

SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING

Summary Minutes
September 27, 2012

CALL TO ORDER

The meeting was called to order at 10:41 a.m. by Committee Chair Dave Enslow, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

ROLL CALL

Chair

(P) Dave Enslow, Sumner Mayor

Vice Chair

(P) Larry Phillips, King County Councilmember

Committee Members

(P) Fred Butler, Issaquah Deputy Council President

(P) Mary Moss, Lakewood Councilmember

(A) Dow Constantine, King County Executive

(P) Stuart Scheuerman, Citizen Oversight Panel Chair

(A) John Marchione, Redmond Mayor

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

REPORT OF THE CHAIR

None.

BUSINESS ITEM

Minutes of the June 28, 2012 Audit and Reporting Committee Meeting

It was moved by Boardmember Butler, seconded by Boardmember Phillips, and carried by unanimous vote that the minutes of the June 28, 2012 Audit and Reporting Committee be approved as presented.

INTERNAL AUDIT UPDATE

David Hammond, Internal Audit Director, gave a quarterly update on current audit reports, audits in progress and the status of the State Auditor's performance audit. The Audit and Reporting Committee asked for an update on Sound Transit's progress in implementing recommendations from the performance audit of its value engineering program. That update will take place at the December Audit and Reporting Committee meeting.

2013 Performance Audit Topics

There are four potential audit topics for the 2013 performance audit. The Audit and Reporting Committee is scheduled to select the topic at its December meeting. Sound Transit's Performance Audit program requires one performance audit when the State Auditor's office does not perform one. The topic is selected by the Audit and Reporting Committee and the audit is managed by the Internal Audit division. The potential audit topics are based on potential cost savings and the potential for risk reduction.

The first potential topic deals with Sound Transit's efficiency and cost effectiveness measures and what those measures indicate about Sound Transit's cost structure and whether those measures identify areas for improvement. The audit would look at benchmarking Sound Transit operations against peer agencies and compare Sound Transit based on those measures.

The second potential topic would evaluate the implementation of the 2009 Transit Operations Task Force recommendations, especially regarding the competitiveness of service procurements. The audit would evaluate whether purchased services costs are reasonable.

The third potential topic would establish benchmarks for Sound Transit's security program to evaluate and identify efficiency and effectiveness. The fourth potential topic would review Sound Transit's Information Technology

project management framework and structure. The audit would examine the ORCA program, asset management program and other IT projects.

Boardmember Butler expressed that the security benchmark study had a high potential for cost savings and risk reduction. He asked that the Operations and Administration Committee receive an update on the implementation of recommendations from the Transit Operations Task Force.

Boardmember Phillips asked about the amount that could be saved for each of the audit topics. Brian McCartan, Chief Financial Officer, clarified that the overall Operations budget is \$212 million; the security budget is included in the Operations budget and is around \$13 million. The IT capital budget is \$3-6 million plus technology investments in the Link program.

More detailed audit scope information will be provided at the December Audit and Reporting Committee meeting.

New Internal Audit Reports

Mr. Hammond reviewed three reports released by the Internal Audit division over the last three months. One audit looked at Sound Transit's fuel procurement procedures. The audit made some recommendations that have been implemented in large part. The Paratransit program was also audited; the audit found some significant invoicing errors and procedures improvements. Some improvements have already taken place and further recommendations will be implemented. Sound Transit received around \$700,000 from King County to correct the invoicing errors. The third audit looked at Ticket Vending Machine procedures. Some minor procedure changes were recommended.

Prior Audit Recommendations

Mr. Hammond reported on the implementation of previous audits; the in last quarter, two prior audits were resolved. Issues from the advertising revenue audit and investment and internal controls audit were completely resolved. Status updates will continue to take place on audit follow-up.

Audits in progress

A final draft of the State Auditor's office performance audit will be issued soon for Sound Transit's response. The final audit report will likely be published in October.

EXTERNAL AUDITS

2011 State Compliance Audit

Kelly Priestly, Controller, reported that the entrance conference for the State Compliance Audit took place on September 12, 2012. The audit will look at compliance with laws, regulations, and Sound Transit policies and procedures. The audit will look at open public meeting compliance, expenditures, change orders, public works and professional services, transit security, fare enforcement, and self-insurance. The auditor's office plans to complete the audit in December.

Results of the 2011 Subarea Agreed Upon Procedures and Subarea Reporting

Lacy Ferguson, Accounting Manager, reviewed the results of the Subarea Agreed Upon Procedures and Subarea Reporting review. Subarea equity is now measured at the end of the ST2 plan in 2023 instead of annually like in Sound Move. Transactions are recorded to each subarea based on drivers and rules that have been established. Non-cash sources and uses are excluded from the subarea report. Tax revenues and interest expenses are reported on a cash basis; all other revenues and expenditures are reported on a full accrual basis.

The reports include a list of approved drivers that are used to allocate transactions. Capital rules are intended to remain static unless there is a change in scope, Operations rules and drivers change as there are changes in service. In 2011, new drivers were developed for new projects. Some changes were made to existing drivers based on errors and two drivers that were revaluated based on changes in project scope.

KPMG reviewed the Subarea Agreed Upon Procedures; the procedures are not an audit so no opinion is issued. Two exceptions were found, the first was a preliminary rule used to allocate three of the new Link Operations and

Maintenance Facility projects. A math error of less than \$1,000 was discovered in the driver and it was corrected prior to the report being issued. An allocation of tax revenues for mitigation payments was corrected, the amount of that correction was an overstatement for Snohomish County was \$157 thousand, Pierce County \$269 thousand, and East King County \$273 thousand. South King County was understated by almost \$700 thousand.

FINANCIAL REPORTING

Overview of Second Quarter 2012 Financial Results and Reports

Pete Rogness, Budget Manager, presented the second quarter 2012 Financial Results and Reports. Second quarter revenues are four percent under budget because grant money was underspent by \$3-4 million and sales and use tax is under budget. Fare revenues and investment income was above budget. Based on tax revenues through June, the sales tax is below budget by 2.5%, Motor Vehicle Excise Tax is 5.5% below budget and the Rental Car Tax is at 2.3% ahead of budget, for a total of 2.8% below budget for overall tax revenues.

Boardings and fare revenues for the second quarter were ahead of 2011 and the 2012 budget for all modes. Transit operations expenses were at 95% of the year to date budget; Sounder was at 84% of budget because of delays in discretionary work and lower expenditures on fuel. ST Express is at 97% of the year to date budget, the largest variance was due to purchased transportation services. Central Link is at 98% of its budget related to higher expenditures for materials and supplies for spare parts offset by savings in fare vending machine work being done in-house. Tacoma Link is at 83% of the year to date budget because discretionary expenditures for repairs and maintenance did not occur in the second quarter.

All departments are within their year to date budget; the agency as a whole is at 88% of the year to date. Salaries and benefits and services make up 85% of the total agency administration budget. There average vacancy rate is at 8.5%.

ST Express is at 37% of the year to date budget due to under spending on the I-90 stage two project. Invoices for that project are still being received. The 2013 budget will defund some project savings from that project. There were also project savings on the 85th street corridor in Kirkland, and the Rainier Avenue and Strander Boulevard projects in Renton. Sounder capital expenditures are at 130% of the year to date budget, due to added service to the South Corridor that happened earlier than scheduled. Central Link is at 87% of the year to date capital budget. University Link is under run due to lower productivity and scheduling differences. The First Hill Streetcar is also behind in budgeted expenditures. East Link is ahead of budget because of the acquisition of the Eastside Rail property from the Port of Seattle. That expenditure was not budgeted for this year. Service delivery is at 58% of the year to date budget due to changes in vehicle procurements for two projects. Other agency projects were at 41% of the year to date budget, including under spending in non-revenue vehicles, office furniture and equipment, the research and technology program, STart program, and TOD surplus property and property disposition are below budget.

Second Quarter Asset Liability Management Report

Jim Block, Cash Investment Administrator, gave a presentation on the second quarter Asset Liability Management report.

There were no changes to the stoplight indicators. The federal government plans to keep the fed rate floating between 0 and 25 basis points through late 2014. In the second quarter, the average yield on total cash and investment holdings increased by four basis points, from 97 basis points to 1.01%. The state investment pool was at 17 basis points at the end of the second quarter and the King County investment pool was at 51 basis points. There was no change in strategy since the first quarter. \$54 million in open market securities were purchased for the unrestricted portfolio at an average yield of 43 basis points. New purchases were all in Agency bonds. Interest earnings exceeded the budget by \$1.2 million, but without unrealized gains and losses, interest earnings were over budget by \$500,000 at the end of the second quarter. The investment portfolio is above benchmarks and all portfolios comply with policy limits and guidelines. Tax-exempt bonds are again higher yielding than taxable bonds. The current borrowing rate for long-term debt is at 3%. Standard and Poor's and Moody's both affirmed Sound Transit's credit ratings in June in anticipation of the 2005 Bond refunding. This is significant because Moody's rating methodology has changed and many other transit agencies' credit ratings were downgraded. Sound Transit's rating from Moody's is AA1 on the prior bonds and AA2 on the parity bonds. Standard and Poor's rated Sound Transit AAA on both the prior and parity bonds. \$350 million in bonds was refunded (refinanced) on August 22, 2012 at a rate of 2.66%. This saved Sound Transit \$50.8 million.

Contract Reports

Contract reports covering contracts opened during the second quarter of 2012, sole source and propriety contracts opened in the second quarter, second quarter contracts under \$10,000, and all contracts over five years old were included in Committee members packets.

EXECUTIVE SESSION

None.

NEXT MEETING

December 20, 2012
10:30 a.m. to 12:30 p.m.
Ruth Fisher Boardroom

ADJOURN

The meeting was adjourned at 11:57 a.m.



Dave Enslow
Audit and Reporting Committee Chair

ATTEST:



Katie Flores
Board Coordinator

APPROVED on December 20, 2012, KWF.