



Internal Audit Report

Dual Benefit Reimbursement

Report Number: 2017 - 03 | Report Date: May 31, 2017

Executive Summary

Audit Report No.: 2017 - 03

May 31, 2017

WE AUDITED the current dual benefit reimbursement program to assess the controls in place over accuracy and completeness of reimbursement.

AUDIT OBJECTIVE was to determine whether:

- OSBDLC has effective controls to reasonably ensure the accuracy and completeness of dual benefit reimbursements.

The audit examined management controls in place as of March 2017.

WHAT DID WE FIND?

Sound Transit utilizes a Project Labor Agreement (PLA) to promote workforce diversity, apprenticeship, and labor stability in agency construction projects. A PLA is a project-specific collective bargaining agreement between the agency and organized labor.

Under Project Labor Agreement projects, all contractors are required to contribute into a union trust plan on behalf of all craft employees. For non-union contractors with an existing employee benefit plan, the required contribution represents an additional expense that union contractors would not incur. In essence, compliance with the PLA requirement creates an expense disparity among project participants. As a disparity relief, the agency Labor Compliance Manual includes a dual benefit program to provide a reimbursement for duplicative expense.

The program has the following eligibility requirements:

- The contractor has established a non-union bona fide benefit plan that includes benefit items duplicative of “usual benefits” as defined by WAC 296-127-014;
- The duplicative benefits are bona fide costs of doing business; and
- The contractor currently provides health or pension benefits to any employees covered by the PLA.

During the period 2010-2016, the total dual benefit reimbursement for non-union subcontractors as of December 2016 was \$1.65M. Northgate and University Link projects account for 90% of the total reimbursement.

The audit found that the agency has effective controls to reasonably ensure the accuracy and completeness of dual benefit reimbursements.



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Background

Sound Transit utilizes a Project Labor Agreement (PLA) to promote workforce diversity, apprenticeship, and labor stability in agency construction projects. The Office of Small Business Development and Labor Compliance (OSBDLC) manages the agreement and monitors compliance.

A PLA is a project-specific collective bargaining agreement between the agency and organized labor. Under PLA projects, both union and non-union contractors are required to comply with Labor Compliance Manual provisions including conditions of employment, wages, benefits, etc.

Currently, there are three PLA projects with a total project value of \$1.8 billion dollars, as follows:

Current Project under PLA (Dollars in thousands)		
Project Name	Project Code	Project Value
East Link	E330/E320/E335/E340/E360	\$ 989,449
Northgate Link	N150/N160/N113/N105/N125	\$ 772,116
Tacoma Trestle Track and Signal	CN 0019-15	\$ 57,512

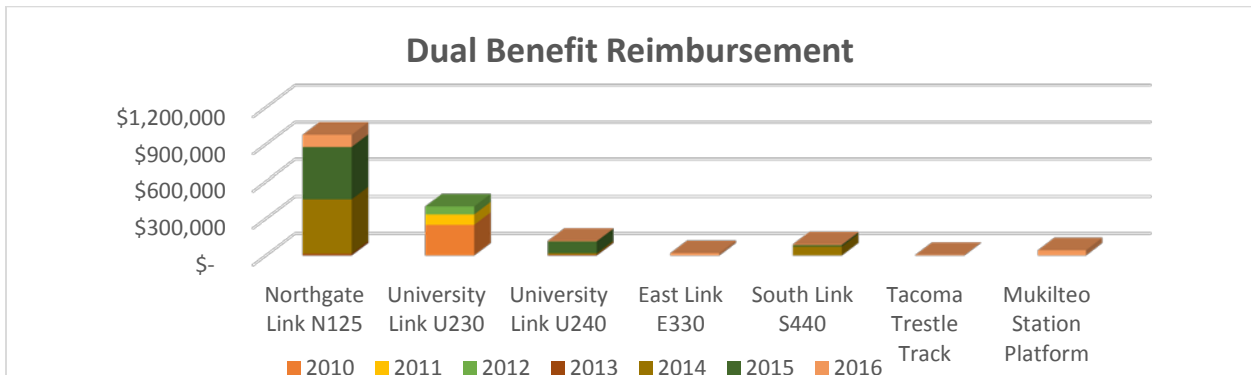
Source: Original Contract in Projects Progress Payment as of December 31 2016

Under the agency PLA, all contractors are required to contribute into a union trust plan on behalf of all craft employees. For non-union contractors with an existing employee benefit program, the required contribution represents an additional expense that union contractors for the same project do not have to incur. In essence, compliance with the PLA requirement creates an expense disparity among project participants. As a relief, the agency Labor Compliance Manual includes a dual benefit program to provide a reimbursement for duplicative expense.

The program has the following eligibility requirements:

- The contractor has established a non-union bona fide benefit plan that includes benefit items duplicative of “usual benefits” as defined by WAC 296-127-014;
- The duplicative benefits are bona fide costs of doing business; and
- The contractor currently provides health or pension benefits to any employees covered by the PLA.

During the period 2010-2016, there were five major non-union subcontractors receiving dual benefit reimbursements under seven different projects. The total reimbursement for those subcontractors as of December 2016 was \$1.65M. Among PLA projects, Northgate and University Link projects account for 90% of the total reimbursement.



Audit Objectives

To determine whether the OSBDLC has effective controls to ensure dual benefit reimbursements are accurate and complete in compliance with the agency Project Labor Agreement.

Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We gained an understanding of the dual benefit reimbursement program through documentation reviews and interviews of agency personnel. We identified risks in the program processes and assessed management controls in place to mitigate those risks. Based on the assessment of management control effectiveness, we determined to focus on dual benefit reimbursements for Northgate Link projects for the period 2013-2016.

We examined the process as of March 1, 2017.

To determine whether OSBDLC has the effective controls to ensure dual benefit reimbursements are accurate and complete in compliance with the agency Project Labor Agreement, we performed the following procedures:

1. We selected a sample 15 invoices from one subcontractor on Northgate Link N125 project, totaling \$433,325 (or 44% of the total dual benefit reimbursement \$977,158), for the period December 2013- December 2016 and verified the following:
 - a. All labor hours agree to certified payroll reporting.
 - b. Benefit plan rates agree to the subcontractor's benefit plan rates.
 - c. Employees are the current employees.
 - d. All items are eligible for dual benefit reimbursements.
 - e. All reimbursement amounts are accurately calculated and properly approved for reimbursement.
 - f. Terminated employees are fully vested per the subcontractor's retirement plan.

Conclusion

OSBDLC has effective controls to reasonably ensure the accuracy and completeness of dual benefit reimbursements.