

SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING
Summary Minutes
June 26, 2014

CALL TO ORDER

The meeting was called to order at 9:31 a.m. by Committee Chair Larry Phillips, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

ROLL CALL

Chair

(P) *Larry Phillips, King County Council Chair*

Vice Chair

(P) *Dave Enslow, Sumner Mayor*

Committee Members

(A) *John Lovick, Snohomish County Executive*

(P) *Mike O'Brien, Seattle Councilmember*

(A) *Joe McDermott, King County Councilmember*

(P) *Josh Benaloh, Citizen Oversight Panel Chair*

(A) *Mary Moss, Lakewood Councilmember*

Mr. Joe Timmons, Board Coordinator, announced that a quorum of the Committee was not present at roll call. Committee Chair Phillips noted that a quorum of the committee was expected shortly.

REPORT OF THE CHAIR

Brian McCartan, Executive Director of Finance and Information Technology, reviewed the agenda. Going forward, the Audit and Reporting Committee will no longer receive a full presentation on the financial reports every quarter, but will focus on exceptions only in the first three quarters, and a full presentation in the fourth quarter.

ANNUAL EXTERNAL REPORTING

2013 Financial Statements, A133 Single Audit and ORCA Financial Statements

Kelly Priestly, Director of Accounting, reviewed the agency financial statements.

KPMG presented the final results for the 2013 Financial Statements, A133 Single Audit and ORCA Financial Statements. Kelly Priestly, Director of Accounting was joined by auditors from KPMG—Karissa Marker, Audit Partner, Tara Krier, Audit Engagement Senior Manager, and Michael Ortman, Audit Engagement Manager. Ms. Marker noted that no material errors, irregularities or illegal acts were noted in the audit and KPMG issued an unmodified opinion on the financial statements. Significant accounting policies and unusual transactions included continued spending on University Link and additional easements. Judgments and estimates were looked at as part of the audit, including construction claims, self-insurance reserves, valuation of the investments in the financial statements and overhead allocations. There were no significant audit adjustments recorded during the audit period. There were no disagreements or difficulties with management or material weaknesses.

Ms. Krier noted that the appendix of the KPMG report provides more detail on how the audit programs are carried out. Revenues are continuing to grow, apart from investment income that is driven by market changes. The financial statements were affected by GASB Statement No. 65, including a review of accounts on the balance sheet as assets to see if they continue to provide value. Previously, Sound Transit capitalized bond issue costs, and it was determined that they should not be considered assets.

The restated Financial Statements for 2011 and 2012 reflect these changes. In addition, the defeasance of prior bonds will no longer reduce liability and will be reclassified.

The A133 Single Audit reviewed \$136 million Sound Transit received in 2013 from the Federal Government. There was an unmodified opinion and no findings. There are some changes that will affect future reporting done by Sound Transit, including consolidating cost principles, changes to risk assessments, and a change to provide the full A133 single audit report to the public. More information on these changes is included in the appendix to the report.

Mr. Ortman reviewed the National Transit Database (NTD) reporting work that is underway. The work is still in progress and KPMG plans to issue a report in July 2014. The procedures include reviewing and testing policies and procedures over the accumulation of statistical data that is reported to the NTD.

Boardmember packets included the ORCA Financial Statements that were presented to the ORCA Joint Board earlier this year. Sound Transit is responsible for accounting and reporting for the shared regional accounts for the ORCA program. The audit of ORCA financial statements has been completed and an unmodified opinion was issued.

Agreed Upon Procedures for subarea equity are near completion and a report with no findings is expected to be issued in July 2014.

National Transit Database Report, 2013 Report on Subarea Equity

Lacy Ferguson, Manger of External Reporting and Tax Administration presented the 2013 National Transit Database Report. Data submitted through the National Transit Database Report is used for by the Federal and State government for grant funding, and to evaluate operational efficiency.

Ms. Priestly noted that the report on Subarea Equity will be presented at the next Audit and Reporting Committee meeting.

FINANCIAL REPORTING

1st Quarter Financial Report

1st Quarter Asset Liability Management Report

1st Quarter Contract Reports

Mr. McCartan noted that Boardmember packets included the First Quarter Financial Report, Asset Liability Management Report and the Contract Reports.

Mr. McCartan noted that the First Quarter Financial Report shows the Northgate Link Extension at 205%, or \$206 million above the amount budgeted. This is due to quicker contractor mobilization than was anticipated when the budget was developed for 2014. This increase affects the amount being spend in 2014, but will not affect the total project budget.

Ted Lucas, Director of Procurement and Contracts, noted that the contracts reports include a report showing work orders issued under job-order contracts that Sound Transit has that exceed \$100,000.

INTERNAL AUDIT UPDATE

Prior Recommendation Status

David Hammond, Internal Audit Director, reviewed the prior audit recommendation summary showing the follow-up status of audits completed in 2012, 2013 and early 2014.

Internal Audit Reports Issued

Four audits were completed in the past quarter—an audit of Partner Costs on Link Light Rail, an annual audit of Travel and Expense Reimbursement, a follow-up audit of the Downtown Seattle Transit Tunnel (DSTT) and an audit of Shared Facility Cost-Sharing Agreements.

The audit on Link Light Rail partner costs looked at costs paid to King County over 2011 and 2012. The audit found that Sound Transit is monitoring the staffing plan but the audit recommended formalizing that process. The audit also recommended that Sound Transit be able to approve staffing changes in advance, and have the ability to have a cost invoicing mechanism instead of a budget reconciliation process. One overbilling was discovered during the audit and the agencies are working to resolve it.

The audit of Travel and Expense Reimbursement found no improper payments. The two recommendations include providing additional monitoring and training, and revising policies and procedures to improve compliance. Ms. Priestly noted that the agency would look at ways to improve staff knowledge of proper policies.

The follow-up audit on the DSTT and audit on Shared Facility Cost-Sharing Agreements will be presented at the September Audit and Reporting Committee meeting.

Internal Audits in Progress

There are nine audits in progress, including a performance audit of Sound Transit's public safety program, partner costs audits for Regional Express, a follow-up audit for Paratransit, an annual audit of Procurement Cards, and audits of Performance Metrics, Phase Gate, IT Project Management, ORCA Business Accounts, and Project Labor Accounting.

NEXT MEETING

September 25, 2014
9:30 a.m. to 11:00 a.m.
Ruth Fisher Boardroom

ADJOURN

The meeting was adjourned at 10:22 a.m.


Larry Phillips
Audit and Reporting Committee Chair

ATTEST:


Katie Flores
Board Coordinator

APPROVED on December 11, 2014, KWF