

**SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING**  
**Summary Minutes**  
**March 18, 2010**

**Call to Order**

The meeting was called to order at 11:33 a.m. by Committee Chair Richard Conlin, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

**Roll Call**

*Chair*

*(P) Richard Conlin, Seattle Council President*

*Committee Members*

*(P) Fred Butler, Issaquah Deputy Council President      (P) Claudia Thomas, Lakewood Councilmember*  
*(P) Dave Enslow, Sumner Mayor                              (P) Paul Wiesner, Citizen Oversight Panel Chair*  
*(A) Joe Marine, City of Mukilteo Mayor                      (P) Brian McCartan, Chief Financial Officer*

Ms. Katie Flores, Board Coordinator, announced that a quorum of the Committee was present at roll call.

**Report of the Chair**

Chair Conlin reviewed the meeting agenda. Under the Board's committee restructuring the Audit and Reporting Committee is no longer a subcommittee and will now report directly to the Board. The Committee responsibilities remain the same and will be reviewed for possible updates at the June meeting.

Chair Conlin noted that contracts reports are included in member's packets, including reports of contracts opened in the 4<sup>th</sup> Quarter of 2009, all open contracts with a contract value greater than \$10,000, all open contracts that have been open over five years, and all sole-source contracts awarded in the 4<sup>th</sup> Quarter of 2009. Normally real estate property reports would also be presented, but technical issues have arisen and the reports will be presented at the June Audit and Reporting Committee meeting.

Chair Conlin thanked members for their willingness to serve on the Committee; the Committee will be offering suggestions to improve the financial structure and performance of the Agency.

**State Auditor's Office Accountability Audit**

Brian McCartan, CFO, reviewed annual audits; a financial audit conducted by Sound Transit every year focuses on the financial statements, federal audits check Sound Transit's compliance with federal regulations, and state audits review the financial audits and compliance with state laws and governing regulations for the agency.

Hong Nguyen and Carol Ehlinger of the State Auditor's Office reported on the public resources and legal compliance audit. The audit covered 2008 and looked at safeguarding of assets, open public meeting compliance and payroll. The audit report was issued and had no findings or management letter items. There are three exit items that will be audited again when the auditors return in 2010, including employees compensation pay not being accurately calculated, inadequate controls over small and attractive assets and change orders executed prior to Finance Committee approval. Mr. McCartan noted that former Audit and Reporting Chair Fred Butler attended the exit conference; the new Chair, Richard Conlin, will attend future meetings with the auditors. The prior year's audit had six exit items; two were unresolved because of the timing of the audit period so they will be reviewed as part of the next audit. The audit in 2010 will cover accountability for public resources and legal compliance.

**Performance Audit & Risk Assessment**

David Hammond, Interim External Reporting & Compliance Manager, gave a presentation on the Agency-Wide Performance Audit Planning Assessment. As part of Initiative I-900, the State Auditor's Office contracted with TKW to perform the planning assessment. The auditor was not able to attend the meeting, but prepared a

report identifying future audit topics. The document is a living document that currently includes 60 topics identified as having audit potential. Mr. McCartan noted that the document will also be a good tool for Sound Transit in conducting internal audits.

The report uses a scale of one, for low risk, through five, for high risk. Areas are rated for inherent risk and mitigated risk—after control activities and policy and procedures are in place. In many cases the document shows that Sound Transit has appropriate policy and procedure in place that mitigates many of the items. Mr. McCartan explained that the report does a good job of acknowledging Sound Transit's mitigation efforts.

There were areas where the auditor identified a high-risk area and didn't find mitigation in place to support lowering the risk rating significantly. Areas where the mitigated risk remains high include; sensitivity testing used during revenue and ridership forecasting, farebox recovery rate, construction procurement, knowledge management and enterprise risk management. The State Auditor's Office plans to begin a performance audit in 2010 looking at Sensitivity Testing and Farebox Recovery Policies.

Chair Conlin asked what Sound Transit is doing to demonstrate that mitigation is sufficient in high-risk areas, or to change policies and procedures to increase the Agency's mitigation. Mr. McCartan responded that the document is being used as an information tool for directing focus within the agency. Sound Transit would like to develop a risk tool to develop its own list of areas that need further review. Boardmember Butler asked that staff return with more information on how the staff will be using the document and areas that should have more mitigation. Chair Conlin asked that the report be put on the agenda for the next meeting so that the Committee members would have more time to review before offering additional comments.

#### **4<sup>th</sup> Quarter Asset/Liability Report**

Mr. McCartan explained that the Asset/Liability Report is similar to an investment report that summarizes how investments are handled but also includes borrowing information. The report includes a scorecard on some key areas including investments, returns, interest rates, credit risk and liquidity risks.

Jim Block, Cash/Investment Administrator and Tracy Butler, Treasurer reviewed the 4<sup>th</sup> Quarter report. The indicators showing the level of risk have not changed since the 3<sup>rd</sup> Quarter report. Interest rates continue to be at historic lows with corresponding low market yields on securities. As a result of low interest rates, the interest Sound Transit is earning on investments is low. \$213 million from the debt service reserve fund was invested in the fourth quarter and brought investment earnings up slightly. Covenants in the 2009 bond issue required that Sound Transit create a \$7.9 million dollar reserve fund for the prior bond. That money was in the state pool, but early in the fourth quarter it was put in a long-term security yielding 4.96%. Interest earnings for the year exceeded the budget by \$700,000. The agency cash position remains sufficiently liquid to ensure that all known funding requirements can be met and all portfolios are in compliance with policy limits.

Taxable and tax exempt yields are still very close, taxable yields are starting to be higher than tax exempt which is a change. Long term borrowing rates for long term debt at the end of the fourth quarter was around 3.9%. In the fourth quarter additional Build America Bonds were issued by the federal government. The Finance Committee approved the revised investment policy in April 2009, since then the policy was submitted to the Association of Public Treasurers of the United States and Canada for their review and certification. Sound Transit received a certificate of excellence on the revised investment policy from that association.

Boardmember Butler asked for an update on the AIG Lease-in/Lease-out transaction. Mr. McCartan explained that some progress has been made, negotiations have been underway for a year and an agreement has been reached to have Sound Transit provide the collateral in the case that AIG completely defaults, however Sound Transit was able to reduce its exposure by 25%. The agreement has not been executed yet because the parties agreed to freeze the transaction. Mr. McCartan noted that having the funds on deposit as collateral will not impact Sound Transit's work.

#### **4<sup>th</sup> Quarter Financial Report**

Pete Rogness, Director of Budget and Financial Planning, gave a presentation on the 4<sup>th</sup> Quarter financial information, including the annual capital expenditure level. Revenues are below budget for 2009 by \$43.5 million, or 6% below budget forecast. Tax revenues for 2009 were \$62.5 million. Farebox revenue is \$1.7

million below the 2009 budget and federal draw-downs were \$2.2 million below the 2009 forecast. Investment income ended the year \$700,000 above the budget, and local and state contributions exceeded the forecast by \$22.6 million because of regional mobility grants, FRA funds, and land bank credits. Although land bank credits are a non-cash transaction, they equate to value the agency receives even though they are not paid in cash.

The transit operations budget was at 95% of forecast, passenger fares were at 94% of budget, and ridership was at 95% of the forecast. The quarterly report also includes information on farebox recovery and ridership information for each of the operating modes. For Sounder, ridership was 7% below last year and 20% below the forecast, fares were 21% below budget, and expenses were at 97% of the budget. For ST Express, ridership was 3% above last year and 3% below the forecast, fares were 3% above the budget, and expenses were at 96% of the budget. For Tacoma Link, ridership was 4% lower than last year and expenses were 88% of the budget. For Central Link, ridership was 4% ahead of the budget forecast (but not the ST2 forecast), fares were 6% below budget and expenses were at 98% of the budget. Chair Conlin asked if the budget forecast and the ridership forecast should be correlated; Mr. Rogness responded that those components are developed at different times. Joni Earl, CEO noted that staff is considering refreshing the ridership forecasts shortly before the budget is adopted.

Staff operating expenses were at 92% of budget, and all departments are within the Board adopted budget levels. At the end of the year there was a 7% vacancy rate for the agency. In capital expenditures, the ST2 program has committed 76% of the lifetime budget approved by the Board to date. The amount currently approved by the Board does not represent the full ST2 program. As the projects move forward, additional budget will be brought on to do additional work. Boardmember Butler noted that year to date spending is low compared to the forecast; he asked if there are adverse impacts to under spending the capital budget. Mr. McCartan noted that spending information is needed to make investment and borrowing decisions. The numbers are tracked closely so good decisions can be made that save the agency money. The agency's goal is 85%, Central Link has been higher than the goal the last couple years.

Mr. Rogness reviewed annual expenditure rates, and presented a chart comparing the annual expenditures to annual budget, showing where project savings were realized as a result of costs coming in lower than expected. For the Sounder program, there were project savings of \$18.8 million because of savings from the Seattle to Tacoma Track & Signal Project. For Link light rail, there was \$15.9 million in project savings due to the lower cost of real estate for University Link and savings on advance preliminary engineering work for the University to Northgate project. For ST Express, there were savings of \$4.9 million because the Mountlake Terrace Freeway station costs came in lower than expected. There were three areas where a change in the plan caused lower budget expenditures than expected. For Link light rail a renegotiation on the payment schedule for University Link vehicles that will be moved to a future year's budget under spent the budget by \$41.3 million. System wide, a change in the schedule for ST2 bus fleet procurement from 2009 to 2010-2011 and a decision to not provide WiMAX access to provide mobile internet access under spent the budget by \$41.3 million. For Sounder, Link, ST Express and System-wide there were areas that were behind plan, the overall amounted was \$135.1 million.

#### **Next Meeting**

To Be Decided

#### **Adjourn**

The meeting was adjourned at 12:45 p.m.

APPROVED ON September 16, 2010.

ATTEST:



Katie Flores  
Board Coordinator



Richard Conlin  
Audit and Reporting Committee Chair