

## **SOUND TRANSIT**

### **RESOLUTION NO. R2001-03**

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority establishing an Audit and Reporting Subcommittee and related policies, and superseding Resolution No. 98-19.

WHEREAS, a regional transit authority, hereinafter referred to as “Sound Transit” has been created for the Pierce, King, and Snohomish County region by action of their respective county councils pursuant to RCW 81.112.030; and

WHEREAS, on November 5, 1996, Central Puget Sound area voters approved local funding for Sound Move, the ten-year plan for regional high-capacity transit in the Central Puget Sound Region; and

WHEREAS, Sound Transit’s adopted financial policies provide that the agency will conduct comprehensive performance audits through independent audit services; and

WHEREAS, said financial policies further provide that the Citizen Oversight Panel will review the performance audit results and make recommendations regarding Sound Transit’s performance toward its public commitments to the Sound Transit Board; and

WHEREAS, by Resolution No. 98-19 the Sound Transit Board adopted performance audit polices; and

WHEREAS, pursuant to prudent business practices for public sector entities, Sound Transit recognizes that establishing an Audit and Reporting Subcommittee that encompasses performance and financial audits along with a prospective review of

reports, budgets, forecasts, and estimates will assist in creating a framework of public accountability.

NOW, THEREFORE, BE IT RESOLVED by the Board of the Central Puget Sound Regional Transit Authority that:

1. An Audit and Reporting Subcommittee is hereby established which said subcommittee shall report to the Finance Committee of the Sound Transit Board.
2. Policies and procedures governing the Auditing and Reporting Subcommittee are hereby established as follows:

SOUND TRANSIT  
AUDIT AND REPORTING SUBCOMMITTEE POLICIES

## **1.0 Overview**

### **1.1 Purpose**

The purpose of these policies is to establish the principles and processes by which the audit and reporting subcommittee of the Sound Transit Board will operate.

### **1.2 Definition**

“Auditing is a systematic process of objectively obtaining and evaluating evidence regarding an organization, program, function or activity.” “Reporting is the process by which actual, budgeted and forecasted information is depicted for external audiences.”

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

### **1.3 Background**

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

policies address the Board's commitment to monitoring the Agency and ensuring its public accountability by stating, "Sound Transit will: establish an independent audit function to oversee its monitoring and reporting of subarea budgets, conduct an annual comprehensive performance audit through independent services, appoint and maintain for the ten-year construction period a citizen's oversight committee, charged with an annual review of Sound Transit's performance audit and financial plan, for reporting and making recommendations to Sound Transit Board."

## **2.0 Audit and Reporting Subcommittee Structure**

### **2.1 Development of the Audit and Reporting Subcommittee (ARC)**

Sound Transit's audit function will be overseen by an Audit and Reporting Subcommittee (ARC). The membership of ARC will include the Sound Transit Finance Committee. A member of the Citizen Oversight Panel will also be a member. The Director of Finance and Administration will be responsible for staffing the subcommittee. The partner-in-charge of services for the auditing services contract and other outside auditors will respond to the ARC on request. Responsibilities of the ARC include:

- a) Defining operating principles for the audit and reporting function.
- b) Approving clear and concise scopes of work. Majority of ARC decides scopes of work.
- c) Approving annual audit budget in terms of dollars and hours.
- d) Evaluating audit results and ensuring an internal review process.
- e) Reporting audit results to the Sound Transit Board and its committees, Citizen Oversight Panel, and public.
- f) Assessing effectiveness of the audit function.
- g) Ensuring and reviewing Sound Transit's response to audit results.
- h) Monitoring the implementation of audit recommendations.
- i) Reviewing external reporting formats that include actual, budgeted and forecasted information.

### **2.2 ARC Annual Commitment**

The ARC will meet quarterly in a workshop format to initiate the audit processes, receive and assess results, and communicate results to the Sound Transit Board and its committees and to the Citizen Oversight Panel. The ARC will also review reporting formats and elements on an as-needed basis at the quarterly workshops. Listed below are milestones with associated dates for ARC throughout the year:

- a) The ARC will meet in the quarterly workshop formats to review, approve, and prioritize audit scopes of work.

- b) Audits will be conducted throughout the current year and presented to the ARC as they are completed. The ARC will receive status reports as necessary when audits overlap quarterly workshops.
- c) Preliminary results will be reported to Sound Transit (auditee) staff directly responsible for the subject matter in the scope of work. Sound Transit staff will work with the auditor(s) to complete a final report within the agreed-upon schedule. The Controller and/or Internal Auditor will coordinate responses between auditor and staff.
- d) Sound Transit's auditors will present audit results to the ARC and the Citizen's Oversight Panel as audits are completed.

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

#### **3.1 Sound Transit (Auditee) Staff**

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

- a) Providing timely information to auditor(s).
- b) Reviewing and providing timely responses to ARC.
- c) Reviewing audit results.
- d) Coordinating audit responses with auditor.
- e) Presenting final audit results to ARC, and assist with presentations to Sound Transit Board and its committees, Citizen Oversight Panel, and the public.
- f) Proposing future audit topics when appropriate.

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

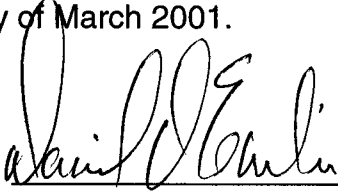
Auditors will be retained either through an audit services contract, which is administered by the position of Controller, or through government agencies such as, but not limited to, Office of State Auditor, Federal Transit Administration, Department of Transportation, and the Office of Inspector General. Responsibilities include:

- a) Performing all work with due professional care in accordance with Generally Accepted Governmental Auditing Standards.
- b) Remaining independent throughout the engagement.
- c) Reporting both positive and negative results of audits.
- d) Developing proactive procedures with staff for scopes of work.
- e) Reporting results to ARC, Sound Transit Board and its committees, and to the Citizen Oversight Panel when requested.

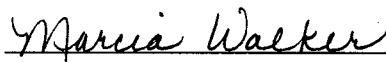
END OF AUDIT AND REPORTING SUBCOMMITTEE POLICIES

3. Resolution No. 98-19 adopting performance audit policies is hereby repealed and superseded by this resolution.

ADOPTED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on the 8th day of March 2001.

  
\_\_\_\_\_  
Dave Earling  
Board Chair

ATTEST:

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

**STAFF REPORT**  
**SOUND TRANSIT**  
**RESOLUTION NO. R2001-03**

**Establishing an Audit and Reporting Subcommittee**

<b>Meeting:</b>	<b>Date:</b>	<b>Type of Action:</b>	<b>Staff Contact:</b>	<b>Phone:</b>
Finance Committee	3/8/01	Discussion/Possible Action to Recommend Board Approval	Hugh Simpson, Director of Finance and Administration	(206) 398-5082
Board	3/8/01	Action		

**PROPOSED ACTION**

Approval to establish an Audit and Reporting Subcommittee which will report to the Finance Committee; establish the policies and procedures governing the Auditing and Reporting Subcommittee; and repeal the existing performance audit policy (Resolution No. 98-19).

**KEY FEATURES**

**Highlights of Proposed Action:**

- ◆ Establishes Audit and Reporting Subcommittee reporting to the Finance Committee.
- ◆ Establishes a policy for an Audit and Reporting Subcommittee that strengthens the oversight and role of the Sound Transit Board with the agency's required independent audit processes.
- ◆ Defines responsibilities for the subcommittee, staff, and external auditors.
- ◆ Repeals existing performance audit policy (Resolution No. 98-19). Existing performance audit criteria is incorporated in the Audit and Reporting Subcommittee policy.

**Discussion of Proposed Action:**

During the Board Meeting on December 14, 2000, Board members requested that staff develop options for creating an audit subcommittee that not only reviews audit scopes and results, but prospectively reviews reports, budgets, forecasts, and estimates. The Finance Committee has reviewed options and met with auditors from Deloitte and Touche, and recommend the following:

***Establish an Audit and Reporting Subcommittee of the Board that is proactively evaluating past events and prospective reports, budgets, forecasts, and estimates where applicable. (The attached policies outline the governance of this subcommittee.)***

The Audit and Reporting Subcommittee will meet on a quarterly basis in a workshop format to review the scope of upcoming audits, review results of completed audits, and review and select

performance audits. Depicted below is the current audit environment at Sound Transit, highlights of the audit and reporting subcommittee policy and the proposed subcommittee work plan through July 2001.

**Current Sound Transit Audit Environment:**

As a public agency which collects taxes and accesses the bond market, Sound Transit is subject to the following audits and reviews by external firms and federal and state agencies.

State Auditor's Office

Annual audit examines three areas:

- Grant Compliance Audit (A-133)
- Financial Audit and compliance with Bond Resolution requirements
- Compliance Audit – State Law and Sound Transit Policies

Note: For part of their audit work, they place reliance on the work performed by Deloitte and Touche.

Deloitte and Touche (Current Contracted Auditor)

- Financial Audit – annual audit, report on financial condition and compliance with bond requirements
- Grant (A-133) Compliance Audit – annual audit, report on compliance with grant Provisions
- Agreed Upon Services – annual review of the Subarea Equity, which provides negative assurance concerning Sound Transit's compliance with Sound Move
- Performance Auditing – a continuing process that is monitored by the Performance Audit Committee and the Citizen Oversight Panel. Management presents the Committee with a suggested list of areas to be audited and the Committee designates what will be audited and in what order. The Citizen Oversight Panel uses the results as one of the elements in consideration of an evaluation of Sound Transit

Federal Transportation Administration

- Quarterly on-sight Project Management Oversight Reviews of Sound Transit's progress on projects funded through Section 5309 New Starts Funding and compliance with the grant terms
- Triennial Review for compliance with grant terms and conditions for projects funded through Section 5307 Formula Funding
- Periodic Procurement and Financial Management Oversight Reviews

### Federal Department of Transportation, Office of Inspector General

The Office of the Inspector General determines the scope and schedule. Selection for an audit depends upon federal grant awards, funds expenditures, media exposure, and congressional concern.

### Washington State Department of Revenue

Periodic audits to determine Sound Transit's compliance with Use Tax and Leasehold Tax provisions.

### Washington State Department of Labor and Industries

Periodic audits to determine Sound Transit's compliance with Workmen's Compensation laws.

### Washington State Department of Employment Security

Periodic audits to determine Sound Transit's compliance with Unemployment laws.

### Office of the Insurance Commissioner and/or Insurance Companies

As Sound Transit institutes the Owner-Controlled Insurance Program, the Insurance Commissioner's office will monitor our activities. In addition, the insurance companies will perform policy audits to determine whether a risk management policy is in place and a premium paid for all of the risks to which they have been or will be exposed.

### **Highlights of Audit and Reporting Subcommittee Policy**

- Overview section describes purpose, definition and background of the Sound Transit audit and reporting function
- Audit and reporting subcommittee structure section defines the subcommittee structure and membership, responsibilities and annual commitment
- Sound Transit staff responsibilities section defines staff responsibilities to both the subcommittee and auditors
- Sound Transit auditor's responsibilities section defines auditor's responsibilities to both the subcommittee and staff

### **Recommended 2001 Work Plan Through July:**

#### **March 15 Workshop**

- Define procedures and audit protocols
- Review performance audit topics
- Review completed performance audit on risk management
- Review scope of in-process financial and A-133 audit
- Review options for changes in annual budget cycle
- Review meeting agenda for next workshop

### **April 20 Workshop**

- Review financial and A-133 results of the financial audit
- Review the audit services contract for one-year extension
- Review performance audit results
- Select performance audit topics
- Review meeting agenda for next workshop

### **July 19 Workshop**

- Review performance audit results
- Review state audit scope
- Evaluate audit function at Sound Transit
- Review meeting agenda for next workshop

### **ALTERNATIVES**

Continue with the performance audit committee for performance auditing and report financial audits to Finance Committee as completed.

### **LEGAL REVIEW**

MBL 2/21/01