



SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING

Summary Minutes September 20, 2018

CALL TO ORDER

The meeting was called to order at 11:01 a.m. by Committee Chair Rob Johnson, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

ROLL CALL

Chair

(P) Rob Johnson, Seattle Councilmember

Vice Chair

(A) Bruce Dammeier, Pierce County Executive

Committee Members

(A) Nancy Backus, Auburn Mayor

(P) David Baker, Kenmore Mayor

(P) Joe McDermott, King County Councilmember

(A) Dave Earling, Edmonds Mayor

(P) Fred Auch, COP Chair

Paige Armstrong, Board Coordinator, announced that there was a quorum of the Committee present at roll call.

REPORT OF THE CHAIR

None.

PUBLIC COMMENT

Alex Tsimmerman

BUSINESS ITEMS

Minutes of the September 20, 2018, Audit and Reporting Committee Meeting

It was moved by Boardmember Baker, seconded by Boardmember McDermott, and carried by unanimous vote that the minutes of the September 20, 2018, Audit and Reporting Committee Meeting be approved as presented.

AGENDA OVERVIEW

Tracy Butler, Chief Financial Officer, provided an overview of the meeting agenda.

The 2019 Budget process is wrapping up, and the Budget and Financial Plan will be brought to the various Board Committees and the full Board in October. In addition, today's agenda includes the 2017 Green Bonds report and the 2017 Subarea Equity report.

FINANCIAL REPORTING

2017 Fare Revenue Report

Lisa Wolterink, Director of Fares and Grants, and Chad Davis, Senior Financial Analyst, provided the presentation. Ms. Wolterink began by introducing the report, which has been broken into five main findings. The total fare revenue for 2017 was \$90 million, which is a 12 percent increase over 2016, mostly caused by increases in Link ridership.

The use of ORCA products continues to grow, it counted for 82 percent of total revenue. All modes are meeting the minimum 40 percent target of fare box recovery. The Link fare box recovery percentage is at 43 percent, and is being monitored.

ORCA Business Passport accounts made up \$39 million in revenues, or over 40 percent of total revenue. In summary, Link ridership is increasing and fare revenue is meeting the targets set out in the Board adopted fare revenue policy.

Chair Johnson asked about the revenues being higher than projects, especially on Link, and asked how those projections are made and updated year over year. Ms. Wolterink responded that she will have to look at the overall model, and the input from King County Metro (KCM), which manages the ORCA Passport program, as that number, is a large factor.

Chair Johnson also commented that several of the ridership target percentages for fare box recovery have not changed in eight years, and it might be a good time to reevaluate those targets.

Second Quarter Financial Performance

Ann Sheridan, Director of Budget, provided the report. Total Revenues and other financing sources exceeded 1.1 billion, which is 14 percent over budget. Total Operating Performance increased to 94 percent from 92 percent at the end of the second quarter of 2018. Much of this variance was caused by timing issues, and the budget is expected to increase to perform at 95 percent by the end of the year.

The transit mode expense budgets are at 94 percent of budget, which has been driven by lower than expected spending on fuel, fare collection, facilities maintenance, and security services, most of which are permanent savings. The year-end forecast is 95-99 percent of budget. Purchased transportation services for ST Express are 1.3 percent over budget, as a result of higher than anticipated charges from Pierce Transit, which are mostly offset by lower than expected expenses from other transit partners.

Project spending was at 90 percent of budget, with a projected year-end spending of 91 percent. Right of Way acquisitions have largely effected spending, as well as Sounder and Bus Rapid Transit (BRT) projects. Link system expansion represents 87 percent of this total budget.

Enhancement projects are only at 21 percent spent, with Positive Train Control (PTC) nearly complete in implementation. State of Good Repair Projects are projected to be at or below 50 percent of budget, primarily due to the delay of 20 replacement buses on order have been delayed for receipt until 2019.

Mr. Auch asked about staffing shortage numbers, as the vacancy rate is still quite high. Ms. Sheridan replied that the agency has executed more extensive on-call and staffing contracts, which is allowing for better backfill of staff time and work. Ms. Sheridan also added that recruitment for specialized positions is frequently very difficult, but that Human Resources has been adding specialized recruiters and talent management to assist in adding these positions.

Chair Johnson asked about the expenditure of the access program, which is far below projected expenditures, and encouraged an increase in the execution of those programs before next spring when usage will be higher and riders would enjoy the maximum benefit and use out of those projects.

QUARTERLY CONTRACT REPORTS

Ted Lucas, Director of Procurements and Contracts, provided the contract reports. The contract reports show contracts within four categories:

- Contracts awarded by the CEO below 200,000 dollars
- Sole source contracts awarded by the CEO that exceed 100,000 dollars
- Proprietary contracts awarded by the CEO in excess of 100,000 dollars
- Competitive open contract awards

Mr. Auch asked if the contracts on the reports were the subject of a recent audit completed on Proprietary and Sole Source Contract awards. Mr. Lucas replied that that is correct, and the committee will be hearing more about that audit later on the agenda.

ASSET AND LIABILITY MANAGEMENT REPORT

Tracy Butler, Chief Financial Officer, provided the presentation. Each of the performance indicators provided by the quarterly report remained green. There has been no new financing or debt additions, so there is minimal update to be given.

2017 GREEN BONDS ANNUAL REPORT

Tracy Butler, Chief Financial Officer, provided the presentation. Sound Transit has two Green Bond issuances outstanding, one from 2015 and one from 2016. An annual report was committed to when these bonds were issued to provide an update on sustainability of the agency, and of progress towards milestones.

ANNUAL EXTERNAL REPORTING

2017 Subarea Equity Report

Kelly Priestley, Director of Accounting, presented the report. Ms. Priestley began by introducing the Subarea Management Responsibilities, which are part of the agency's enabling legislation and of the voter approved plans. Sound Transit is required to establish a system that on an annual basis reports subarea revenues and expenditures, and additionally to appoint an advisory citizen oversight committee to monitor Sound Transit performance under financial policies.

Sound Transit has established an accounting and reporting system consistent with financial policies set forward in voter approved plans and board direction, which provide an internal control system that ensures integrity of information presented. Some updates were made in 2017 to the Subarea Reporting process, including adding subarea reporting to the Annual Financial Plan, and the addition of a change in net position metric. Sound Transit also developed rule types from smaller projects, and ensured a consistent rule application across all types.

Ms. Priestley continued that the Subarea Report is completed consistent with the financial plan, and is completed on a substantially cash bases. Procedures and specific annually and are

performed by independent auditors to independently verify Sound Transit's compilation of the Schedule of Subarea Equity. These procedures were developed in 2010 in consultation with the Citizen Oversight Panel and are updated annually as required. This audit from 2017 was completely clean, with no exceptions to the performed work.

The findings from the report were comparable to the 2016 findings, and the 2017 report covers year one of a 25 year plan. Many of Sound Transit's projects are extended over many years, which can cause some variability from year to year. In addition, it is important to note for this report that the classified 'sources' contain not only standard revenue, but also bond financing and TIFIA income.

Total sources for 2017 were \$267 million lower than the financial plan projections, which anticipated TIFIA loan draws on North King projects. Total sources for 2017 were up \$126 million from prior year, in large part due to higher tax revenues of \$595 million, while total sources in 2016 include \$477 million of net bond proceeds. The North King Subarea utilized \$49 million of unallocated bond proceeds from the 2016 Green Bond issue.

Total capital outlays were up 63 percent from 2016 as activity continues to increase on North Link, East Link and Lynnwood Link. The key drivers were station construction on North Link, easements acquired from WSDOT for East Link, and land acquisition for Lynnwood Link. Total capital outlays lagged the financial plan by 20 percent, most significantly in South King County and Pierce County with the Federal Way and Tacoma Link extensions.

Operating and maintenance expenditures increased by \$19 million or 7 percent overall from 2016. Link Light rail maintenance costs were up 14 percent from prior year reflecting the full year impact of opening service to UW and Angle Lake. Service capacity was increased on Sounder and ST Express in 2017 and 2016. Additionally, there were increased bus purchase transportation costs, most significantly King County Metro and Pierce Transit. 2017 was the first year of estimates being made for Operations and Maintenance on a system wide basis, and the expenditures were \$139 million lower than the financial plan, due to over estimation, which will be adjusted.

Debt service and Change in Reserves was \$195 million, down \$269 million from 2016. Actual results were comparable to the Finance Plan, the largest variance was in system wide, as only North King utilized unallocated bond proceeds in 2017. The largest component of the decrease was debt service of \$131 million, followed by use of \$49 million in unallocated bond proceeds by North King County.

Ms. Priestley then asked the Committee to review the report in anticipation of 2018 Subarea Reporting, with no further major changes anticipated.

Mr. Auch commented that the format of the reporting has been found to be much improved. He continued that in general, the COP is of the mind that Subarea reporting is inherently difficult to manage, for as the system expansion program is beneficial to the entire region, the geographic impact becomes very difficult to measure.

INTERNAL AUDIT UPDATE

Chair Johnson introduced Jack Hutchinson, Director of Internal Audit, to present the update.

Systemwide Custodial and Landscaping Services

Mr. Hutchinson introduced Soon Kwon, Senior Internal Auditor, to speak to the audit of Custodial and Landscaping services. The audit objective was to determine whether the agency has effective controls to ensure:

- Proper reviewing of custodial/landscaping service payments for accuracy and reasonableness
- Proper monitoring of custodial/landscaping services providers' performance in accordance with contract terms and conditions

The audit concluded that the agency has effective controls to ensure proper reviews of payments and monitoring of services providers' performance.

Chair Johnson asked why this audit did not include the maintenance of the Downtown Seattle Transit Tunnel (DSTT). Mr. Rogoff clarified that the DSTT is not currently under maintenance of Sound Transit exclusively, it is still under King County Metro's control.

Noncompetitive Procurement

Mr. Hutchinson introduced Gana Byambaa, Senior Internal Auditor, to present the audit. The objectives of this audit were to determine whether the agency has effective controls to ensure:

- Adequate consideration was given during initial contract procurement to noncompetitive contracts that could potentially stem from the original contract.
- All noncompetitive contracts including emergency and proprietary procurements are properly classified with approval and sufficient documentation.
- Financial change orders to noncompetitive contracts are proper and in accordance with ST policies and procedures.
- Noncompetitive contract reporting to ARC/Board is complete and accurate.

The audit found that management has effective controls over noncompetitive change orders and reporting. However, the controls to ensure the proper use of noncompetitive contracts are not working effectively as designed. There was one audit finding:

- Agency checks and balances to review noncompetitive procurement requests are ineffective.

Mr. Auch commented that he was pleased with management's response to the audit finding, and he was encouraged by improvements being made. Mike Harbour, Deputy CEO, commented that a large part of the management response will be analysis of propriety supply chains, and that staff is greatly looking forward to the results of that analysis.

Internal Audits In-Progress

Mr. Hutchinson then presented the list of internal audits still in progress:

- U830 EC/CM Close-Out Audits
- Asset Disposal
- Small Capital Project Management
- Change Orders From Design Errors and Omissions

2018 Performance Audit Update

In March of 2018, the committee selected project controls during construction as the 2018 performance audit topic. Mr. Hutchinson reported that the Notice to Proceed (NTP) has been issued to the consultant being brought on to complete this audit, and he is hopeful the work will be completed by year end.

EXECUTIVE SESSION

None.

NEXT MEETING

December 20, 2018
11:00 a.m. to 12:30 p.m.
Ruth Fisher Boardroom

ADJOURN

The meeting adjourned at 12:12 p.m.

ATTEST:



Kathryn Flores
Board Administrator



Rob Johnson
Audit and Reporting Committee Chair

APPROVED 12/20/2018. PIA.