

## **SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING**

**Summary Minutes  
September 15, 2011**

### **CALL TO ORDER**

The meeting was called to order at 11:37 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, Snohomish County Executive*

Vice Chair

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

Committee Members

(P) *Fred Butler, Issaquah Deputy Council President*

(P) *Dave Enslow, Sumner Mayor*

(A) *Claudia Thomas, Lakewood Councilmember*

(P) *Paul Wiesner, Citizen Oversight Panel Chair*

Boardmember Enslow arrived after roll was called.

### **REPORT OF THE CHAIR**

None.

### **EXTERNAL AUDITS**

ORCA 2010 Financial Statements and Audit

Kelly Priestley, Controller, gave a report on the ORCA 2010 Financial Statements and Audit.

Participating agencies include King County Metro, Community Transit, Pierce Transit, Everett Transit, Kitsap Transit, Sound Transit and Washington State Ferries. Sound Transit is the fiscal agent to the combined joint operating arrangement for the ORCA fare revenue collections system. Sound Transit, as the fiscal agent, is also responsible for payment of centrally administered costs such as the payments to the service provider ERG. For 2010, total operating expenses processed were \$4.3 million.

A clean audit report was issued. One management letter item was received and is being addressed by the lead agency. The item is related to controls over business account revenue managed and administered by lead agencies.

Review of the 2010 Subarea Reports

Kelly Priestley, Controller, gave a report on the Review of the 2010 Subarea Reports.

Two reports were prepared. The first report presents 2010 and 2009 actual financial results by subarea. The second report presents the information for the full plan period 2009 through 2023.

There were changes to the methodology of the reports to more easily measure the agency's financial plan. The methodology excludes non-cash items such as depreciation and amortization and tax revenues presented on a cash basis as in the finance plan. The new methodology eliminated allocations occurring at the transactional level, resulting in a reduction in effort by staff and presents

information in a manner consistent with the finance plan. This year's reports continue to include Management's Statement of Responsibility for the information prepared and that the information is fairly presented.

### 2010 State Compliance Audit

Kelly Priestley, Controller, gave a report on the 2010 State Compliance Audit.

The State Auditor's Office will audit the agency against state laws and against the agency's own policies and procedures. Auditors will be on site beginning September 21 to start planning the audit field work. The audit is expected to be completed after 550 hours, at the end of November.

The agency has also been working on the closeout of the FTA full-funding grant agreement for the initial segment. Auditors will submit their report to the FTA in mid-October and the FTA will provide final review thereafter.

## **FINANCIAL REPORTING**

### Overview of 2Q 2011 Financial Results and Reports

Pete Rogness, Budget Manager, gave a report on the second quarter 2011 Financial Results and Reports.

Second quarter results were positive. Sales and use taxes were up, but fare revenues were below budget, but improved from the first quarter of the year. Forecasts are updated multiple times throughout the year to get accurate information before budget cycles. Operations costs are up due to diesel fuel prices.

### 2Q Asset Liability Management Report

Jim Block, Assistant Treasurer, gave a presentation on the second quarter Asset Liability Management report.

There has been no change to the stop light indicators between the reports from last quarter and the current quarter. The federal QE2 program ended on June 30 and there are discussions about a QE3 program to bring down long term rates. As a result of the downgrading of the US' long-term debt rating, Sound Transit is reviewing bond covenants and consulting with bond counsel to ensure that the agency remains in compliance with bond covenants.

There has been no change in investment strategy. New purchases were primarily agency bonds and not callable bonds. Interest earnings are on budget.

### Contract Reports

Kelly Priestley, Controller, gave a report on contract reports.

The quarterly reports on contracts open during the quarter were included in Boardmember packets. Several long-term contracts are still open. Several errors in the report on contracts over \$10,000 have been fixed. There is only one sole-source contract to report. The property management report is also included in packets.

## **INTERNAL AUDIT UPDATE**

David Hammond, Internal Audit Director, presented the internal audit update.

The investment audit has strong internal controls. During the course of the year, \$1.7 billion of wire transfers were transacted. The segregation between authorization and execution of the transfers was verified.

The fare media refund audit was conducted. Less than \$23,000 was refunded last year, mostly due to ticket vending machine errors. Minor recommendations were made and management responded well.

In 2010, approximately \$150,000 in employee expense reimbursements were paid out, most of which resulted from employee travel and miscellaneous expenses. Processes, forms and internal policies were revised.

The procurement card program issued 65 procurement cards and over the last 12 months, approximately \$1 million has been spent through the program. The audit included several recommendations such as monitoring of card holder compliance and expanding the training program.

### **INTERNAL CONTROL OVERSIGHT AND CURRENT AUDIT COMMITTEE TOPICS**

Kelly Priestly, Controller, gave a presentation on the topics of the Internal Control Oversight and Current audit committee.

Resolution No. R2010-19, incorporated internal control into the Audit and Reporting Committee's responsibilities. Internal and external auditors are providing information on the scope of internal control as part of their audit reporting. This provides the Committee with useful information on internal controls under evaluation as part of internal and external auditors. Internal Control evaluations focus on risk. Current topics for audit committees include systemic risks, such as economic and financial risk, cyber risk and supply chain risk. Information security has been a high priority as is strategic planning, particularly as it relates to use of technology.

A work plan will be developed and presented to the committee for consideration at its December meeting.

### **NEXT MEETING**

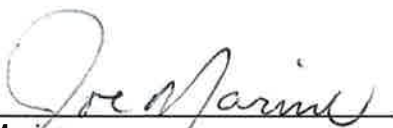
December 15, 2011  
11:30 a.m. to 1:00 p.m.  
Ruth Fisher Boardroom

### **ADJOURN**

The meeting was adjourned at 12:49 p.m.

ATTEST:

  
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Alex Herzog  
Board Coordinator

  
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Joe Marine  
Audit and Reporting Committee Vice Chair

APPROVED on December 15, 2011, AH.