

07/07/98

Introduced By: Rob McKenna

Proposed No.: 98-326

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2 MOTION NO. **10500**

3 A MOTION approving the scope of work and cost estimate
4 for an operating and financial audit of the Metro Transit
5 Division of the King County Department of Transportation.

6 WHEREAS, King County's 1998 budget includes an appropriation for an operating
7 and financial audit of the Metro Transit Division, and

8 WHEREAS, Ordinance 12926 calls for the Council to adopt a motion approving
9 the scope and budget for such an audit, and

10 WHEREAS, a scope of work and cost estimate for the audit has been submitted for
11 Council approval, and

12 WHEREAS, King County has not conducted a thorough audit of transit funding
13 and operations since assuming responsibility for Metro Transit.

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NOW, THEREFORE BE IT MOVED by the Council of King County:

The King County Auditor is authorized to select an auditing firm and contract for a Transit Operations and Finance Audit generally consistent with the attached scope of work at a cost not to exceed \$300,000. If, after receiving bids from prospective audit firms, the King County Auditor determines that the project budget is insufficient to accomplish the approved scope, the auditor shall develop a revised audit scope based upon the bids received, the project budget and the controlling objectives identified in Section C 1 of the attached scope of services.

PASSED by a vote of 11 to 0 this 13th day of July,
1998.

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

Louise Miller
Chair

ATTEST:

Jane Masno
Deputy Clerk of the Council

Attachment: Transit Operations and Finance Audit Scope of Services

**Transit Division Operations and Financial Audit
Scope of Services**

1. Objectives

Objectives of the transit operations and financial audit will be to:

- 1. evaluate the integration of the agency into the structure of the county and evaluate the agency's implementation of county policies;
- 2. evaluate the performance of management operations;
- 3. identify potential efficiencies in agency operations; and
- 4. evaluate the agency's financial policies and plans, and the effectiveness of its management controls.

2. Scope of Work

The scope of work consists of seven tasks which are outlined below.

TASK 1 Project Initiation and Progress Reporting

Conduct a kickoff meeting with the oversight committee to finalize the work plan and project schedule. Describe in more detail the objectives and anticipated products of the audit. The kickoff meeting will establish clear expectations regarding the consultant's responsibility.

TASK 2 Current and Past Performance Studies

2.1 Review and evaluate past performance studies including, but not limited to, the 1996 Public Transportation Assessment, Legislative Transportation Committee; King County Metro Vehicle Maintenance Audit; LTC Study of Public Transportation-Phase I; Metro Transit Audit; and Washington State Transit Association Study of Public Transportation.

2.2 Assess these prior studies for application to this performance audit of the agency. Determine the extent to which any recommendations relevant to this study have been implemented within the Agency in response to prior studies.

2.3 Review the King County Auditor's completed and in-progress audits and studies relevant to the agency.

TASK 3 County Transit Governance: Ordinances, Policies, Guidelines, and Executive Orders

3.1 Identify current county ordinances, policies, guidelines, directives, and executive orders that guide agency actions, and determine how these are reflected in the agency's budget and Capital Improvement Program (CIP) and other programs, services, and operations.

3.2 Determine whether any current transit policy directives that originated with the Metro Council are inconsistent with county policies and practices. Identify any actions required to bring the policies into conformance with the merger agreement and existing county policies.

3.3 Review and evaluate the extent to which the agency's organizational structure supports its vision as described in the Transit Division Mission and Goals Statement. Identify potential structural changes to improve effectiveness or realize efficiencies in service or program delivery.

3.4 Document any structural, organizational, or policy issues and provide recommendations for addressing each.

TASK 4 Performance Measures

4.1 Define peer agencies and programs to develop performance standards for gauging the agency's performance relative to that of comparable public transit systems. Possible criteria for identifying peer agencies include services, organization structure and functions, service area size and population, local economic conditions, fleet size and composition, annual expenditures, labor contracts, enabling legislation, annual revenue hours, urban, suburban, and rural miles, and ridership size and composition. Data from peer agencies should be normalized for such factors as geographic area, service offerings, ridership profile, etc..

Develop a matrix of the agency's characteristics and include comparative data from peer agencies. Determine whether distinctive features of the agency's operation limit or preclude comparisons with other transit systems. Where across-the-board comparisons are thus constrained, comparable elements of other

systems shall be included. Elements of the matrix may include: traditional performance data, geographic coverage, service programs, level of services, advertising, etc. Examples of traditional performance measures include:

1. cost efficiency - operating cost per revenue hour, operating cost per revenue mile, total vehicle hours per total employees, and peak vehicles per non peak vehicles;
2. cost effectiveness - operating revenue per operating cost, operating cost per passenger, subsidy per passenger, and capital balance per operating cost; and
3. service effectiveness - passenger per revenue hour, passenger per revenue mile, passengers per capita, route miles per capita, revenue miles per capita, and revenue hours per capita.

Each recommended performance measure will be defined in terms of the characteristics or outcomes of public transit system efficiency, effectiveness and/or quality being addressed.

4.2 Develop and use a survey methodology, including data quality assurance measures, to collect relevant performance data from peer agencies. Data may also be derived from Section 15 reports and other sources.

4.3 The data gathered from peer transit systems will be evaluated to develop performance measures for application to the agency. Agency and program performance will be assessed on a peer system average basis also.

4.4 Assess agency individual programs, such as bus scheduling, service implementation, or capital programming, and compare with agency peer system programs to evaluate performance. Using the selected peer systems performance measures, benchmarks will be identified and applied to the agency programs. An assessment of performance will be developed and included in the draft audit report.

TASK 5 Financial Policy and Planning Review

5.1 Review and evaluate the effect of applying the Transit Program Financial Policies to the budget and financial plan development processes. Relate the information to the development and update of the Six-Year Transit Development Plan. Create a revenue flow chart to illustrate the flow of funds through transit programs

5.2 Identify the assumptions for the financial plan and evaluate how they correspond to county policies, procedures, and practices.

5.3 Review and evaluate the policies and allocation model for agency resources, including farebox revenue, to determine consistency with the adopted sub-area allocation formula as applied to both new and re-deployed service. Review and evaluate the budget relationship between capital programming and service planning. Determine if capital funds are being substituted for operating revenues. Evaluate how the operating and capital budgets can be better integrated, including performance measures for achieving goals. Review and evaluate how the agency uses or accounts for unused funds in the operating and capital accounts. Identify average yearly fund underutilization for each program.

5.4 Identify the agency's operating and capital investment policies and strategies. Relate these policies to the development of the financial plan. Define the role of Federal Transit Administration policies in guiding the Agency's capital and operating functions. Identify policies that provide for fund substitution or switching.

5.5 Review and evaluate the agency's Capital Improvement Program. Describe and evaluate the project prioritization criteria and project selection processes. Determine how projects are scheduled for implementation. What policies or criteria were used in 1997 when increasing park-and ride projects relative to other agency needs?

5.6 Evaluate the operations of the agency finance and budgeting functions. Evaluate whether the addition of a Finance Director position would improve Transit Division operations. Determine the need to augment finance operations, improve internal controls, accountability procedures, and agency reporting. Evaluate the potential for improved planning and budgeting efficiencies by combining the agency budgeting and finance functions with the King County Department of Transportation's functions.

5.7 Review and evaluate the agency's internal controls system and performance measures. Assess how the controls are helping to achieve stated goals, while providing manager and decision-makers with adequate information for policy and budget determination. Special attention should be given to the finance function. Identify performance controls and what they are intended

to measure for each program. Identify control information and how the data is applied to program evaluation, improvement and reporting.

5.8 Review and evaluate the assumptions and methodology for developing and updating the Six-Year Transit Development Plan. Determine the extent to which plan development is guided by county policy, the adopted plans of local jurisdictions and other public transportation providers, Agency service objectives, user needs, and merger criteria. Assess the advisability of transferring the update of the Six-Year Transit Development Plan from the agency to the Transportation Planning Division.

5.9 Evaluate the extent to which the agency engages in strategic planning and identify the role of this strategic planning in the development of the Six Year Plan and agency budget and in program assessment. Evaluate the role of the agency managers in the development of agency goals and implementing county directives. Determine if an expanded strategic planning process would have a positive effect on resource allocation.

TASK 6 Agency Operations

6.1 Evaluate the agency's overhead costs. Special attention should be given to Management Information and Transit Technology, Human Resources, Finance, Marketing, Community Services, and Customer Service areas. Compare agency overhead cost levels to the County Roads Division, Information Telecommunications Services Division, and Solid Waste Division. Where possible, relate these overhead costs to peer agencies. In addition, compare the overhead rates to other local service agencies, such as Seattle City Light.

6.2 Evaluate the overhead cost of central county services provided to the agency. Special attention should be given to general government, Department of Transportation, Information Telecommunications Services Division, and Finance Department costs. Review the level and extent of these costs relative to general agency overhead costs. Compare the agency overhead costs with those of other county departments. Where possible, relate these overhead costs to peer agencies. Determine if the functions could be accomplished in a more cost-effective or efficient manner, including providing the services internal or external to the agency.

6.3 Review and evaluate the roles and responsibilities of the agency's Management Information and Transit Technology Section and county Information and Telecommunications Services Division. Define the work responsibilities, work plans, and products for each area. Evaluate the cost differential between agency and county information technology services.

6.4 Review and evaluate the Management Information and Transit Technology Section and the integration of technology into agency programs. Evaluate staff and program efficiencies realized as a result of technology improvements. Review the decision-making process for initiating new technologies and evaluating the impact on service quality. Identify any reporting or internal controls that track and measure service, ridership, or efficiency improvements resulting from technology programs.

6.5 Review and evaluate the efficiency and quality of call taking, trip scheduling, and dispatching services in the agency's paratransit program

6.6 Review and evaluate the Human Resources Group operations and personnel policies. Review and evaluate the personnel classification system and practices. Assess these elements in relationship to program functions and agency performance. Special consideration should be given to policies regarding open FTE positions. Identify the average length of time positions are open and the potential impact on agency work programs. Evaluate the impact of returning positions to a central pool for re-assignment. Evaluate the impact of reducing open FTE positions. Evaluate the potential for transferring open FTE position funds to bus service operations, while retaining flexibility for staffing or program operations.

6.7 Review and evaluate the policies and decision-making process for establishing demonstration projects. Special attention should be given to projects developed over the past five years. Identify a process or criteria for selecting special services or projects. Evaluate the benefits of establishing a research and development fund in the budget to support innovative programs or special projects. Identify a process or criteria for evaluating projects for conversion to ongoing service.

6.8 Evaluate the agency's methods of soliciting, evaluating and implementing the suggestions of lineworkers and other employee inputs.

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TASK 7 Prepare Study Report

7.1 A preliminary draft report will comprehensively document the study process and findings. The draft report will be reviewed by the oversight committee. Based upon comments from the oversight committee, the consultant will revise the draft.

7.2 The final draft report will then be reviewed by the executive branch of county government. Based on comments received from the executive branch, revise the draft report as appropriate. As necessary, confer with the client to understand comments and make final recommendations based upon the study findings. In addition, the consultant will identify potential future audit issues. The final draft report will be submitted to the executive for official response, which will be incorporated into the final report.

7.3 Prepare the final report. The report will be presented in digital and camera ready formats. Thirty copies of the report will be prepared.

7.4 Present the report to the Regional Transit Committee and the Metropolitan King County Council both in writing and orally.