

SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING

Summary Minutes

March 24, 2011

CALL TO ORDER

The meeting was called to order at 11:40 a.m. by Committee Vice Chair Joe Marine, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

ROLL CALL

Chair

(A) *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*

(P) *Joe Marine, City of Mukilteo Mayor*

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

REPORT OF THE CHAIR

None.

BUSINESS ITEMS

Minutes of the December 16, 2010 Audit and Reporting Committee Meeting

It was moved by Boardmember Thomas, seconded by Boardmember Butler, and carried by the unanimous vote of all Committee members present that the minutes of the December 16, 2010 Audit and Reporting Committee meeting be approved as presented.

FINANCIAL REPORTING

4th Quarter Financial Results and Reports

Pete Rogness, Budget Director, reported that Sound Transit is within 1% of the budget for revenue. Sound Transit is \$4 million below budget for federal grants at the end of the fourth quarter, compared to \$6.8 million below budget at the end of the third quarter. Sales, rental car taxes and use taxes are down 5% through the end of the fourth quarter and 9% below the budget. Overall, Sound Transit was 5% below the 2010 budget for revenues.

The Transit Operations budget shows fare revenues below budget forecast for all modes. The average fare per boarding is below forecasts for all modes except ST Express bus and below prior year actual except for Central Link. The Transit Operations budget is at 94% of the annual budget due to fewer extra operating hours being used than budgeted. Central Link is at 98% of the annual budget. Materials and supplies, and electrical utilities were below budget. Tacoma Link is at 82% of the annual budget. All staff budgets are within their annual budgets and there are 39 open positions.

Capital expenditures are at 79% of the annual budget, a total budget variance of \$154.9 million. \$4.9 million, or 3% of the variance is due to project savings; \$37.6 million or 24.3% is due to plan changes including changes to the D Street to M Street project schedule.

4th Quarter Asset Liability Management Report

Jim Block, Investment Administrator, reported there are no changes in the stoplight indicators in the Asset Liability Management Report since the third quarter. The federal funds rate is floating between zero and 25 basis points. Over the fourth quarter, the average yield on total cash and investment decreased to 1.09%. The State Investment Pool is down 4 basis points, the King County Investment pool decreased by 26 basis points.

All portfolios are within policy limits and guidelines. The current borrowing rate for long term debt is 4.5%. The Build America program expired at the end of the year which may correspond with the increase in borrowing rates for long term debt. Tax-exempt debt continues to yield higher than taxable debt.

AUDITS

Status of 2010 Financial Audit

Kelly Priestly, Controller, gave an update on the 2010 Financial Audit. The audit process will begin next week and will continue over the next four weeks. The auditors have already started working on the audit off-site, including looking at the ORCA program. No concerns have been identified to date.

2010 Subarea Agreed Upon Procedures Draft Audit Plan

Brian McCartan, Chief Financial Officer, spoke about the subarea accounting and training program and updated subarea report format. Work has taken place internally to improve the subarea reporting process and make it more transparent. Key changes have been made to the subarea report. The new report still meets subarea reporting requirements. Testing procedures for the independent auditor are strong enough and valid to conduct subarea testing.

Ms. Priestly explained that in the past, incremental transactions were each allocated between the subareas. The reporting model followed accounting methodology but didn't necessarily match the financial plan since costs were allocated to the subarea that receives the benefit of the service. The new subarea accounting method will no longer allocate costs at a transaction level but will allocate at an account balance level. The subarea allocation will still be maintained in a separate ledger and the accounting will align to the financial plan. The report includes actual allocations for 2009 and 2010 then uses the financial plan for years through 2023. The report includes explanatory notes for the basis and methods for allocations and includes details on how each subarea allocates dollars. Revenues received by Sound Transit are allocated to subareas based on the location where revenues are collected as defined by state revenue data. The auditors will still use actual information for past years when looking at subarea allocations. The procedures for auditing are included in the document.

Tom Evert from KPMG confirmed that the new process complies with general accounting principles and will be simpler to audit.

2011 Performance Audit Topics

David Hammond, Internal Audit Director, reported that the 2010 performance audit looked at Information Technology procurement and was successful. In 2011, the State Auditor will not conduct a performance audit of Sound Transit so a topic should be selected by the Committee for completion in 2011. Mr. Hammond reported on a list of possible topics included in Committee members' packets. The topics are based on the state auditors list of risks to Sound Transit. The list included: value engineering, real property acquisition, Central Link parts and equipment inventory and preventive maintenance management, and ridership data collection and fare collection.

Committee members discussed the list and came to a consensus that the topic of value engineering would be most beneficial for the 2011 Performance Audit. The audit will look at the efficiency and effectiveness of the value engineering program. Committee members felt that the value engineering topic was timely based on the number of projects currently being developed that could benefit from value engineering and the importance of finding cost savings.

2011 Internal Audit Workplan

Mr. Hammond reviewed the 2011 Internal Audit Workplan document that was included in Committee member's packets. The report describes the scale of the proposed audits. A risk assessment and additional planning takes place on each of the selected topics to define the objectives for the audit. Work will take place on each of the audits and a report will be produced that will be brought back to the Audit and Reporting Committee. The document lists the audit goals for 2011 and the topic, scope and department where each audit will focus. The 2011 plan includes developing multi-year workplans for audits of the TVM and ORCA program, Information Technology, and Capital Program. The 2011 workplan also sets aside funding for topics that may arise during 2011.

Report on Completed Internal Audits

The internal audits completed in 2010 were included in Committee member's packets. The reports include an Incurred Cost Audit, conducted by Protiviti, Inc., the IT Procurement Performance Audit, conducted by MGT of America, Inc., and the Electricity Account Administration Audit, Advertising Revenue Audit, and Fuel Card Program Audit conducted internally by Sound Transit.

Internal Audit Charter

Mr. Hammond reviewed the charter developed for the new Internal Audit Division that establishes the purpose, standards, authority and accountability for the division. The charter is included in Committee members' packets.

NEXT MEETING

June 16, 2011
11:30 a.m. to 1:00 p.m.
Ruth Fisher Boardroom

ADJOURN

The meeting was adjourned at 12:50 p.m.



Joe Marine
Audit and Reporting Committee Vice Chair

ATTEST:



Katie Flores
Board Coordinator

APPROVED on June 16, 2011, KWF.