, 2025
Action Plan	<p>Management acknowledges that there is an option to charge non-project time to home business units via a time code. For employees within project centric HBUs, time charging to the HBU results in charging time to the projects and does not result in agency administrative or overhead costs. Therefore, the result of charging indirect project time to the projects on which an employee works has the same result as utilizing the mechanized time code.</p> <p>Employees within Hybrid HBUs who charge time to their HBU would result in administrative costs and would be included in overhead. Hybrid employees and HBUs are very limited at the agency.</p> <p>The evidence presented in the audit report suggests that most project centric employees correctly understand that their time will be charged to the projects whether directly charged themselves or via the time code allocation mechanism.</p>



	<p>Management believes that the policy which requires full time-charging employees (the majority of project related employees) to charge all time, including administrative time, to the projects is well established, consistently applied (systematically), and acceptable within accounting principles. Clarity around the availability of the mechanized time code option and the use of it, will be reviewed and considered in our educational efforts going forward.</p> <p>Please refer to the response to Finding 1 for educational efforts that will be taken and documentation that will be reinforced related to this practice.</p>
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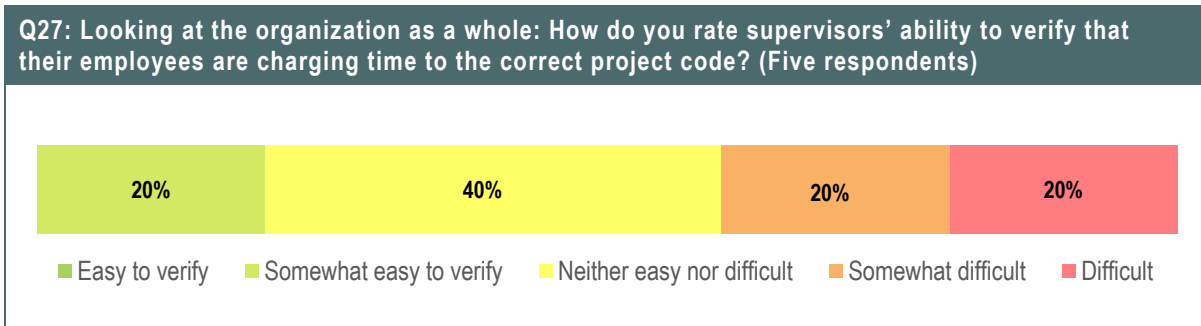
C. LABOR REPORTING AND MONITORING

Timecard Reviews

5.	Finding	Timecards are approved by an employee’s organizational supervisor instead of the project supervisor. The Agency does not have a clearly defined timecard approval policy or procedure; organizational supervisors reported a limited ability to consistently verify charged time or adjust timecards after the payroll cycle.
	Recommendation	Establish a standard operating procedure for project managers and directors to collaborate with employee supervisors in order to verify the reasonableness of time charged to their projects.
	Category	Internal Control

During interviews, we learned that supervisors face several challenges when it comes to the accuracy of employee timecards, resulting in some supervisors feeling that they are not able to accurately verify the veracity of their employees’ charged time. This finding was substantiated by the survey results; however, as the number of responses received was too low to be considered statistically significant, these responses may only be considered anecdotally.

When asked to rate their supervisor’s ability to verify that employees are charging time to the correct project code, only 20% said it was somewhat easy to verify. Similarly, two of the five respondents (40% of respondents) reported that it is somewhat difficult or difficult.

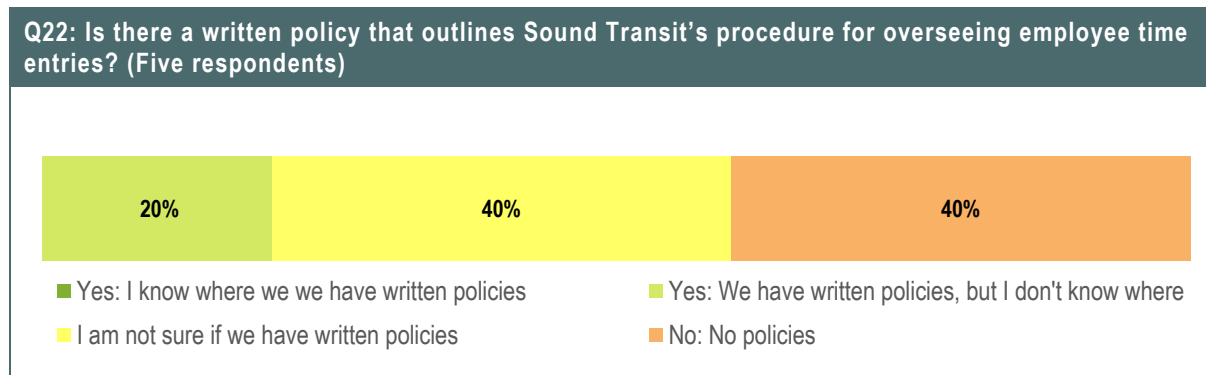




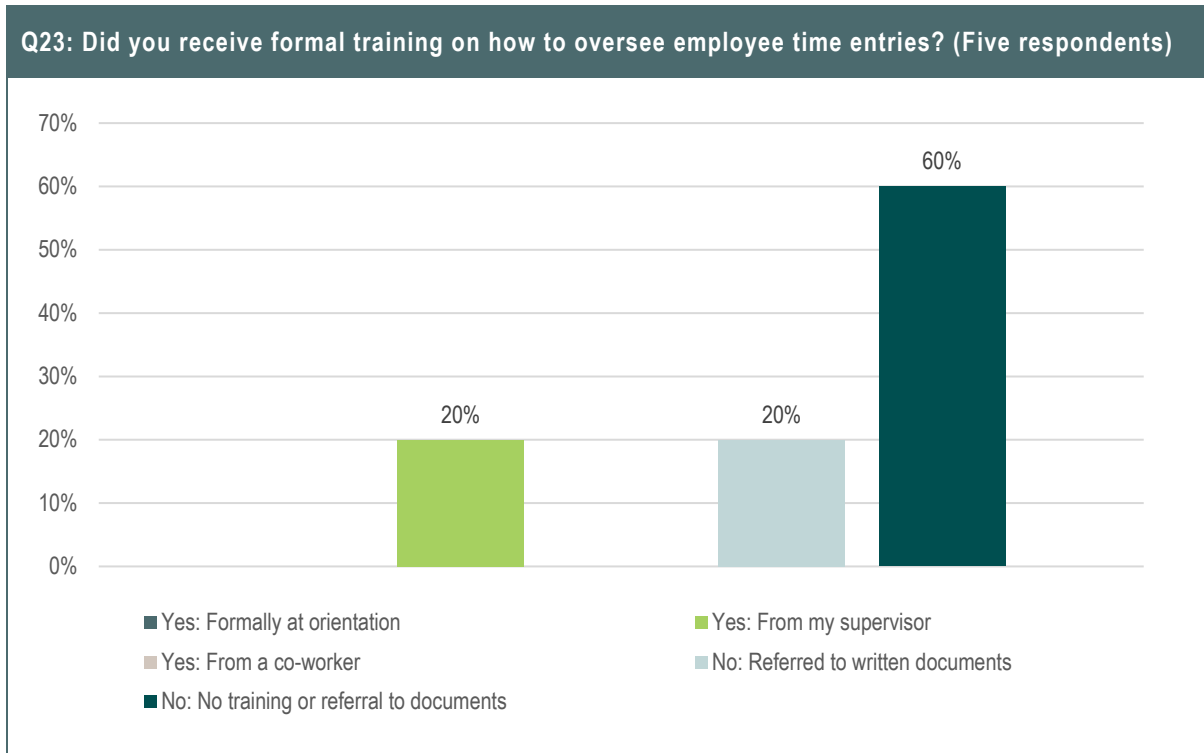
Lack of Policies and Procedures

Sound Transit was unable to provide a standardized, written timecard verification process to the performance audit team. During interviews, we were told that each supervisor is left to create their own process; as a result, some supervisors have established more comprehensive methods of timecard approval than others, resulting in inconsistency across the Agency in terms of procedures and accuracy. The survey responses also indicated an overall lack of awareness of Agency policies on overseeing employee time entries; however, as the sample size was too small to establish statistical significance, these responses may only be considered on an anecdotal basis.

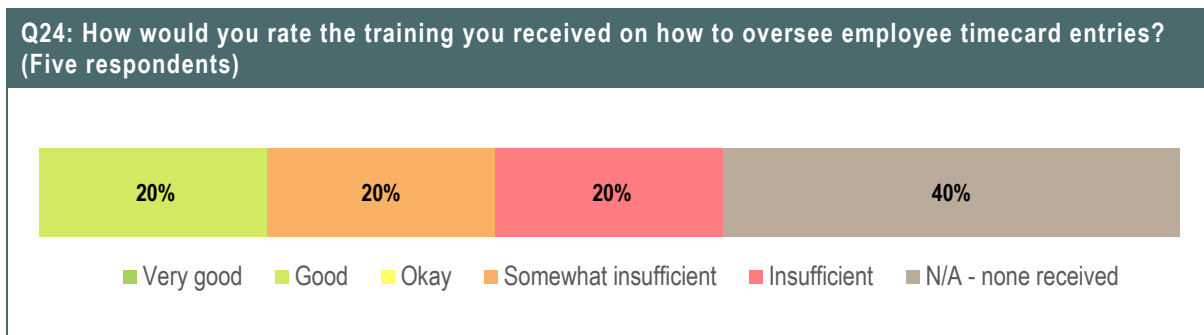
When asked if there was a written policy that outlined Sound Transit's procedure for overseeing employee time entries, four out of five respondents (80% of respondents) said that there was no written policy or that they were unsure if there was a written policy. One respondent indicated that they believe there are written policies, but did not know where to locate them.



As there is no formalized procedure for timecard verification, it naturally follows that there will not be a formalized training process. During interviews, we learned that some supervisors asked their own supervisor or co-workers to provide guidance as they crafted their own policy, but the majority crafted their own timecard verification process without any input from others. As far as survey results go, the responses we received were somewhat consistent with this information; however, there were too few responses for the data to be considered statistically significant. Thus, this information is included for anecdotal purposes only.



When asked how they would rate the training they received on how to oversee employee timecard entries, four out of five respondents (80% of respondents) reported that they had received somewhat insufficient, insufficient, or no training.



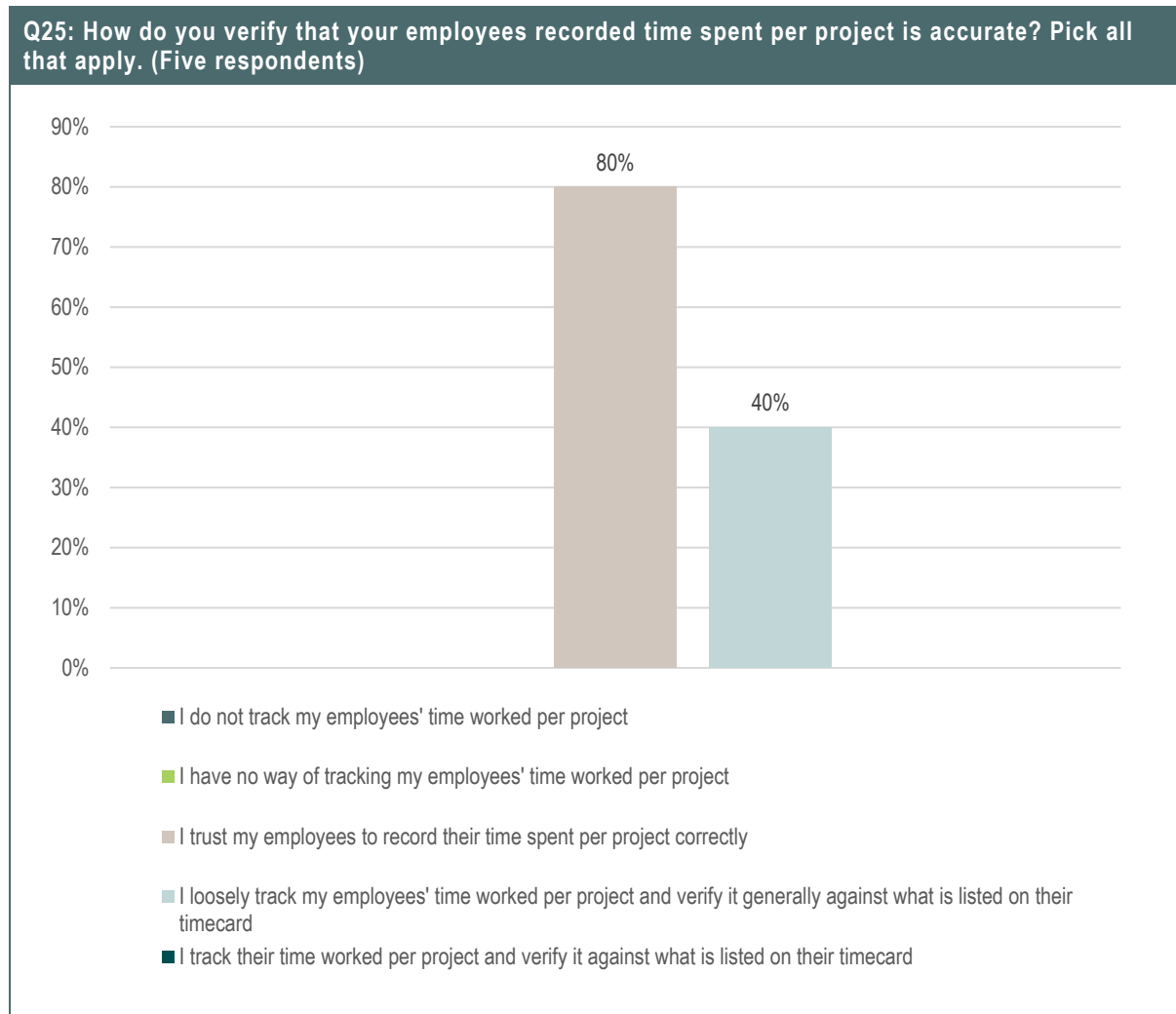
Organizational Supervisors

Employees are assigned to a supervisor within their HBU rather than reporting directly to the supervisor of a project on which they work. While this is a logical choice for consistency (keeping in mind that an employee may work on more than one project at a time, and that employees may likely work at Sound Transit past the completion of their initially-assigned project(s)), it does create an information imbalance. Supervisors reported having only a limited understanding of how their employees spent time on a daily basis and, as a result, they struggled to verify that the time recorded on the timecard matched the time worked overall, or the allocation of that time between assigned projects. Many of our interviewees stated that they primarily relied on trust in their employees when approving timecards since they had no other efficient means to verify accuracy, deferring to what the employee reported on their timecard as a correct representation of hours worked unless the hours



claimed appeared so unreasonable that it warranted additional research. While not a statistically significant sample size, our survey results did substantiate this finding anecdotally.

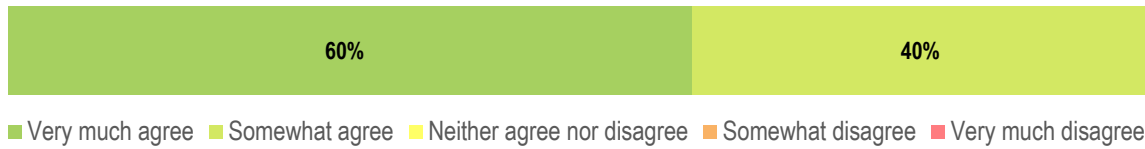
When asked how they verify that your employees recorded time spent per project is accurate, four out of six respondents (80% of respondents) indicated they rely on employee trust when verifying timecards. The other two respondents (40% of respondents) said that they loosely track their employees' time worked per project and verify it generally against what is listed on their timecard. This overlap in answers suggests that one respondent chose both answers.



In addition, five employees (100% of respondents) either very much agreed or somewhat agreed that most supervisors rely on employee trust when approving timecards. While five survey responses do not create a statistically significant data set, the insights gained can serve as further anecdotal information that can be used to substantiate our interview findings.

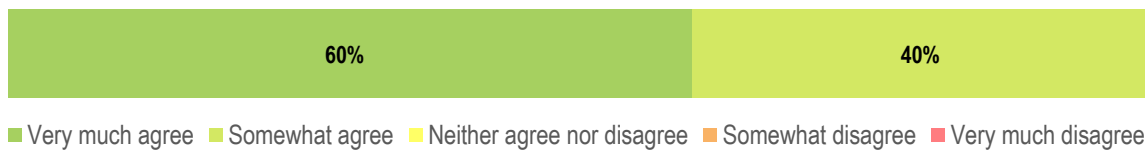


Q28: Please indicate the extent to which you agree with this statement: Most supervisors rely on employee trust when approving timecards. (Five respondents)



When we shifted the survey question from whether they agree that most supervisors rely on employee trust when approving timecards to “As a supervisor, I rely on employee trust when approving timecards,” we received the same results; five employees (100% of respondents) either very much agreed or somewhat agreed. As mentioned above, five survey responses do not create a statistically significant data set; however, it can serve as anecdotal information that can be used to further substantiate our interview findings.

Q29: Please indicate the extent to which you agree with this statement: As a supervisor, I rely on employee trust when approving timecards. (Five respondents)

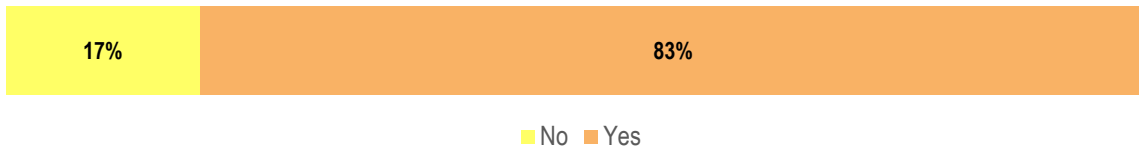


Estimated Timecard Entries

Another challenge that supervisors face is that employees submit their timecard prior to the end of the pay period, estimating what they will work during the remainder (last one to two days) of the pay cycle. These estimations are sometimes inaccurate, as hours worked may differ from what had been projected. We heard mixed reports on whether employees went back to correct time allocations if the estimation proved to be inaccurate, with some saying that the correction process was easy, others saying it was difficult, and the majority of the interviewees saying that labor allocations were rarely corrected after the fact because the value of the correction did not justify the amount of time required to make the correction. Survey results substantiated what we learned during interviews; however, the survey response size was too small to be reliable. However, the following may be considered on an anecdotal basis. When asked if they ever submit their timecard before all reported hours have been worked (e.g., submitting a timecard on Thursday when Friday will still be worked), 15 of 18 employees (83% of respondents) confirmed that they had.



Q13: Do you ever submit your timecard before all reported hours have been worked (e.g., submitting a timecard on a Thursday when Friday will still be worked)? (18 respondents)



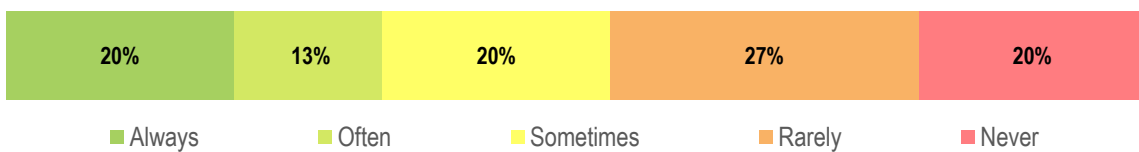
When asked how often their anticipated work schedule changes after submitting their time, two of the 15 employees (13% of respondents) indicated that this happens very often, and three employees (20% of respondents) indicated that this happened sometimes, for a total of 33%. It happened to an additional eight respondents rarely (53%). Only two employees (13% of respondents) said it never happened to them.

Q14: When you submit your timecard prior to the end of the day on the last Friday of the pay period, how often does your anticipated work schedule/anticipated project(s) you plan to work on change after submitting your timecard? (15 respondents)



We then asked if they make retroactive timecard changes when their anticipated work schedule changes after submitting their timecard, seven out of 15 employees (47% of respondents) confirmed that they rarely or never update their charged hours. This is not a statistically significant sample size; consider on an anecdotal basis only.

Q15: If your anticipated work schedule/anticipated project(s) you plan to work on change after submitting your timecard, do you make retroactive timecard changes? (15 respondents)



Unscheduled Paid Time Off (PTO)

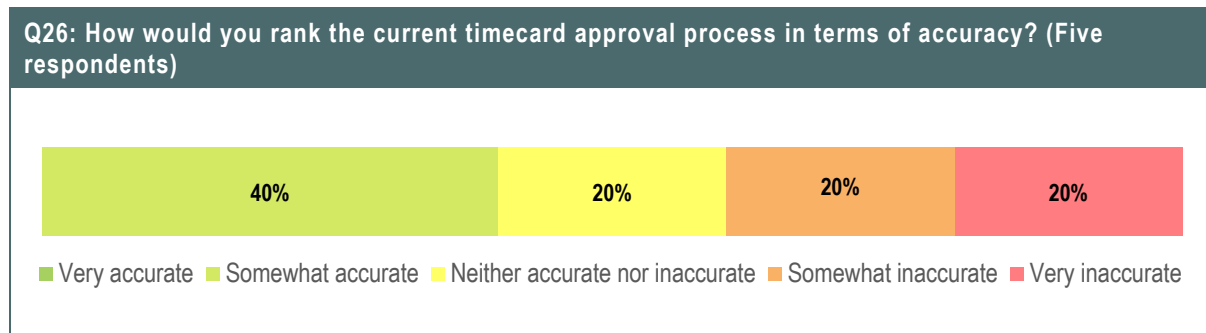
Similar to estimated timecard entries, one of the challenges supervisors faced in their effort to verify timecards was difficulty in tracking unscheduled PTO. While pre-approved PTO is automatically populated into the timecard system, unscheduled PTO is not. The unscheduled PTO verification process was most challenging when the employee took unplanned PTO during the last one to two



days of the pay period (after their timecard had already been submitted). As mentioned above, as there is no standardized, written timecard verification process, supervisors are left to devise their own method of ensuring employees accurately record this time. As a result of each supervisor creating their own system, there is inconsistency throughout the Agency. Some supervisors have developed more comprehensive and accurate methods of verifying unscheduled employee PTO than others. However, even the most comprehensive policy we learned of during the interview process was 100% manual in nature, leaving room for human error.

Accuracy

Finally, when asked to rank the current timecard approval process in terms of accuracy, two out of five employees (40% of respondents) said it was somewhat accurate, one employee (20% of respondents) said it was neither accurate nor inaccurate, and two employees (40% of respondents) said it was either somewhat inaccurate or very inaccurate. Again, this sample size is too low to demonstrate statistical accuracy, but the results do serve to substantiate what we learned in interviews.



Recommendations

In order to improve project labor reporting accuracy, Sound Transit should establish standardized policies and procedures that supervisors can use to verify the accuracy of employee timecard entries. Sound Transit supervisors face several challenges in verifying accuracy of their employee’s timecards: 1) lack of standardized procedures or training, 2) ineffective means of verifying labor hours reported on the timecard to those actually worked, and 3) relying on manual processes to track unscheduled PTO time and timecard changes. These could be improved through the following:

Standardized Procedures and Training

Establish a standardized, written timecard verification policy and specific procedures designed to incorporate industry best practices, promote accuracy, and improve efficiency. Supervisors should receive training on this policy and how to implement the new procedures, and regular refresher training should be offered at set intervals (ideally yearly) as well. This training should also be incorporated into mandatory new supervisor training. In addition to the policy and procedures being available for easy access, the training materials themselves should be readily available for future reference as well—all being stored in a centralized reference library location.

Accuracy Verification

Create a mechanism to compare timecards with actual hours worked. Without having full view of how employees spend their work hours, it is not surprising that supervisors reported largely relying on trust



when approving timecards. While it is commendable that such a culture of trust exists at Sound Transit, this is not an industry best practice. The problem is an information gap; the approving official does not have the information needed to verify timecard accuracy. This can only be remedied by ensuring that the verifying official has access to actual hours worked. Supervisors need to be provided with this information (through a report of hours worked for example), or the project leads need to verify all hours coded to their project (creating an additional level of approval required for employee timecards). In the latter scenario, employee supervisors would only approve non-capital project coded hours (such as PTO).

Standardize Unscheduled PTO Tracking

Currently, unscheduled PTO is tracked manually by the employee’s supervisor, with some supervisors having a more robust system of verification than others. As outlined above, this process needs to be standardized throughout the Agency through written policy and procedures. Additionally, Sound Transit should consider automating this process. This could be achieved in a number of ways, including establishing a centralized “call out” tracker. Supervisors could enter unscheduled PTO into the system (as the employee notifies them of unscheduled sick leave), generating a report that may be used at the end of the pay period by supervisors or payroll to verify that all unscheduled PTO is correctly charged. This report could also be used to verify that unscheduled PTO taken after timecards have been submitted (on the last one to two days of the pay period) is captured through payroll corrections.

Correct Estimated Timekeeping Errors

Currently, employees report being required to submit their timecards before the workweek is completed, resulting in the project codes for the final one to two days of the pay period to be estimated—that is an estimation of up to 20% of the pay period’s hours. They also reported that errors in estimation are rarely corrected. Sound Transit should consider establishing a written policy that ensures timecards are not submitted until the final two hours of the employee’s last workday of the pay period, reducing the estimated time to no more than 2%. With the estimation period reduced this significantly, Sound Transit could ensure a high level of capital project labor recording. Sound Transit should also outline the requirement to correct any incorrect estimations on the first day of the following pay period to verify that labor recording is as accurate as possible.

MANAGEMENT RESPONSE	
Management Agreement	Management agrees with the finding.
Owner	Finance (Payroll)
Target Completion Date	12/31/2024
Action Plan	Management agrees with the statement that timecards are approved by an employee’s organizational supervisor instead of the project supervisor. This is how our current financial systems are designed, and policies articulate and support this practice. However, as the agency’s re-organizational effort is implemented, most organizational supervisors will also be the project supervisors, thus effectively addressing the concern raised via this finding.



	<p>ST payroll systems, policies, and procedures exist, and are closely monitored, to manage the recording and approving of time by employees and their supervisors. Use of the payroll system to report, track and review time charges by project teams is a limitation of current systems. This issue is well known and is being addressed in the ERP/EAMS and PMIS projects. Systems that will allow for these activities (standard operating procedures for project managers and directors to verify the reasonableness of time charged to their projects) to take place separate and aside from payroll are critical to address these concerns and are requirements in our future system.</p> <p>Payroll will work with FP&A and other departments, including Capital Delivery, Agency Oversight, and Service Delivery to determine if there are reporting tools available that could be shared across project teams, or that could be developed given the constraints of the current systems.</p> <p>Employee supervisors can review individual timesheets and can modify those timesheets up to final approval of the time, which is subsequent to the pay period being reviewed. Any corrections needed after the final approval timeline can be made with the assistance of the payroll team. The responsibility to review and approve time along with procedures to adjust time are articulated in bi-weekly emails distributed to the agency. As acknowledged in management responses to other findings, however, we will improve training and enforcement practices.</p>
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Budget Monitoring and Accuracy

6.	Finding	There is limited project reporting available, making it difficult to gauge the accuracy and alignment of internal labor charges with the project and operating budgets. Internal labor budgets are difficult to update, even when updates are needed to accommodate organizational changes. Consultants were utilized in place of direct hires, potentially creating an inaccurate picture of actual labor used.
	Recommendation	Sound Transit should train project leaders on which reports are available, how to access them, and the purpose of each. Reconsider restricting salary data from reports where that information is required to obtain the necessary budget computations; examine consultant usage and how consultant labor is accounted for; and regularly update budgets.
	Category	Effectiveness & Efficiency

During interviews, we learned that there are limited and inconsistent reports available to help project control leads evaluate budgeted labor dollars to actual labor dollars (resulting in a certain amount of decisions being made by estimation rather than substantiated data). We also learned that not all employees are familiar with (or comfortable utilizing) existing reporting options, and that consultants are being hired in place of direct hires, creating inconsistencies (and potential inaccuracies) in capital project labor reporting. Additionally, employees indicated that internal project labor budgets are difficult to change, even when needed to accommodate organizational changes.

Limited Reports

One of the primary sources of frustration that project control leaders reported was their inability to access data. They could access certain reports; however, many of these reports only provided part of



the information needed, as they detailed costs in aggregated dollars or monthly hours worked per employee, making it difficult to gauge the accuracy and alignment of internal labor charges with the capital project budget.

The most commonly provided example of this was the “labor dollars budgeted” to “actual labor dollars used” calculation. There is no single report that project leads can access to track this important metric. Internally, salary information is held as confidential, and project control leads are not allowed to know salaries of employees assigned to their projects even though they are responsible for tracking the project’s financial health (including budgeting, burn rate, etc.). As a result, project leads reported piecemealing this data together, collating information from more than one report to create estimates of the metrics they need. This use of manual estimates in place of actual numbers introduces risk of miscalculation and inaccuracy, and diverts resources to a manual process when the actuals could be created much faster (and with greater accuracy) by the existing computerized system. When we inquired into this further, we learned that salary information is limited to two employees within Sound Transit, despite it being available to the public on state websites.

Awareness

Another issue that affected budget monitoring was an inconsistent awareness of available reports and varying levels of comfortability with reporting systems. We interviewed one project control leader with an in-depth understanding of the reports available. He was also able to describe in full detail the process of having specialized, unique reports created based on his changing needs. However, this level of knowledge and comfortability with reports was not the norm. In another interview (a joint one), after one project control leader reported finding the Power BI report especially helpful, the other project control leader explained that he had never heard of the report and wanted to know where it could be found and the best way to utilize it. It was interesting to note that during our interviews, only one project control leader knew of the Power BI report or used it. When it came to reports, many of the project control leaders we interviewed landed somewhere in the middle—having some knowledge of the reports available, and some comfortability using the reports they commonly access, but potentially not understanding the full breadth of reports that may be accessed or the best practices for utilizing that information.

Consultants

During interviews, we learned that in some cases, consultants have been engaged in place of direct hires. This was due to a specialized skill being required—one which is not needed consistently enough to justify hiring a direct employee for the task—or because the need was either not identified early enough or hiring was not conducted soon enough to have a direct hire in place when the task needed to be completed. Project leads expressed concern that the Agency pays more for consultants than direct hires doing the same task (and therefore extensive usage of consultants leads to budget creep). Additionally, they expressed concern that by not recording consultant labor as capital project labor, labor rates appeared artificially low, and that any subsequent budgets (annual or for a new project) which relied upon these numbers would be inaccurate as well.

Budget Updates

During interviews, project leaders reported that budget monitoring and accuracy was negatively affected by the fact that updates to internal labor budgets were difficult to make, and that once budgets are created, they are reportedly not engaged with until the following year. Sound Transit



creates a baseline budget for each project is established, in part, by looking at historical labor usage for other projects. Once in place, serves as the long-term project master budget plan. This baseline budget is augmented by an annual budget created in a similar fashion: The previous year's annual budget serves as the foundation for the following year, with only minimal changes being made to adjust the numbers.

As annual budget line items are derived from the baseline budget, a budget line item that does not exist in the baseline cannot be included in the annual budget, making it difficult to make changes in response to organizational changes or changes to scope. Currently, annual budgets are only looked at during creation; Sound Transit needs to establish a policy to ensure that staff revisit these budgets throughout the year to review them for accuracy and make necessary adjustments. As a result, with each year's budget being based upon the last, inaccuracies snowball in magnitude throughout the life of the project, and these inaccuracies are then carried forward into the budgets of future projects as well.

Recommendation

In order to improve budgeting accuracy and monitoring, Sound Transit should provide project control leaders with training on which reports are available to them, how to access those reports, and the intended use for each report. Furthermore, Sound Transit should reconsider the current internal policy of restricting hourly cost data from project level reports where that information is necessary to obtain the computations necessary to monitor budgets. Sound Transit should examine the use of consultants to ensure that they are only being used when it is beneficial to do so, and consider recording their cost as capital project labor to increase labor usage reporting accuracy. Finally, budget updates should be used to true-up the anticipated labor budget for the prior years and project into the future of the project, accounting for the rising cost of personnel overhead and agency complexity; however, this will only be an effective exercise once capital project time coding is accurate.

MANAGEMENT RESPONSE	
Management Agreement	Management agrees with the finding.
Owner	Agency Oversight, Finance, and Capital Delivery
Target Completion Date	May 2025
Action Plan	<p>Use of the payroll system to report, track and review specific time charges by project teams is a limitation of current systems. This issue is well known and is being addressed in the ERP/EAMS and PMIS projects. Systems that will allow for these activities (standard operating procedures for project managers and directors to verify the reasonableness of time charged to their projects) to take place separate and aside from payroll are critical to address these concerns and are requirements in our future system.</p> <p>Other systems and reporting tools are available which allow for budgets to be set, tracked, and monitored in comparison to actual costs. These systems include UKG, Prophix, and PowerBI. Updates can and are made in the appropriate systems as needed.</p>



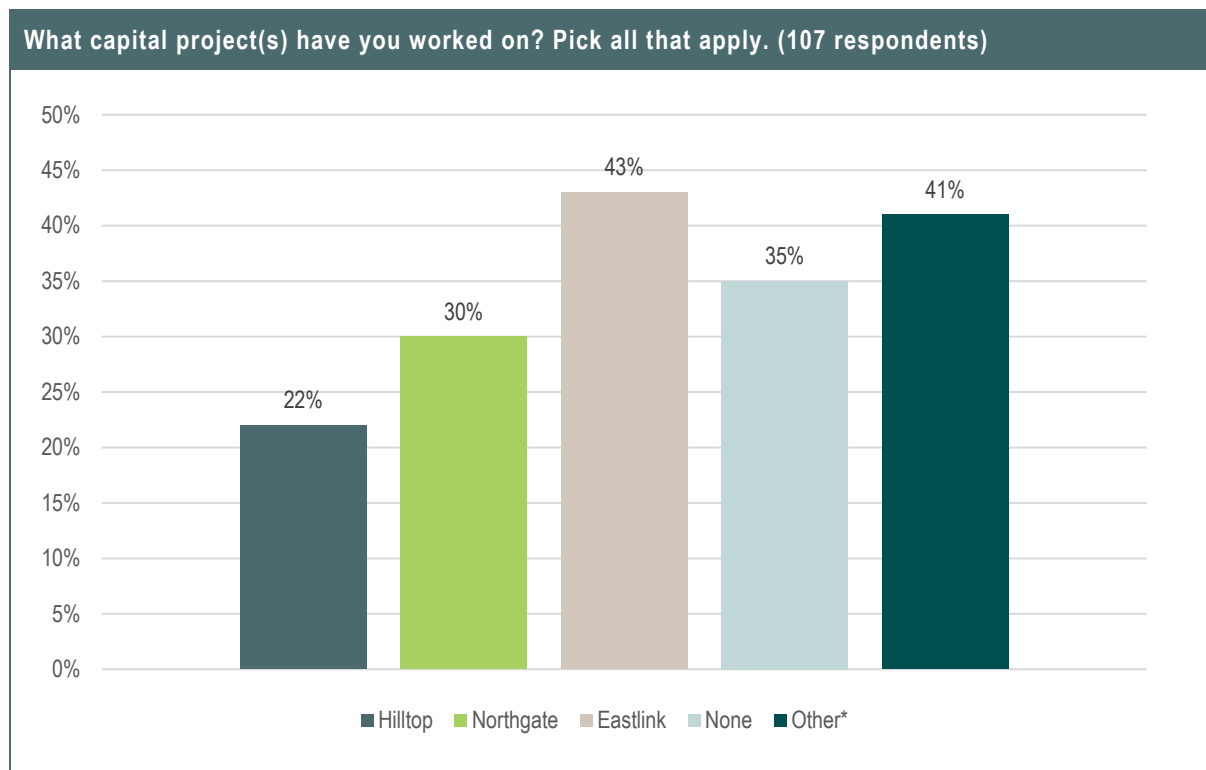
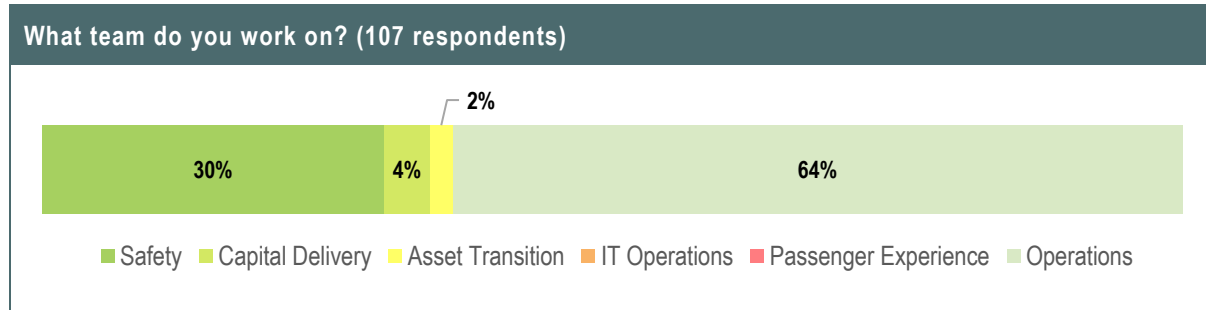
	<p>Finance, together with Capital Delivery, will review and train project personnel on the available reporting tools. Human Resource and Information Security policies will be reviewed and revisited, if appropriate, to determine whether changes can be made to allow additional levels of granularity in labor charges to projects to be viewable.</p> <p>Consultants may be used to support resourcing needs and should be classified in a manner that allows for the best and most accurate accounting of their costs, whether directly charged to projects or included in allocations. Consultant time charging practices will be reviewed and adjustments will be made if deemed necessary.</p>
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APPENDIX A – SURVEY RESULTS

We distributed a performance survey to 360 Sound Transit employees, with an open response date range of September 11 through September 23, 2024. Out of the 360 employees invited to take the survey, 115 responded (a participation rate of approximately 32%). Included below is a list of each question with responses received.

Background Information

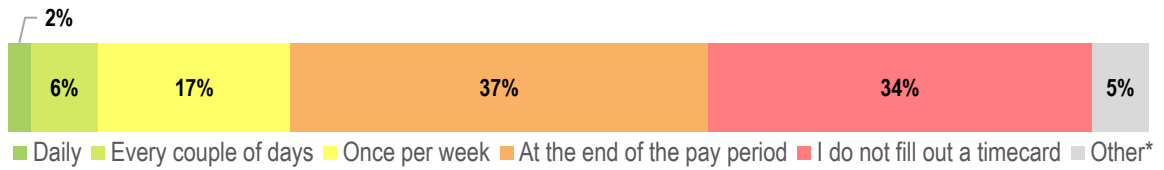


*Other category includes "Lynnwood Link Extension", "Downtown Redmond Link Extension", "Ballard", "West Seattle", "Bus Base North", "OMF-S", "Everett", "BRT", "Federal Way Link Extension", and "all projects".



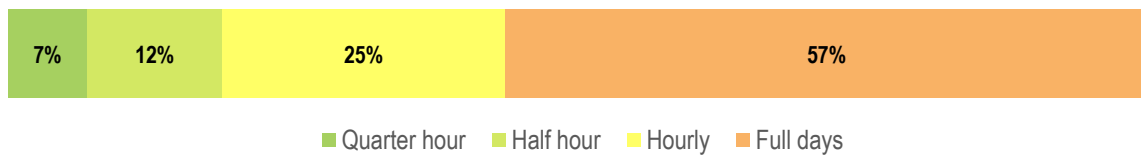
Timecard Processing

Q1: How often do you fill in your timecard? (107 respondents)

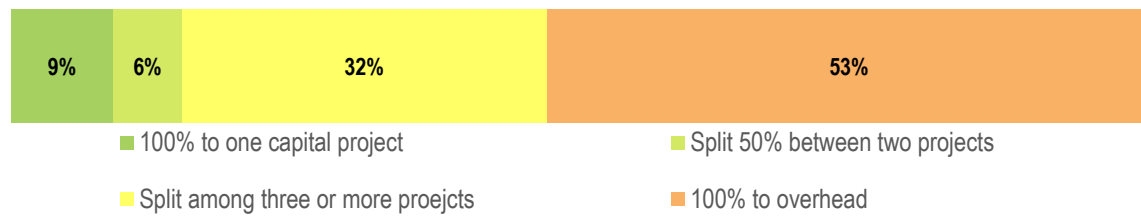


*Other categories includes "every two weeks" and "automatically filled out for me".

Q2: In what increments do you charge your time? (92 respondents)



Q3: In your daily work, how is your time allocated? (93 respondents)



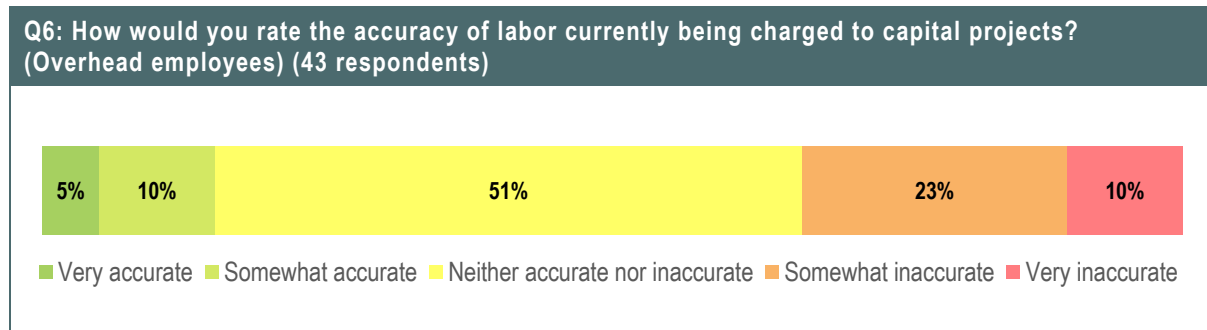
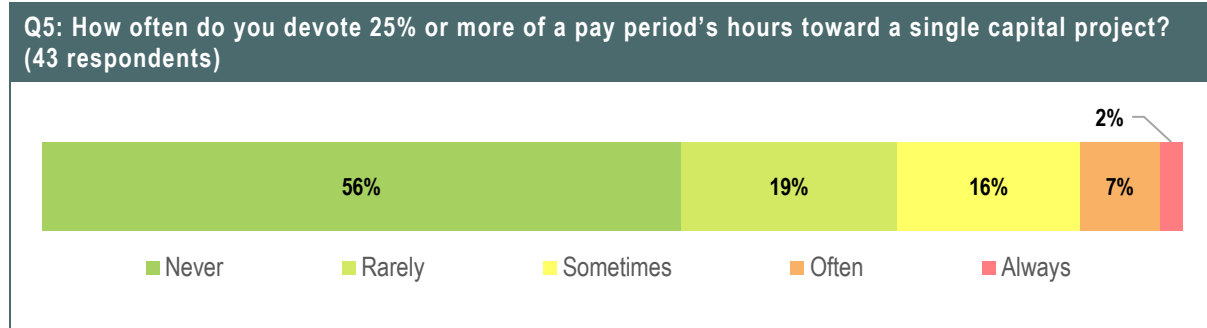
Q4: How do you charge your time? (97 respondents)





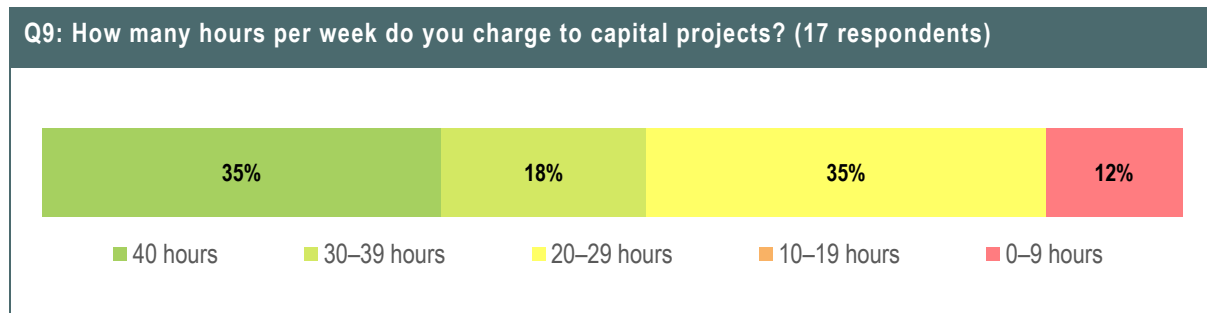
Overhead Employees

The survey questions in this section were only asked to respondents that indicated their daily work was allowed 100% to overhead.



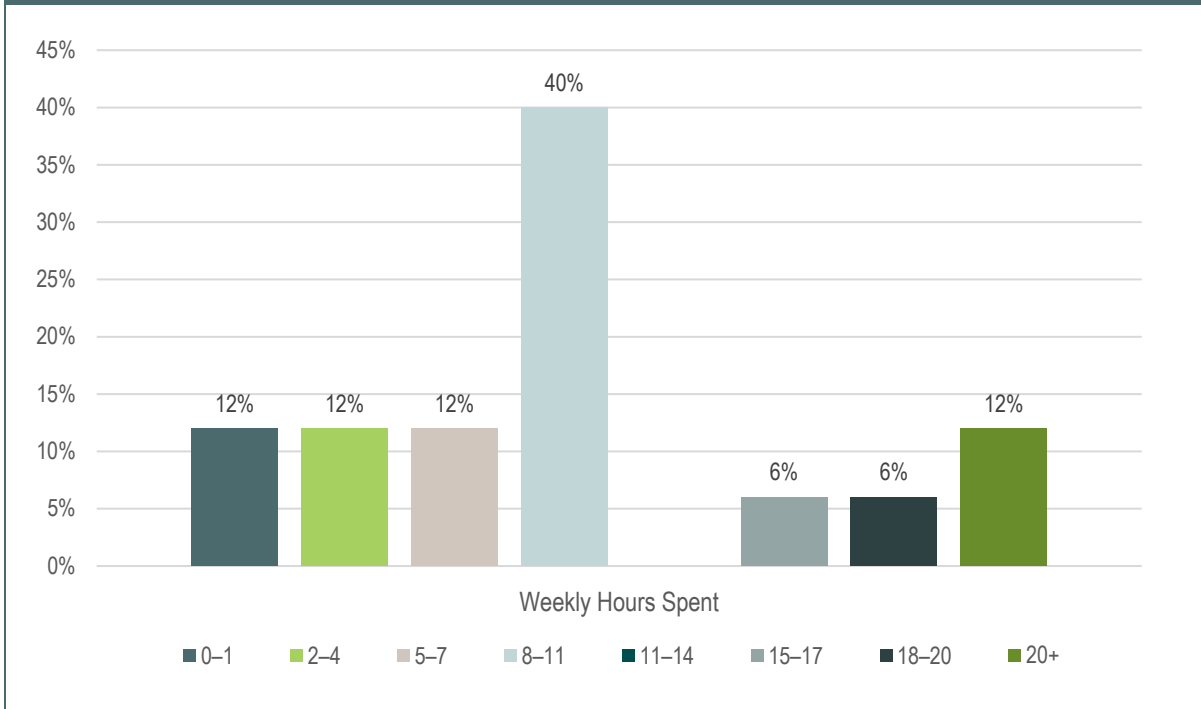
Coded Employees

The survey questions in this section were only asked to respondents that indicated they charge their hours directly to project codes.

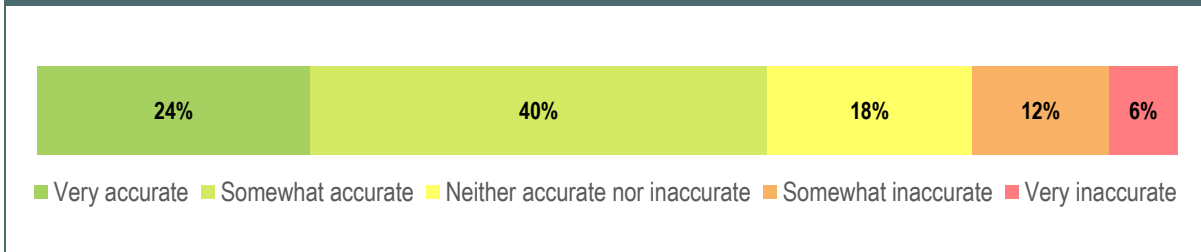




Q10: In an average week, how many hours per week do you spend on administrative tasks or other activities not related to a capital projects? (Excluding training and PTO.) (17 respondents)

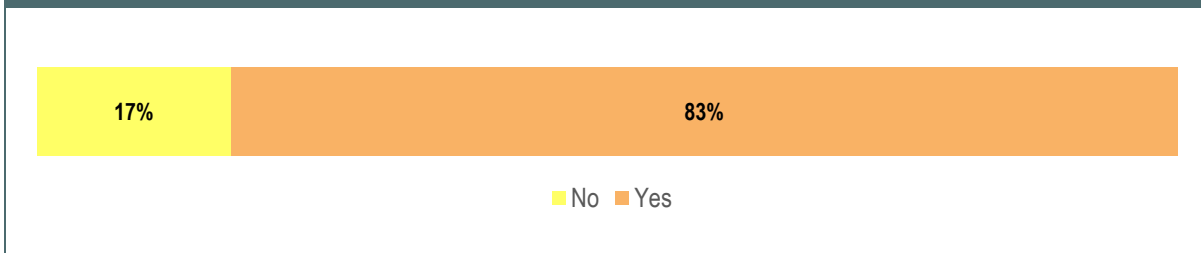


Q11: How would you rate the accuracy of labor currently being charged to capital projects? (Project-coding employees) (17 respondents)



Timecard Changes

Q13: Do you ever submit your timecard before all reported hours have been worked (e.g., submitting a timecard on a Thursday when Friday will still be worked)? (18 respondents)

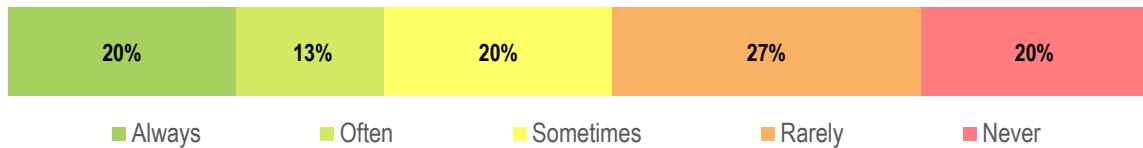




Q14: When you submit your timecard prior to the end of the day on the last Friday of the pay period, how often does your anticipated work schedule/anticipated project(s) you plan to work on change after submitting your timecard? (15 respondents)

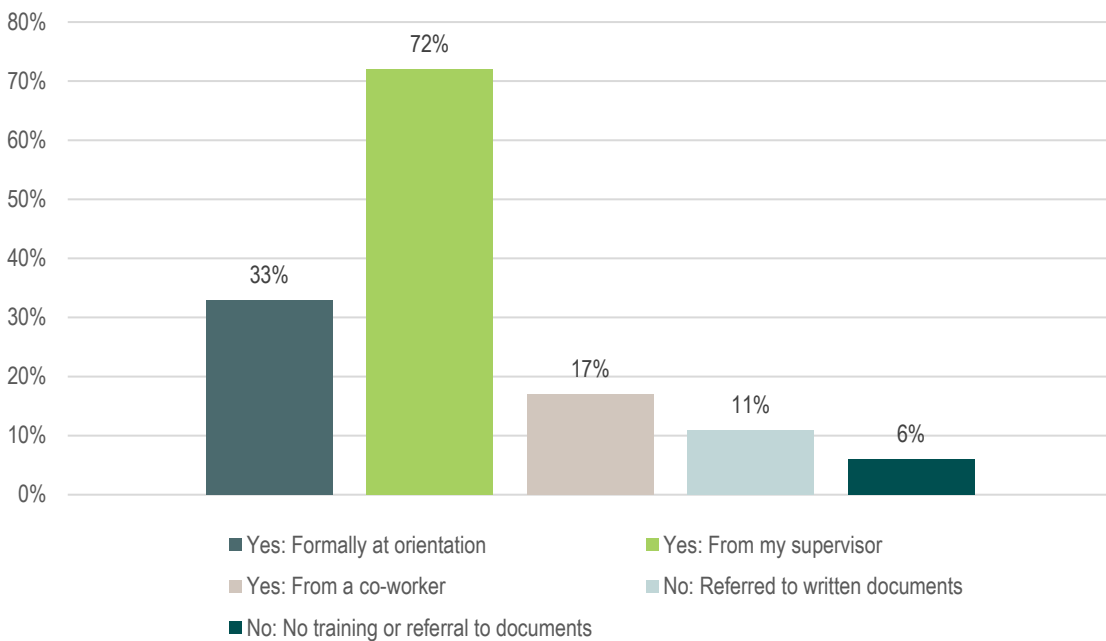


Q15: If your anticipated work schedule/anticipated project(s) you plan to work on change after submitting your timecard, do you make retroactive timecard changes? (15 respondents)



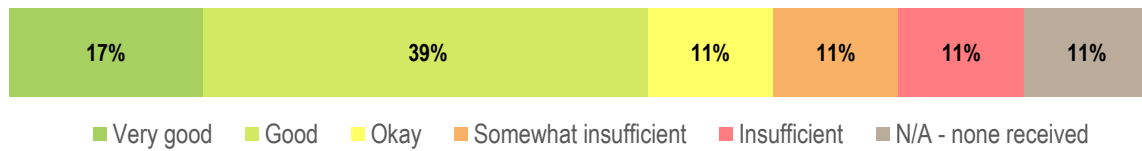
Timecard Training

Q16: Did you receive formal training on how to charge project time to your timecard? Pick all that apply. (18 respondents)



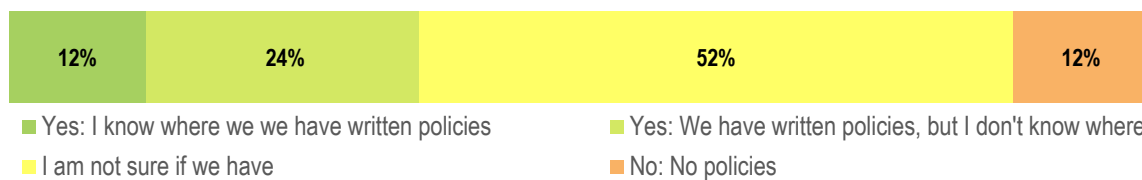


Q17: How would you rate the training you received on how to charge your time on your timecard? (18 respondents)



Policies and Procedures

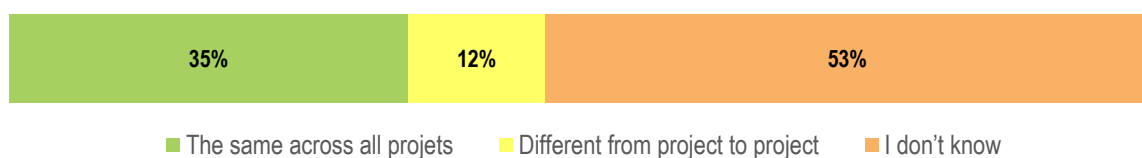
Q18: Are there written policies that outline how time is to be charged to projects? (17 respondents)



Q19: How helpful are the written policies that outline how time is to be charged to projects? (17 respondents)

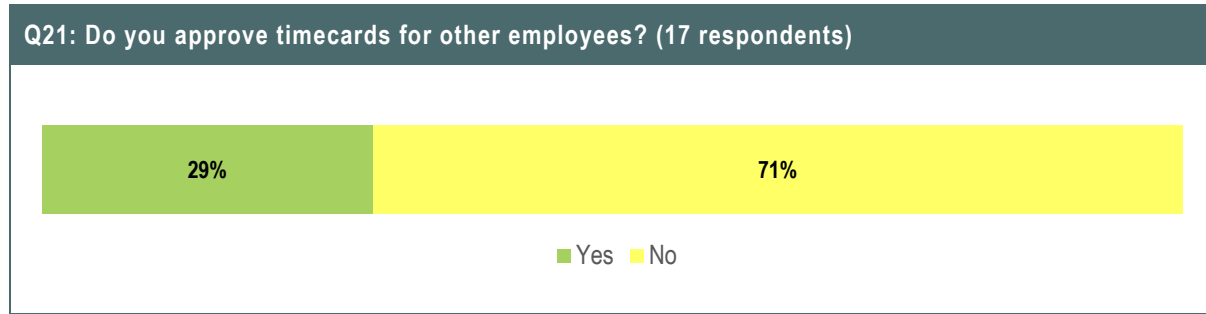


Q20: Is the process to charge internal labor the same across all projects? (17 respondents)

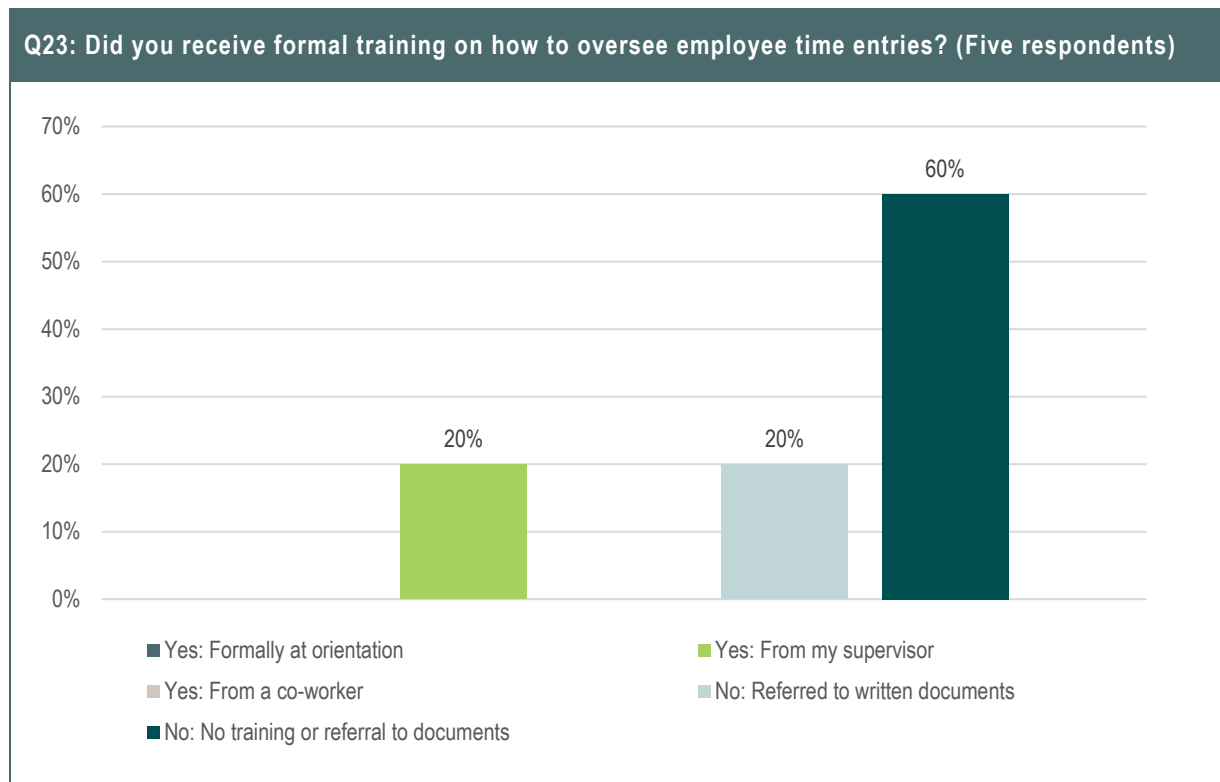
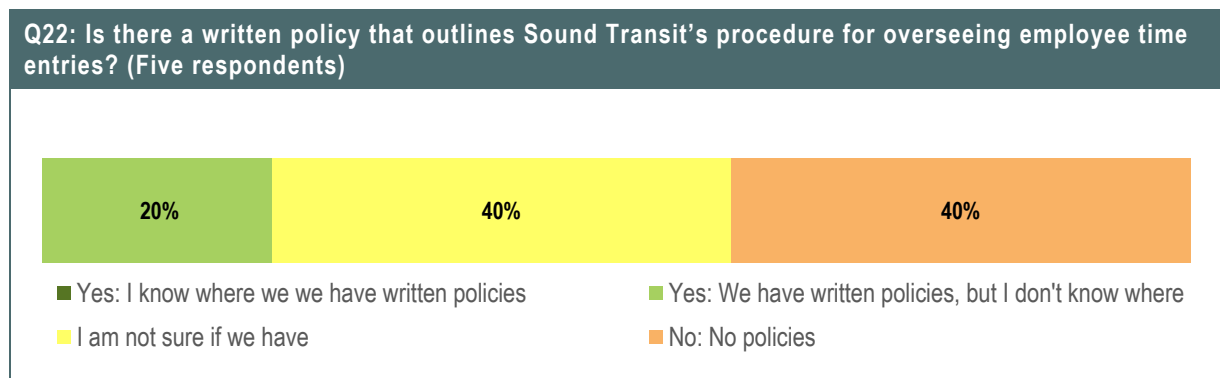




Timecard Review Processes

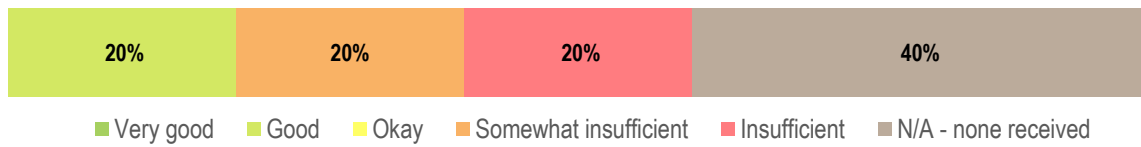


The remainder of questions in this section were only asked to respondents who indicate they approve timecards for other employees.

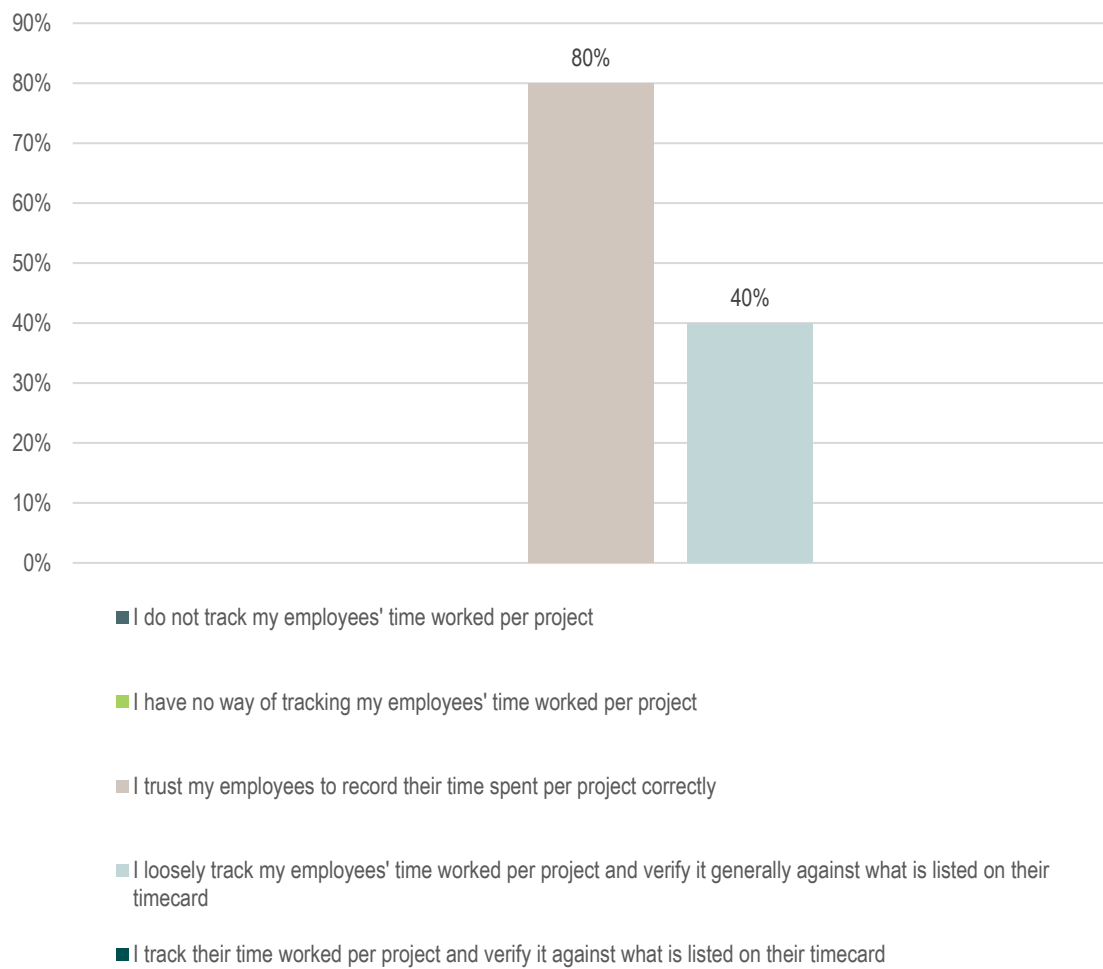




Q24: How would you rate the training you received on how to oversee employee timecard entries? (Five respondents)

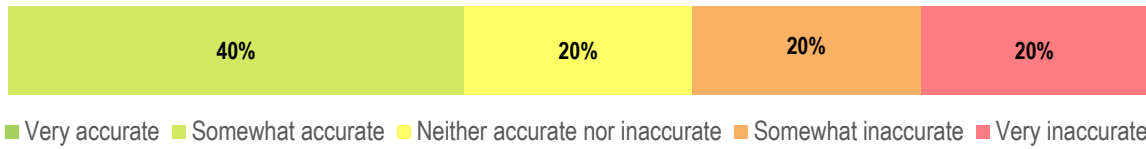


Q25: How do you verify that your employees recorded time spent per project is accurate? Pick all that apply. (Five respondents)

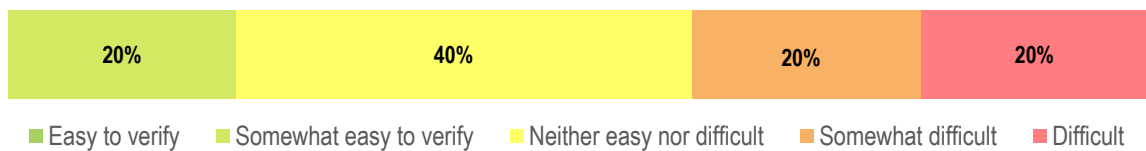




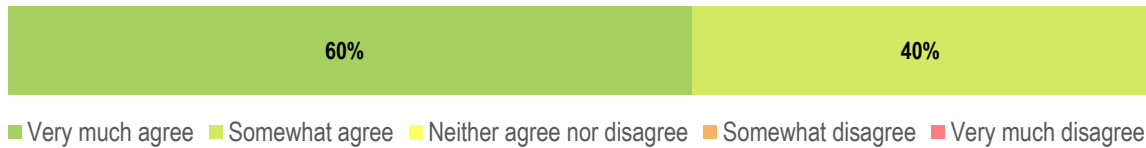
Q26: How would you rank the current timecard approval process in terms of accuracy? (Five respondents)



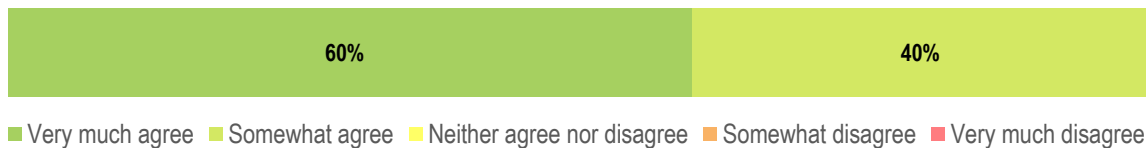
Q27: Looking at the organization as a whole: How do you rate supervisors' ability to verify that their employees are charging time to the correct project code? (Five respondents)



Q28: Please indicate the extent to which you agree with this statement: Most supervisors rely on employee trust when approving timecards. (Five respondents)



Q29: Please indicate the extent to which you agree with this statement: As a supervisor, I rely on employee trust when approving timecards. (Five respondents)





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