



## Summary Minutes

### Finance and Audit Committee Meeting December 19, 2019

#### Call to order

The meeting was called to order at 11:07 a.m. by Committee Chair Nancy Backus, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

#### Roll call of members

Chair	Vice Chair
(P) Nancy Backus, Auburn Mayor	(A) Bruce Dammeier, Pierce County Executive

Board Members	
(A) Dow Constantine, King County Executive	(A) Roger Millar, WSDOT Secretary
(A) Jenny Durkan, Seattle Mayor	(P) Dylan Counts, WSDOT Alternate
(P) John Marchione, Redmond Mayor	(A) Dave Somers, Snohomish County Executive
(P) Joe McDermott, King County Councilmember	

Adam Montee, Board Relations Specialist, announced that a quorum of the Committee was present at roll call.

#### Report of the Chair

Chair Backus expressed appreciation for the members of the Committee and staff who worked on internal audits and throughout the year.

#### CEO Report

Chief executive officer Peter M. Rogoff gave the CEO Report.

##### TIFIA Loan and Full Funding Grant Agreement for the Federal Way Link Extension

Mr. Rogoff announced that the morning of the meeting, chief financial officer Tracy Butler and her finance team closed the agency's fourth and final TIFIA loan under its master credit agreement. The loan totaled \$629.5 million for the Federal Way Link Extension and had an interest rate of 2.36 percent, which was well below what was assumed. As such, the TIFIA master credit agreement was estimated to save the regional taxpayers somewhere between \$200 million and \$300 million over the life of the agreement. Mr. Rogoff thanked staff on the finance team involved, US Department of Transportation Secretary Elaine Chao and members of the Build America Bureau at the US Department of Transportation.

Mr. Rogoff also announced that the Agency was expecting to receive a \$790 million Full Funding Grant Agreement from the Federal Transit Administration for the Federal Way Link Extension. The grant agreement would represent 25 percent of the \$3.1 billion cost estimate of the project.

Coming just one year after the \$1.2 billion Lynwood Link Extension Full Funding Grant Agreement, Sound Transit looks forward to the ongoing federal partnership. Mr. Rogoff expressed a great deal of gratitude to the region's congressional delegation including Senators Patty Murray and Maria Cantwell, Representatives Adam Smith and Derek Kilmer, Federal Transit Administration Acting Administrator Jane Williams, and all of the Sound Transit staff involved.

## **Public comment**

Alex Tsimerman

Will Knedlik

Marguerite Richard

## **Citizen Oversight Panel report to the Finance and Audit Committee**

Scott Lampe, Citizen Oversight Panel Chair, provided the Report. Mr. Lampe informed the committee that there were seven duties the panel was charged with under its authorizing legislation. One of the duties is oversight of the annual performance review audits. The Citizen Oversight Panel identified three topics as its priorities for internal audits in 2020.

The first topic was information security governance. Information security governance had been identified as an area of high risk for Sound Transit while cyber security threats were among the fastest growing concerns worldwide. He noted that no prior audits for this subject had been undertaken. The second topic was construction change orders. Major capital projects are complex and high risk. An external audit of this area was performed in 2013 and followed up in 2016, but the agency's program of projects had expanded significantly since that time, making it a timely topic for review. The third topic was state of good repair. Maintaining transit assets improves their safety and prolongs their useful life. The topic had not been previously audited, and was particularly timely as the agency invested in repairs to the Downtown Seattle Transit Tunnel, acquired additional rail cars and busses, and made improvements to its existing fleets.

In addition to the three topics, the Citizen Oversight Panel identified supervisory control and data acquisition, more typically known as SCADA, as its priority for performance audit in 2020. As a key safety and security system which controls systems, signals, and substations on Link, SCADA was an inherently high risk area.

Mr. Lampe noted the Citizen Oversight Panel's support for the work Finance and Audit Committee, which was formed to replace the Audit and Reporting Committee effective on January 1, 2019. The committee's bi-monthly meeting schedule and detailed briefings from staff helped to facilitate the Committee's oversight abilities in a time of historic growth and inherently increased risk for the Agency. Boardmember Marchione thanked the Citizen Oversight Panel for its work and expressed gratitude for its attention to information security governance. He noted that a number of governments were held ransom by cyber-attacks, and every government should focus on this topic. Chair Backus thanked Citizen Oversight Panel Chair Lampe and the rest of the panel for its work over the year.

## **Annual External Reporting**

Joe Simmons, State Auditor's Office Audit Manager, Daniel Thompson, Audit Lead, and Sherry Chang, Audit Supervisor, provided the results of the 2018 accountability audit. Mr. Thompson announced that

the State Auditor's Office had no findings or management letters to report as a result of the audit. He thanked the staff who assisted with the audit. The report would be published before the end of 2019.

The office used a risk based approach to the audit. In the areas reviewed, Sound Transit complied with applicable state laws, regulations and its own policies, and provided adequate controls over the safeguarding of public resources. The areas reviewed were electronic fund transfers, safeguarding and use of fuel cards, compliance with state laws regulating surplusings of assets such as busses, compliance with state laws involving retroactive compensation and separation or termination payments, general disbursements, financial conditions and sustainability. The office had recommendations which were not in the audit report, which were passed on to management. The office also reviewed the Moss Adams financial statement audit, and had no concerns.

Ms. Chang reiterated that the audit report would be released within the next two weeks, and the office would return in the fall of 2020 to perform the accountability audit review and to review the certified public accountant work papers for the federal grant compliance audit and the financial statement audit.

## **Business Items**

### **Items for Committee final action**

October 24, 2019, Finance and Audit Committee minutes

**It was moved by Boardmember Marchione seconded by Boardmember McDermott and carried by majority vote that the minutes of October 24, 2019, Finance and Audit Committee Meeting be approved as presented.**

### **Items for Recommendation to the Board**

Resolution No. R2019-30: Adopting an annual budget for the period from January 1 through December 31, 2020, and adopting the 2020 Transit Improvement Plan.

Ann Sheridan, budget director, presented the staff report. Ms. Sheridan reported that the agency remained in a strong financial position due to many factors; one of which being the 2020 Budget targets used on the operating side increased the affordability of the program. Capital costs were increasing but tax revenues increased as well, offsetting the costs. Within the Long Range Financial Plan, all operating expenses, state of good repair and reserves were fully funded through the length of the program. Availability of debt capacity remained unchanged since it was last discussed in 2018.

Other Committees met earlier in December and forwarded their respective portions of the Proposed 2020 Budget for review and consideration of the committee. The Rider Experience and Operations Committee forwarded the budget for transit operations and non-system expansion projects. The system Expansion Committee forwarded all projects which were considered system expansion projects with the exception of one category referred to as "other". The "other" category, which was described as projects which were not mode-specific, was forwarded by the Executive Committee. The Finance and Audit Committee was responsible for forwarding, along with the previously mentioned areas, the debt service and "other" categories, which included fees paid to the Washington State Department of Revenue and Department of Licensing for tax collection.

The total proposed budget totaled just under \$3.1 billion, which remained unchanged since the Board reviewed it in October 2019. Revisions were made and approved by the Rider Experience and Operations Committee, but the net cost was \$0. The Transit Improvement Plan increased by \$639 million, bringing the total Transit Improvement Plan to just over \$21 billion.

**It was moved by Boardmember Marchione seconded by Boardmember McDermott and carried by majority vote that Resolution No. R2019-30 be forwarded to the Board with a do-pass recommendation.**

## **Internal Audit Update**

Gana Byambaa, Acting Internal Audit Director, presented the Internal Audit Status Update.

Twelve audits were on the 2019 Internal Audit work plan and the agency completed seven. Two of the seven, the fare enforcement complaints audit, and project labor agreement audit, were carried over from the 2018 work plan. A staffing shortage in mid-2018 delayed the completion of those two audits. The five audits completed in 2019 were discussed in greater detail in the October 24, 2019 Finance and Audit Committee meeting.

Staff was working on four audits which were expected to be completed in the first quarter of 2020. The audits were the Partner Cost Monitoring – Pierce Transit audit, the Budgeting During Project Development audit, the Work Order Process at the Operations and Maintenance Facility audit, and the Quality Assurance/Quality Control Program audit. Three audits were deferred to 2020: the Information Security Governance audit, the Use of Construction Contingency audit, and the IT Project Management audit. The same vacancy which affected the 2018 audits was the reason three audits were deferred to 2020, as the position was not filled until mid-2019.

Two performance audits were planned for 2019, the Workforce Performance Management audit and the Ensuring Effective Oversight and Management of Sound Transit Projects audit. Moss Adams was hired to complete the Workforce Performance Management audit. The fieldwork and testing was underway and completion of the audit was expected in early 2020. The State Auditor's Office conducted the Ensuring Effective Oversight and Management of Sound Transit Projects audit. The testing was underway for that audit as well, and results were expected to be published in early 2020.

Since 2017, four audit follow-ups were completed. Ongoing follow-ups included the A&E Indirect Cost Rates audit which was issued in March 2017, the Co-located Consultants audit issued in August 2017, and the IT Asset Management audit issued in March 2018, the Asset Disposal audit issued in December 2018, the Small Capital Projects audit issued in December 2018, and the Project Labor Agreement audit issued in June 2019. The Internal Audit department proposed a consultant onboarding and off boarding practices audit in 2020 which would follow-up on the Co-located Consultants audit, and it proposed a follow-up IT Asset Management audit in 2020 as well. Management took steps to address the findings of the Asset Disposals audit, the Small Capital Projects audit, and the Project Labor Agreement audit, so follow-ups were expected in the first quarter of 2020. Follow-ups on the two audits with findings completed in October 2019 were expected for the first quarter of 2020 as well.

Ten audits were proposed for the 2020 Audit Work Plan and two were proposed to be carried over from 2019. The audits were based on staff's risk assessment so some were follow-up audits and some were perceived as high-risk areas.

Staff proposed two 2020 performance audit topics for the committee to consider. The first, on construction performance metrics management, would review the agency's earned value management process. The second topic, supervisory control and data acquisition, was a highly complex system which centralized the control signal systems and substations for the Link Light Rail. The Information Technology department hired a third party vendor to assess the operations of the agency's technology systems, including the supervisory control and data acquisition system. Review began in September 2019 and would conclude by the end of 2019. Internal Audit could use the results of the report to potentially audit the system in 2021 if the committee so chose.

Boardmember McDermott asked for more details about the results of the fare enforcement complaints audit. Ms. Byambaa explained that the audit reviewed whether the agency had processes in place to

ensure that complaints were handled in a timely manner and if there were processes in place to capture the complaints in the first place. While there were no findings, a management letter item was issued related to the training of fare enforcement officers. Management took action on the management letter item.

## **Select an audit topic for the 2020 Sound Transit performance audit**

**It was moved by Boardmember Marchione seconded by Boardmember McDermott and carried by majority vote that the Construction Performance Metrics Management audit be the first priority for a 2019 performance audit.**

## **Quarterly Financial Reports**

### Quarterly Financial Performance Report.

Ann Sheridan, Budget Director, provided the third quarter financial performance report. Ms. Sheridan informed the committee that revenue and other funding was at 106 percent of budget due to higher taxes and the receipt of grant funding. Capital spending was at 79 percent of the budget due to delays in Link projects. Transit operating expenses was tracking at 95 percent of budget.

At the end of September 2019, the agency's revenues and other financing sources exceeded the budget by \$97 million. Tax revenue was above budget by \$39 million, primarily due to the strength of the local economy. \$20 million more than anticipated was collected in federal grants due to more eligible costs for the Federal Way Link Extension than expected and early receipt of grants for preventative maintenance and bus replacement. By the end of the year, the agency was expected to exceed the 2019 budget by \$103 million, or four percent.

Project budgets were performing 21 percent below budget. The majority of the under-spend was system expansion, and Link projects more specifically. System Expansion budgets were under budget by 20 percent and that figure was expected to drop to approximately 13 percent by the end of the year. The light rail vehicles on order from Siemens were to be paid for based on milestones. Siemens had not met the milestones so the agency withheld payment until that point. Additionally, two large contracts for the Lynwood Link Extension were negotiated for a longer period than expected. Right-of-way acquisition and relocations across several large projects extended closings beyond planned dates as well.

Non-system expansion projects were under-budget by \$25 million. Enhancement projects were 45 percent under budget due to a revised scope and deliverables for SODO/Martin Luther King Way hazard mitigation, delays in the passenger information management system, and deferred transit oriented development work. State of good repair was performing at 52 percent because of delays to Downtown Seattle Transit Tunnel improvements, and Link station tile replacement deferral beyond Connect 2020. Administrative performance was at 70 percent of budget. Procurement delays for the agency SharePoint upgrade and operations performance reporting and property management software were responsible.

Transit Operations was five percent below budget and staff expected to achieve 95 percent of budget by the end of the year. A few of the factors causing under-spend in this category were unfilled security hours, the timing of maintenance and facility expense projects, and lower than expected overhead.

### Agency Asset and Liability Management Report

Tracy Butler, chief financial officer, presented the Agency Asset Liability Management Report. Ms. Butler informed the committee that investment performance continued to outperform the budget and benchmarks. Despite the challenging market environment, The Federal Reserve cut the interest rate twice in the third quarter. While that did not aid the agency's investments, it allowed Sound Transit to secure a low interest rate on its recently closed TIFIA Loan.

**Executive session**

None.

**Other business**

None.

**Next meeting**

Thursday, March 19, 2019  
11:00 a.m. to 12:30 p.m.  
Ruth Fisher Boardroom

**Adjourn**

The meeting adjourned at 11:58 a.m.

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Nancy Backus  
Finance and Audit Committee Chair

ATTEST:

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Kathryn Flores  
Board Administrator

APPROVED on \_\_\_\_\_ . AM.