

SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING

Summary Minutes

June 27, 2013

CALL TO ORDER

The meeting was called to order at 10:33 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

(A) *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 March 28, 2013 Audit and Reporting Committee Meeting.

It was moved by Boardmember Moss, seconded by Boardmember Butler, and carried by the unanimous vote of all members present that the minutes of the March 28, 2013 Audit and Reporting Committee be approved as presented.

EXTERNAL AUDITS

2012 Financial Statements

Kelly Priestly, Controller, presented the Financial Statements and Single Audit Report that were included in Committee member packets. Sound Transit's performance is similar to last year. In 2012, total assets were \$6.2 billion and total liabilities were \$1.7 billion for a net position of \$4.5 billion. The report reflects the addition of the Tacoma to Lakewood service in 2012. Non-operating revenues were up \$40 million. Contributions from other governments, including federal grants, were down \$43 million, based on grant drawdowns. The report includes information on total assets; 24 replacement buses were added in 2012. A bond refunding took place that improved Sound Transit's financing costs for the bonds. Ms. Priestly also noted that the reports include some new terminology in the report that also affects the presentation of the report.

Operating revenue was \$58 million. Full years of fare increases on Central Link and ST Express, improved pricing for ORCA business accounts, and ridership all positively affected operating revenue. Operating expenses increased 5% or 9.2 million. General and administrative costs decreased 13.4% or \$3.6 million.

Purchased transportation costs increased for ST Express. Central link expenses increased because of vehicle and maintenance requirements and Sounder increased because of Amtrak contract rates. Operator rates increased on all modes causing a 4.3-4.9% increase. Vehicle maintenance remained the same as 2011. Non-vehicle maintenance for right of way and traction power maintenance increased 20.9% or \$5 million because assets are leaving the warranty period. General and Administration costs were down because of decreases in legal costs after a major legal claim was settled in 2011. A review of the last five years showed increased efficiency for operations.

Non-operating revenue increased 8% or \$39.5 million. Tax revenues increased because the economy is recovering. Investment income is down \$8 million because of low returns. Interest expense decreased because more was capitalized.

Sound Transit's net position is strong--\$4.8 billion over \$4.5 billion in 2011. Ms. Priestly reviewed a breakdown of Sound Transit's capital assets, almost 45% of assets are buildings, transit facilities and heavy equipment, 23% is the capital program, and 15% is land and easements.

New GASB standards require tax collection fees to be reported as non-operating expenses. Air space leases and the major midlife maintenance program are now capitalized, per industry standards.

Results of the 2012 Financial and Federal Audits

Tom Evert, Audit Engagement Partner and Karissa Marker, Audit Partner introduced the team and reviewed the audit work done by KPMG. The audit deliverables include the audited financial statements, A-133 single audit, subarea agreed upon procedure report, the national transit database reporting, and required communications to the Audit and Reporting Committee.

Tara Krier, Audit Engagement Manager reviewed the financial statements audit. The audit emphasized Sound Transit's capital process including procurement and controls. It also included debt and capitalized interest, overhead and the bond refunding Sound Transit conducted in 2012. Sound Transit assets continue to increase for capital assets. Tax fares are increasing. Audit standards are based on Generally Accepted Auditing Standards and the Generally Accepted Government Audit Standards. The audit of the financial statements found no material errors, irregularities or illegal acts. KPMG issued an unmodified audit opinion on the financial statements. Ms. Krier also reviewed other requirements for the conduct of the audit. There were no disagreements with management and there was good cooperation between KPMG and Sound Transit management. The Single Audit, or A-133 audit reviews federal awards expended during 2012. The audit reviewed federal transit awards and clean fuels grants received by Sound Transit. There were no findings as a result of the A-133 audit. The areas the audit tests were reviewed.

KPMG also conducts audits of Sound Transit's submittal to the National Transit Database. This audit will be completed in fall 2013. The ORCA financial statements were audited; it was an unqualified opinion, no material weaknesses or significant deficiencies were found. There was one past audit adjustment but it is immaterial and does not have a net impact on any of the participating ORCA agencies. Sound Transit acts as the fiscal agent for the ORCA program.

The agreed upon procedures for subarea equity is near completion and will be issued later in June 2013. Boardmember Butler asked about Sound Transit's compliance with the Davis Bacon Act; Ms. Krier noted that Sound Transit is now in compliance with the Act.

FINANCIAL REPORTING

Overview of 1Q 2013 Financial Results and Reports

Pete Rogness, Director of Budget and Financial Planning, gave a report on the first quarter 2013 Financial Results and Reports. First quarter revenues are \$1.2 million over the budget. All tax revenues are higher than the budget and higher than last year; Sales tax was 3% above budget, Rental Car Tax was 5% above budget, and Motor Vehicle Excise Tax was above budget by 1%. Fare revenues were 11% above budget. Sounder revenues were 16% above budget, ST Express was 11% above budget, and Central Link was 5% above budget. Investment income was 4.1% above budget over the first quarter budget. Miscellaneous revenues were 354% of budget because Sound Transit received a Build America Bond in the first quarter instead of the second quarter. Sound Transit also received \$1.4 million in State and Local contributions that were not budgeted. Federal Grants were at 74% of the budget, due to delayed use of grant funds for the South 200th Street Extension and I-90 Stage 3 projects.

Total fare revenue was at 111% of the budget for transit operations. Boardings on all transit modes were ahead of budget forecasts and 2012 boardings. The fare box recovery rate exceeded the target for ST Express and Sounder; but was below the target for Central Link. Transit operations expenses were 95% of the annual budget. Sounder was 92% of budget because of vehicle maintenance that was budgeted but not needed this quarter. ST Express was at 95% of the budget due to lower partner rates than budgeted and facility maintenance that was budgeted but not needed. Tacoma Link was at 87% of the budget, due to services and facility maintenance that was not needed in the quarter. Central Link was at 98% of its budget due to reduced spending in the DSTT debt service budget.

All departments are within budget, salary and benefits were within their budgets, some savings were seen in software and hardware maintenance. The agency had an 11.1% position vacancy rate, there were 67 vacancies in the first quarter. Salary and Benefits were at 98% of the budget because a higher vacancy rate was assumed in the budget this year based on experience. In addition, many of the 67 positions are new and will be filled throughout the year.

Total capital expenditures were 76% of the first quarter budget. Capital expenditures for ST Express are at 61% of the budget because of a duplicate entry for I-90 Stage 3. With the duplication removed, capital expenditures for ST Express were 95% of the first quarter budget. The budget office has worked with project controls on lessons learned to prevent duplicate entries in the future. Capital expenditures for Sounder are at 59% of the first quarter budget due to slower spending on the Sounder South expanded service and some expenditures for the Layover Project that were not recorded correctly. Capital expenditures for Central Link are at 81% of the first quarter budget. Under spending was due to delays on S 200th for right-of-way acquisition and University Link savings.

The Service Delivery capital budget was at 67% of the annual budget because of delays in Federal Way post-tension cable repair and delays with the Sounder Vehicle overhaul. Other agency capital outlays were at 45% of the annual budget due to under-spending on the Ballard to downtown High Capacity Transit Study and the Research and Technology program. Mr. Rogness reviewed a chart of capital expenditures for each of the modes showing a breakdown of the reasons for budget variances.

1Q Asset Liability Management Report

Tracy Butler, Treasurer, reviewed changes made to the Asset Liability Management report. The changes align the report with Sound Transit's current process and practices. The report also focuses on more strategy and less transactional information. The report also includes additional tables showing performance over time and against benchmarks. Jim Block, Cash Investment Administrator, gave a presentation on the first quarter report.

The stoplight indicator for investment performance changed from 'above average' to 'average'. 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. In the first quarter 2013, the average yield on total cash and investment holdings decreased seven basis points, to 90 basis points. The state investment pool was at 18 basis points at the end of the first quarter and the King County investment pool was at 49 basis points. There has been no change in investment strategy. During the first quarter, \$60 million in open-market securities were purchased for the unrestricted portfolio at an average yield of 35 basis points. New purchases were in Treasury and agency bonds. Interest earnings exceeded the budget by \$100,000, but without unrealized gains and losses, interest earnings at the end of the first quarter were \$700,000 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. The current borrowing rate for long-term debt is around 3.7%.

Contract Reports

Contract reports covering contracts opened during the first quarter of 2013, sole source and propriety contracts opened in the first quarter, first quarter contracts under \$10,000, and all contracts over five years old were included in Committee members packets. There were 12 new contracts issued in the first quarter 2013. Ninety-five contracts were issued within the CEO's authority. There were nine proprietary contracts and five sole-source contracts. Ted Lucas, Director of Procurements and Contracts will present the report in the future.

INTERNAL AUDIT UPDATE

Prior Recommendation Status

David Hammond, Internal Auditor Director, reviewed the follow-up status for prior internal audits. A new report is being issued today to follow-up on the Performance Audit of IT Procurement and Contract Management.

2013 Performance Audit Update

The 2013 Performance Audit will evaluate post-award goods and services contract management practices and provide recommendations on improvement opportunities and agency business practices. The final report will be presented to the Audit and Reporting Committee in September. A list of possible performance audit topics for 2014 will also be developed and presented in September.

Internal Audit Reports Issued

Awet Habtemariam, Senior Internal Auditor, reviewed the Phase One performance audit on IT Procurement and Contract Management. The audit is part of a three-year audit plan for IT Management. IT made significant progress over the last year since the original audit was completed. The audit found that improvements in technology governance would reduce risk and increase transparency. The audit recommends that a technology governance team charter be developed, project reporting be improved, a framework be developed for management, the IT strategic plan be improved, a policy manual be developed for the division, and software licenses be better managed. Phase Two of the audit will be completed in 2014 to review acquisition and maintenance processes, project management, third-party service providers, service level agreements, and follow-up on the Phase One audit. Mr. McCartan noted that the audit was very constructive.

Mr. Hammond reviewed a construction cost audit that was completed for the GC/CM contract to complete the University of Washington Station. The audit found that costs were incurred and billed in accordance with the contract terms. Sound Transit adopted leading practices that enhance control for the agency.

Internal Audits in progress

Mr. Hammond reviewed eight audits currently in progress; phase two of the Motor Vehicle Excise Tax audit, an Architect & Engineering Overhead Costs audit, a Construction Change Orders audit, a Wireless

Device Management audit, a Bus Operating Partner Cost Accounting audit, a Non-Revenue Vehicle program audit including a follow-up to the Fuel Card Audit and following up on the Value Engineering audit.

State Auditor's 2012 Performance Audit Follow-up

Sound Transit completed reporting requirements established in Initiative I-900. Sound Transit agreed or partially agreed with 18 out of the 23 recommendations not related to the Citizen Oversight Panel and agreed with 11 of the 32 recommendations related to the Citizen Oversight Panel. Sound Transit has implemented follow-up actions for all the recommendations Sound Transit agrees with.

NEXT MEETING

September 26, 2013
10:30 a.m. to 12:30 p.m.
Ruth Fisher Boardroom

ADJOURN

The meeting was adjourned at 11:53 a.m.



Dave Enslow
Audit and Reporting Committee Chair

ATTEST:



Katie Flores
Board Coordinator

APPROVED on September 26, 2013, KWF