

## **SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING**

Summary Minutes  
December 17, 2015

### **CALL TO ORDER**

The meeting was called to order at 11:06 a.m. by Vice Chair Dave Enslow, 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

(P) *John Lovick, Snohomish County Executive*

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

(A) *Joe McDermott, King County Councilmember*

(P) *Philip Lovell, Citizen Oversight Panel Chair*

(P) *Mary Moss, Lakewood Councilmember*

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

### **REPORT OF THE CHAIR**

Vice Chair Dave Enslow announced that he would be chairing the meeting in the absence of Chair Larry Phillips.

### **ACTING CEO REPORT**

Mr. Harbour introduced Jack Hutchinson. Mr. Hutchinson has spent the last nine years as an Internal Audit Manager at the Port of Seattle and has recently joined Sound Transit as the Director of Internal Audit.

Mr. Harbour reported that a recent audit of Sounder vendor contract management and compliance resulted in a deduction in a public utilities tax billed by BNSF. Accounting and legal staff verified that the agency qualified for the deduction and it could be applied retroactively back to 2011, resulting in a refund of \$142,000 for 2011. Further, this deduction will provide a savings of about \$180,000 a year in cost. Mr. Harbour commended the internal audit program for their work in identifying not only efficiency opportunities but also opportunities for cost savings.

### **BUSINESS ITEMS**

Minutes from the October 15, 2015 Audit and Reporting Committee meeting minutes

**It was moved by Boardmember Moss, seconded by Boardmember Lovick, and carried by unanimous vote that the minutes of the October 15, 2015 Audit and Reporting Committee Meeting Minutes be approved as presented.**

### **EXTERNAL AUDIT RESULTS**

Annual External Reporting

Kelly Priestley, Director of Accounting introduced Karissa Marker, Audit Partner from KPMG to present the audit plan for the forthcoming year. Staff met with auditors in October to provide information needed to prepare for the plan presented today.

Ms. Marker introduced the KPMG audit team and provided a summary of audit objectives, compliance standards, roles and responsibilities and audit deliverables. Ms. Marker highlighted events identified by

Sound Transit staff for inclusion in the focus of the audit. The audit scope will include the new overhead allocation process, additional debt issuance and existing debt refunds, treatment of off-balance sheet land credits, and the purchase of 39 new buses to replace aging fleet. The audit will take a risk-based approach in reviewing significant accounts and transactions, estimates and disclosures. The single audit previously referred to as the A-133 Audit and now called the Uniform Guidance. This audit looks at controls and compliance around the management of federal funded grant programs. The audit team anticipates the release of final reports in May 2016.

## **FINANCIAL REPORTING**

### Third Quarter Financial Report

Brian McCartan, Executive Director of Finance and IT presented the report. He noted that every revenue category is trending above budget. Taxes are doing well given the strength of the regional economy. Sales tax is growing 7% year over year. Federal grants and miscellaneous revenues are also above budget. All spending is well within budget with the exception of two projects: Northgate Link and South 200<sup>th</sup>. These variances relate to timing of Right-of-Way purchases. Lifetime budgets are trending below budget.

### Third Quarter Asset Liability Management Report

Mr. McCartan reported no changes to the Asset Liability Management Report for the third quarter. The unrestricted balance investment amount is significantly higher. This is a result of the recent bond issuance. These will draw down over the next years as construction continues in three rail corridors. Mr. McCartan completed his report by noting that the Federal Reserve increased interest rates yesterday by 25 basis points. Sound Transit's borrowing assumptions are conservative, but the agency is sensitive to borrowing rates and impacts could affect the agency's ability to deliver ST3 projects. Staff will continue to monitor this closely.

### Third Quarter Contract Reports

Mr. McCartan completed his presentation with a summary of the types of contracts executed by the chief executive officer during the second quarter.

## **INTERNAL AUDIT UPDATE**

### Quality Assurance and Quality Control Performance Audit

Shelli Applegate introduced Steve Miller of Miller and Miller to present audit results. Mr. Miller summarized the audit objective to determine whether the construction quality assurance and quality control program is effective and compliant with requirements. Mr. Miller provided information about the audit plan and materials used. This scope of work included only the construction phase. The audit team concluded that Sound Transit performed very well and meet all elements provided by the FTA for quality management. Sound Transit staff is both trained and qualified. Audit recommendations included improvements to the processing of Non-Conformance Reports (NCRs). The report provided includes the Sound Transit response. Management plans to present their formal response to the Committee in March.

### A&E Contract Compliance Review

Ms. Applegate introduced Corey Saunders with RSM to present the results of the A&E Contract Compliance Review. Mr. Saunders summarized the audit objectives and audit plan used. The audit included review of five large contracts. Overall, RSM observed that project costs reviewed were well supported, well documented and in compliance with contractual terms and conditions. Sound Transit's A&E procurement and contract administration processes, procedures and controls were generally strong and being adhered to by Sound Transit personnel. RSM notes that some of Parson Brinkerhoff's administration processes pose a slight risk. The primarily process area includes approvals not being obtained. RSM provided recommendations on how to improve these processes and lessen risk. Sound Transit's management responses are included in the report.

### Public Safety Performance Audit Management Update

Shelly Applegate noted that the Audit and Reporting Committee selected Public Safety as the 2014 Performance Audit topic. The original audit results did not include actionable recommendations. At the request of Sound Transit, Moss Adams has reviewed the audit results and provided revised recommendations. Ken Cummins, Sound Transit Chief Security Officer and Chief of Sound Transit Police provided an overview of management's response to the audit results.

Moss Adams outlined seven observations in October for Sound Transit to consider. Sound Transit management has reviewed these observations and Mr. Cummins noted that he would individually address four of the recommendations and the remaining three recommendations addressed jointly as they overlap in nature.

Moss Adams' first recommendation was to study alternative deployment models. Sound Transit completed a study of six alternatives earlier this year to look at the most cost effective model to accomplish Board directives for the Public Safety Program. Staff presented the analysis of this study to the Sound Transit Acting CEO and Executive Leadership Team. To address a second observation, Sound Transit is reviewing the need for additional Memorandums of Understanding with jurisdictions as appropriate. Some of the specific recommendations overlap current jurisdictional responsibilities. The third recommendation suggested the allocation of additional resources for administrative functions. Sound Transit has added staff to this program to address additional management and oversight. Staff will request additional resources as appropriate. The fourth recommendation was to study the correlation between fare enforcement and law enforcement functions. A very small portion of law enforcement deployment relates to fare enforcement. Further, Sound Transit is unaware of any best practice or standard in the industry to provide guidance for development of a useful correlation metric.

The three related recommendations involve the collection of crime data, the development of performance measures and combining Sound Transit data with regional data sources. Sound Transit regularly collects crime data for use in making decisions about deployment of resources and policing. The audit report states that Sound Transit's crime rate is within the normal range. The audit recommendation would require a resource intensive program that is atypical for the transit industry. There is no federal requirement to standardize data collection. Sound Transit will instead hire a transit security consultant to assist in identifying the most appropriate sources and methods for collecting crime data as well as the most appropriate performance metrics for our system.

In closing, Mr. Cummins noted that Sound Transit has a robust public safety program and that the system is safe and secure. The recommendations provided by Moss Adams are administrative in nature and Sound Transit appreciates the recognition of the need for additional program resources.

### 2016 Performance Audit

Because of the recent hire of Jack Hutchinson as Director of Internal Audit, Ms. Applegate reported Sound Transit staff would postpone the Committee's selection of a 2016 Performance Audit topic until March.

### Prior Audit Follow Up Status

Ms. Applegate summarized the list of prior audits and status.

### Internal Audits Completed

Ms. Applegate summarized audits recently completed.

### Internal Audits in Progress

Ms. Applegate provided a list of audits in progress. Sound Transit plans to present results of all internal audits in progress at the March meeting.

**EXECUTIVE SESSION**

None

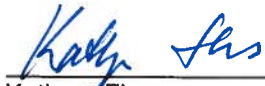
**NEXT MEETING**

December 17, 2015  
11:00 a.m. to 12:30 p.m.  
Ruth Fisher Boardroom

**ADJOURN**

The meeting adjourned at 12:14 p.m.

ATTEST:



Kathryn Flores  
Board Administrator



Rob Johnson  
Audit and Reporting Committee Chair

APPROVED on March 17, 2016, LM