



SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING

**Summary Minutes
September 25, 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

(A) *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*

Ms. Katie Flores, Board Coordinator, announced that a quorum of the Committee was not present at roll call.

REPORT OF THE CHAIR

Brian McCartan, Executive Director of Finance and Information Technology, reviewed the meeting agenda. There will be no approval of minutes as a quorum of the Committee is not present.

EXTERNAL AUDITS

Mr. McCartan gave a brief overview of the National Transit Database Report Schedule of Sources and Uses of Funds by Subarea for the year of 2013.

2013 National Transit Database Report

The National Transit Database (NTD) was established to be the primary source for information statistics on transit systems. There are approximately 750 transit providers that currently report to the NTD. The data is used by congress in making funding and policy decisions. The audit report is an agreed upon procedure specified by the Federal Transit Administration. Under the agreed upon procedures, the auditors review all the financial forms submitted to NTD by Sound Transit. There were no significant findings in the report.

(Boardmember O'Brien arrived at this time.)

2013 Subarea Reports

Kelly Prestley, Executive Director of Finance and Information Technology, reviewed the highlights of the external audit reports. There was an overall increase in tax revenues. Revenue was higher than expected in South King County and East King County, but lower than expected in Snohomish, North King County, and East King County. Fares and operating revenues were higher because of a \$0.10 increase in the average fare per boarding, and due in part to a change in methodology to use the ORCA system to allocate fares. South King County was significantly impacted by the elimination of the fare-free zone; the change caused fare income to be shared with partners when passengers leave Sounder trains. Construction bids were coming in under budget. South King County spending is running higher than planned due to Transit Oriented Development (TOD) spending associated with University Link. Operations and maintenance costs are lower due to the ability to control costs and increases, and a large amount of reserve and contingency funds. There was a decrease in reserves greater than in 2012, since 2012 included debt refunding; as a result, there were no debt transactions in this year.

Status Report – External Audits

SAO 2013 Annual Accountability Audit

The State Auditor's Office (SAO) has completed the planning phase and is now well into the compliance audit. Ms. Priestley informed the Committee that the SAO Entrance document was in the meeting packet; nothing of significance was highlighted in the entrance meeting. The procurement procedures will focus on public works contracts, but also will look at the travel card program and payroll. There are no audit issues identified at this time.

2014 Financial Statement & A133 Single Audit

Ms. Priestley reported that a planning meeting will take place with KPMG at the end of this month and an entrance conference will be scheduled for the audit of the 2014 Financial Statement and A133 Single Audit.

FINANCIAL REPORTING

2nd Quarter Performance Report

Mr. McCartan presented the report. Revenues are tracking ahead in all the major categories. Sales tax is ahead 7% compared to 2013. The region has experienced high single digit growth with the highest growth in King County. All revenue combined is up \$16 million, and the trend should continue through the remainder of 2014.

The Operating budget is tracking below budget at about 93% of budget. The year to date capital budget is \$72 million ahead of budget. Tunnel boring for the Northgate Link Extension started nine months earlier than expected. It was assumed that a new boring machine would be purchased for the project, but the contractor is using a refurbished machine instead, significantly shortening the lead time for the machine delivery. The other reason for higher spending is the \$42 million payment to the University of Washington for the University Link Extension. The settlement payment related to lab relocations was anticipated for later in the project schedule. The rest of capital programs are behind budget, partially offsetting the University Link budget. The Northgate Link project will continue the upward trend, and the agency expects to exceed the Link capital budget by \$100 by year end. The University Link, Northgate, South 200th, and East link Extensions are trending at or below budget, the Eastside OMSF and Tacoma Trestle projects are over budget.

Staff costs are at 88% of the year to date budget. The budget includes funding for 681 approved positions, but only 600 are currently filled.

Mr. McCartan noted that the second quarter Asset and Liabilities Report, Contracts Reports, and Real Estate reports are in the meeting packets.

INTERNAL AUDIT UPDATE

Chair Phillips noted that at today's meeting the Committee will review and discuss a list of proposed audit topics for the 2015 Performance Audit. The Committee is scheduled to make a final decision on the audit topic at the December Audit and Reporting Committee.

David Hammond, Internal Audit Director, presented the Second Quarter Internal Audit Update.

2014 Performance Audit

The 2014 performance audit was conducted on Sound Transit's public safety program. The audit is proceeding as scheduled and a report will be presented to the Committee at the next Audit and Reporting Committee meeting in December.

2015 Performance Audit Topic Discussion

The potential 2015 audit options were evaluated based on the potential for cost savings, improvements in performance and efficiency, the potential to facilitate decision-making, and for contributions to public accountability. A risk assessment was also used to evaluate the potential topics.

The four potential performance topics were presented by Mr. Hammond, they include: Quality Assurance/Quality Control Efficiency and Effectiveness, Facility Maintenance, Emergency Management Planning, and Central Link Operating Costs. Mr. Hammond reviewed the potential audit scope and impact of each audit topic.

Given the extent of the Sound Transit construction program, a Quality Assurance/Quality Control audit would have significant short-term and long-term impacts. This area is part of the Federal Transit Administration's triannual review, and the review had no compliance exceptions. Though the QA/QC budget is relatively small, the audit would significantly affect construction projects, which have budget amounts in the range of billions of dollars.

The Facility Maintenance budget for 2015 is in development, but currently is forecast at \$7 million. Mr. Hammond noted that he doesn't believe that this is the ideal option at this time, as the scope and impact are smaller than the other topics. Additionally, there are already some audit activities slated for this department in 2015.

The Emergency Management Planning and Preparedness budget is only \$1.5 million, but the potential cost impacts of not being prepared for emergencies would be significant. This audit would be focused on potential long-term cost avoidance and cost prevention, rather than short-term cost reduction.

Central Link Operations is a \$60 million program, with costs primarily based on service levels. The audit would be based on the current business model that utilizes outside operators for Link service. The audit would use peer benchmarking available through the National Transit Database. Mr. Hammond noted that this audit could impact the upcoming rollout of new service, and may be more effective when the link operating system matures.

Chair Phillips requested that Mr. Hammond follow up by providing the Committee with additional comments on each option. He also requested that Mr. Hammond reach out to the committee members absent from this meeting to gather feedback.

Prior Recommendation Status

A follow-up audit on the Paratransit Program was completed along with an annual audit of Sound Transit's procurement card program. An additional six to eight follow-up audits are scheduled for 2014 and are still underway.

The summary report for the Partner Cost Monitoring Audit suggest improvements in internal control over partner agreements and the monitoring of staffing plan at Link Light Rail Operations and Maintenance Facility. It was also noted in the summary that audit recommendations were not addressed in a timely manner. A follow-up audit is scheduled for 2015. Bonnie Todd, Executive Director of Operations noted that there were some questions about what was included in the current agreements between the two partners and Sound Transit is currently renegotiating the agreement.

An audit report on the Paratransit Program was included in Boardmember packets. The audit found that the recommendations were not implemented as planned. Current recommendations are to obtain a billing credit of approximately \$87,000, create a contract management plan, document results of monthly and annual cost reviews, and complete the implementation of prior recommendations.

The procurement card annual audit showed increased compliance, and improvement in management reporting. The audit recommended improving reporting of credit card information, aligning policies with current practices, and establishing a spend analysis program.

Internal Audits in progress

There are eight audits in progress.

NEXT MEETING

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

ADJOURN

The meeting was adjourned at 10:38 a.m.



Larry Phillips
Audit and Reporting Committee Chair

ATTEST:



Kathryn Flores
Acting Board Administrator

APPROVED on March 19, 2015, KWF