

SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING

Summary Minutes

March 28, 2013

CALL TO ORDER

The meeting was called to order at 10:37 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 December 20, 2012 Audit and Reporting Committee Meeting

It was moved by Boardmember Phillips, seconded by Boardmember Butler, and carried by the unanimous vote of all members present that the minutes of the December 20, 2012 Audit and Reporting Committee be approved as presented.

FINANCIAL REPORTING

Overview of 4Q 2012 Financial Results and Reports

Pete Rogness, Budget Manager, gave a report on the fourth quarter 2012 Financial Results and Reports. Fourth quarter revenues are \$3 million over the budget. Sales tax was 1% below budget, Motor Vehicle Excise Tax was below budget by 6%. Fare revenues were 21% above budget overall. ST Express was \$6.9 million above budget, Sounder and Central Link were each \$1.5 million above budget. Investment income was \$4 million or 48% above budget based on higher cash balances and higher than assumed interest rates. Miscellaneous revenues were up 33% above budget due to the regional mobility grant Sound Transit received for the South 200th Link Extension. Federal Grants were at 97% of the budget. In 2012, revenues were under budget in five of the first six months of the year. Based on the under runs, a new forecast was prepared beginning July 2012. The finance plan uses the lower forecast amount for 2012. Total revenues for the year were 1.6% under the 2012 budget assumptions. Comparing prior years, 2011 tax revenues were 4.2% higher than 2010, 2012 revenues were 4% higher than 2011.

Total fare revenue was at 121% of the budget for transit operations. Boardings on all transit modes were ahead of budget forecasts and 2011 boardings. The fare box recovery rate exceeded the target for all modes. Transit operations expenses were 97% of the annual budget. Sounder was 92% of budget because of fuel savings and postponing discretionary maintenance. ST Express was at 97% of the budget due to lower fuel costs and facility maintenance that was budgeted but not needed. Mr. Rogness noted that these numbers do not include the final reconciliation from the transit partners for providing operating and maintenance services. Central Link is at 99% of the annual operations budget. Tacoma Link was at 98% of the annual operations budget due to budgeted facility maintenance that was not needed.

All departments are within budget, salary and benefits were \$2.6 million below budget and services were \$3.8 million under budget. The agency had a 7.2% position vacancy rate in 4th Q 2012. There were 43 vacancies at the end of year. Ms. Earl noted that a 2% vacancy rate is assumed in the budget, the 2013 budget assumes a 5% vacancy rate due to delays in filling some positions. The 2012 Administration budget funded 29 new positions.

Total capital expenditures were 68% of the annual budget. Capital expenditures for ST Express are at 33% of the annual budget. Mr. Rogness reviewed some of the items that affected the overall ST Express capital budget. There was a change in funding strategy for the I-90 Two-Way Transit Stage 3 project, with WSDOT providing more funding up front. Scheduled changes for the Rainier Avenue Arterial and Strander Boulevard Extension also resulted in under-spending. Mr. McCartan noted that the budget assumes spending at 100% of budget, but the cash flow planning assumes some reductions in capital spending. As a result of revenues and under-spending in the capital program compared to budget, Sound Transit will not need to return to the bond market as early as planned. Capital expenditures for Sounder are at 56% of the annual budget. Under-spending is due to budget savings with the D Street to M Street project, and property acquisition delays for the Tukwila Station and Layover projects. Capital expenditures for Central Link are at 77% of the annual budget. Under-spending was due to delays on East Link for right-of-way acquisition and final design, and on the Northgate Link Extension for right of way acquisition delays.

The Service Delivery capital budget was at 59% of the annual budget because of delays with construction, mid-life maintenance projects, and delays in fleet procurements. Other agency capital outlays were at 38% of the annual budget due to under-spending in administrative capital and IT capital for projects that weren't needed. There was also under-spending in the STart program and slower than planned spending in the Research and Technology program.

Sound Transit spent 68% of the annual budget. Budget savings accounted for 26% of the under-expenditure including savings on the University Link Extension. Changes in project planning accounted for 27% of under-expenditures. 43% of under-spending was due to being behind in planned project activities; 35% was for projects led by Sound Transit and 8% was in projects led by another entity. Another 3% of the under-spending was due to projects that are closed out, and other factors. Committee members asked for more information on projects that are behind schedule.

4Q Asset Liability Management Report

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

The stoplight indicator for investment performance changed from 'average' to 'above average' because interest earnings were significantly above budget at the end of 2012. There were no other changes to the stoplight indicators. The federal government will keep the Fed rate floating between 0 and 25 basis points for a significant period of time. In the fourth quarter 2012, the average yield on total cash and investment holdings decreased one basis point, to 97 basis points. The state investment pool was at 24 basis points at the end of the fourth quarter and the King County investment pool was at 54 basis points. There has been no change in investment strategy. During the fourth quarter \$60 million in open-market securities were purchased for the unrestricted portfolio at an average yield of 31 basis points. Interest earnings exceeded

the budget by \$4 million, but without unrealized gains and losses, interest earnings at the end of the fourth quarter were \$900,000 over budget. Performance returns are above the benchmark for the unrestricted and capital replacement portfolios. All portfolios are in compliance with policy limits and guidelines. Tax exempt and taxable bonds have a near identical yield at the end of 2012. The current borrowing rate for long-term debt is around 2.6%. Boardmember Phillips asked that year-to-year comparisons be provided for cash balances.

Contract Reports

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

EXTERNAL AUDITS

Status of the 2012 ORCA Audit and 2012 Financial and Federal Audit Entrance

Work on the 2012 Financial and Federal Audit began last week and is scheduled to be complete in May 2013. The 2012 ORCA audit is conducted on behalf of the ORCA joint Board. The audit is nearly complete, Sound Transit is aware of no issues with the audit.

ANNUAL UPDATE ON SUBAREA RULES

Kelly Priestly, Controller, reviewed the 2012 Subarea Report rule updates, a summary of updates was included in Committee members' packets. The new rules are consistent with the methodology used for existing rules. The report also included revisions to prior year calculations. Most of the revisions are minor, except in the case of revisions to the Ticket Vending Machine (TVM) and Passenger Information System/CCTV rules. The rules were related to Sounder TVMs and Passenger Information Systems but were using Central Link data. The report also listed Sources and Uses that affect how the rules are calculated such as revenue, fares, or operating grant revenue. Mr. McCartan noted that Trip Cash Equivalent Full Fare Value (CEFFV) would not be used as the driver for Sounder passenger fares, Sound Transit will continue to use boardings for 2013. Information will be brought to the Board in the future with options for the use of ORCA data to allocate fare revenue by subarea.

INTERNAL AUDIT UPDATE

2012 Internal Audit Annual Report

David Hammond, Internal Audit Director, presented the internal audit update. Mr. Hammond introduced Senior Internal Auditors Awet Habtemariam and Shelli Applegate. A charter for the Internal Audit Division was developed in 2010.

A copy of the 2012 Internal Audit Division Annual Report was included in Committee members' packets. Fourteen audits were completed in 2012, all of the audits were presented to the Audit and Reporting Committee. Seven audits were follow-ups to audits completed in prior years, seven were new audits that were completed in 2012. There were also five audits that were substantially completed in 2012 and three audits are in progress. Some additional audits were deferred to 2013 and will be included in the 2013 Audit plan. Two audits were deferred indefinitely; audits of claims processing and vehicle surplus processes were determined to be unnecessary.

Prior Recommendation Status

Mr. Hammond reviewed the follow-up status for all prior internal audits. The internal audit division will follow up on four 2012 audits in 2013 including the Performance Audit on Value Engineering.

2013 Internal Audit Work plan

The work plan for 2013 was included in Committee members' packets and includes goals for 2013, audit focus for the year and a list of planned audit activities. In 2013, the Internal Audit Division will also follow up on nine prior audits. Some 2013 audits are already underway.

Internal Audit Reports Issued

Mr. Hammond reviewed four audits completed last quarter by the Internal Audit Division. The first audit looked at Sound Transit's Operations and Maintenance costs for the Downtown Seattle Transit tunnel; the audit resulted in no significant findings. An audit of ridership reporting found that the ridership reporting was very accurate, recommendations were also provided to help formalize the process including securing and archiving data. Blanket purchase order procedures were audited; the audit found that procurements were in compliance, but purchases were not consistently within the terms of the purchase orders. The audit issued recommendations that the accounting division assist with training and monitoring of blanket agreements and changes to procurement practices. The fourth audit on Link Light Rail maintenance and materials management evaluated the oversight of vehicle maintenance and equipment inventory procedures. The audit found that inventory levels were accurately reported, but recommended spare part inventory procedures be formalized with regards to reordering and minimum/maximum levels.

2013 Performance Audit Status

A contract has been procured for an auditing firm to conduct the performance audit on Sound Transit goods and services procurement. The results of the performance audit are scheduled to be presented at the September 2013 Audit and Reporting Committee meeting.

Internal Audits in progress

Mr. Hammond reviewed five audits currently in progress; phase one of the IT Management Control audit, phase two of the Motor Vehicle Excise Tax audit, Partner Cost Accounting, Non-Revenue Fleet Management including a follow-up to the Fuel Card Audit and following up on recommendations from the Leasing audit.

State Auditor's Performance Audit Follow-up

Sound Transit will provide a follow-up plan to the Audit and Reporting Committee at the June Audit and Reporting Committee meeting; the final report will be presented to the State Auditor's Office in July 2013.

NEXT MEETING

June 27, 2013
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 June 27, 2013, KWF