



## Summary Minutes

### Finance and Audit Committee Meeting December 15, 2022

#### Call to order

The meeting was called to order at 12:35 p.m. by Committee Chair Nancy Backus.

The meeting was available in person and streamed on

<https://soundtransit.webex.com/soundtransit/j.php?MTID=m886562b518e15dfeef74abefc9bd8bcd>

#### Roll call of members

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

Board Members	
(P) Dow Constantine, King County Executive	(P) Joe McDermott, King County Councilmember
(P) Christine Frizzell, Lynnwood Mayor	(P) Ed Prince, Renton Councilmember
	(P) Kristina Walker, Tacoma Councilmember

Josephine Gamboa, Board Relations Specialist, announced a quorum of the Committee were present at roll call.

#### Report of the Chair

##### Revised Agenda

Chair Backus noted the committee would be working from the revised agenda for this meeting. The revision included the action to discuss and select the 2023 Performance Audit Topic.

##### In-Person meetings

Chair Backus reminded the committee of the Board rules update, in September 2022, to allow Board and Committee Chairs to identify certain meetings as meetings where members should attend in-person. Chair Backus announced the March 2023 Committee meeting would be one of those meetings, so virtual participation would be limited to no more than 50 percent of the committee membership.

#### CEO Report –

Mary Cummings, Deputy CEO/Acting Chief Financial Officer, provided the CEO report.

##### Update on PSRC funding

For several months, the Puget Sound Regional Council had been reviewing the long-standing methodology used to distribute Federal Transit Administration (FTA) formula funding to agencies within the region.

FTA formula funding was an important federal funding source for all transit agencies, including Sound Transit. These funds were required to be used on capital expenses, including preventative maintenance.

For Sound Transit, FTA formula funding totaled approximately \$2.8 billion through the life of the Financial Plan and helped fund Sound Transit's capital program.

Most FTA Formula funding was allocated based upon the amount of service provided. With the opening of several new light rail extensions in the years ahead, FTA Formula funding generated by Link service was projected to increase.

The PSRC had organized a Working Group of representatives from the transit agencies to review the current distribution methodology, prompted by concerns about equitable distribution of these funds. Boardmember Walker and Deputy CEO Farley both sit on the PSRC Working Group. The Working Group continued to meet and review methodologies. Staff are optimistic a balanced resolution will be reached and will keep the Board informed as that effort progressed.

### Upcoming FTA Triennial Review

As a recipient of FTA funds, Sound Transit was subject to a compliance review by the FTA. This review was conducted every three years, a "Triennial Review", and verified compliance in a number of review areas related to Financial/Award Management, Technical Capacity, Maintenance, Procurement, ADA and Civil Rights.

There were up to 23 subject areas reviewed. The Triennial Review included two parts: a desk review, starting February 3, 2023, and a virtual site visit/entrance and exit conference March 28 through April 6, 2023. The agency's Grants team was working diligently on coordinating and responding to all the requests.

In 2019, Sound Transit received one noted deficiency, and it was resolved before the reviewers were off-site and final report issued. Results will be reported at the July 2023 Finance and Audit Committee meeting.

### Upcoming loan approval action at February 2023 Board meeting

Sound Transit had been working with the Build America Bureau to obtain new loans totaling \$547 million. The projects for the proposed loans were Hilltop Tacoma Link Extension, NE 130th Infill Station, Sounder Station and Access improvements at Auburn, and Puyallup and Sumner projects.

The timing of construction was a key requirement for the loans and these projects were either in construction or would be in construction soon. The loan applications were expected to be submitted in January 2023. At the February 2023 Board meeting, staff anticipate requesting the Board's approval to authorize the execution of these three loans and the loans were anticipated to close in March. The structure of federal loans provided flexibility that was invaluable to Sound Transit's ability to improve affordability.

## **Public comment**

Chair Backus announced that public comment would be accepted via email to [emailtheboard@soundtransit.org](mailto:emailtheboard@soundtransit.org) and would also be accepted virtually and in person.

There were no written, virtual, or in person comments received.

## **Community Oversight Panel presentation to the Finance and Audit Committee**

Community Oversight Panel (COP) Chair, James Peyton, provided the report. Mr. Peyton reviewed feedback regarding the Committee's 2023 work plan. He advised that COP was charged with monitoring seven major areas of Sound Transit's performance, many of which coincided with the committee's responsibilities for oversight and review. The COP was briefed on the Audit Division's work plan at its

November 2022 meeting and was provided with two options for audit topics: temporary service changes and system expansion time charging accountability. COP unanimously agreed to adopt Temporary Service Changes as its recommended topic for the 2023 Performance Audit topic based on the impacts that temporary service changes had on riders, especially when changes were not adequately communicated.

The COP reached consensus on the desire to communicate its perspective on three additional topics: Americans with Disabilities Act (ADA) compliance, West Seattle Link Extension land acquisition, and natural hazards preparedness. The COP believed Sound Transit was potentially at risk if it was not in compliance with the ADA in service delivery, including factors such as vertical conveyance and station and stop access. The COP recommended that Sound Transit elevate the importance of the issue with an ADA compliance audit. Regarding land acquisition for the West Seattle Link Extension, the COP believed Sound Transit was at risk due to rising land acquisition costs that could impact ability to deliver the project within budget. The COP recommended that Sound Transit conduct an audit to determine impacts on the project. Mr. Peyton advised that Sound Transit was also at risk from natural hazards which may disrupt service and cause demand if there was damage to infrastructure of highways and other modes. Landslide risk was increased on previously stable slopes when unexpected wildfires destroyed vegetation. The COP recommended a performance audit.

## **2021 Accountability Audit Exit – State Auditor’s Office**

Joe Simmons and Daniel Thompson, with the State Auditor’s Office (SAO) provided the presentation. Mr. Thompson reviewed the results of the accountability audit that took place from January 1, 2021 through December 31, 2021. The following areas were examined: small and attractive assets, expenditure testing, procurement, open public meetings, and financial condition. Mr. Thompson informed the committee that there were no findings nor recommendations, therefore it was a clean audit.

Moss Adams performed audits of financial statement and federal grants. SAO did not find anything about their work that caused concern about its quality. There were no limitations that restricted SAO’s analysis of other results and there were no instances in which a material misstatement of financial statements having resulted from fraud or suspected fraud. Audit costs were in alignment with the original estimate. The next audit would take place in Fall 2023 on accountability for public resources. An estimated cost for the next audit was provided in the SAO exit packet.

## **Business Items**

Item for Final Committee Action

July 21, 2022 and October 20, 2022 Finance and Audit Committee meeting minutes

**It was moved by Boardmember Prince, seconded by Boardmember McDermott, and carried by unanimous voice vote of the committee members present that the minutes of the July 21, 2022 and October 20, 2022 Finance and Audit Committee meetings be approved as presented.**

For Recommendation to the Board

Resolution No. R2022-35: Adopting an annual budget for the period from January 1 through December 31, 2023 and adopting the 2023 Transit Improvement Plan.

Ryan Fisher, Deputy Executive Director of Financial Planning, Analysis and Budget, provided the presentation.

Boardmember Walker thanked staff for the presentation and noted all prior presentations helped prepare the approval of the budget. Chair Backus agreed.

**It was moved by Boardmember Frizzell and seconded by Boardmember McDermott.**

Chair Backus called for a roll call vote.

**Ayes**

Dow Constantine  
Christine Frizzell  
Joe McDermott  
Ed Prince  
Kristina Walker  
Nancy Backus

**Nays**

**It was carried by unanimous vote of the six committee members present that Resolution No. R2022-35 be forwarded to the Board with a do-pass recommendation.**

### **Chief Financial Officer Report**

Mary Cummings, Deputy Chief Executive Officer and acting Chief Financial Officer, Ryan Fisher, Deputy Executive Director of Financial Planning, Analysis and Budget, and Jeff Clark, Deputy Executive Director of Financial Operations, provided the presentation.

Mr. Fisher reviewed the October Year to Date (YTD) 2022 Financial Performance report. Overall, revenues were at 97 percent, or \$90 million below budget, due to three causes: non-cash fair market value adjustments to investment income, federal grants, and MVET receipts. This was partially offset by increased sales tax receipts. Spending was at 78 percent, or \$510 million below budget, mainly due to lower spending on system expansion projects as well as non-system expansion projects. Staff anticipated ending the year right at budget for revenues and below budget on expenditures at 79 percent, mainly driven by the timing of underspend on projects and staffing underspend within operations.

For October YTD Revenue Performance, total revenues were at \$2.8 billion for the year, which was 3 percent, or \$90 million, below budget, primarily driven by the lower federal grants and investment income. By year end, total revenues were forecasted to be at or slightly above budget at \$3.5 billion. Total taxes were in line with budgeted revenues. Lower than expected MVET receipts were offset by greater than projected sales tax revenues. By year end, total taxes were forecasted to be \$2.3 billion which would be right at budget. Federal Grants were at 90 percent of the YTD budget, a shortfall of \$39 million. Year-end forecast was projected to be at or slightly exceed the year-end budgeted amount as the agency continued to catch up on projected drawdowns for the Lynwood Link and Federal Way Link Extensions. Passenger Fares were at 127 percent, or \$8 million, above the YTD budget, driven by higher-than-expected ridership. This trend was expected to continue through the end of the year. Investment Income was below YTD budget by \$57 million due to negative FMV adjustments produced by rising interest rates and larger than anticipated investment balances.

Transit operations spending is at 89% or \$38M under budget as of October YTD. By Year-End, the forecast is expected to be at 85% or \$66M below budget, largely due to a \$23M expected year-end accrual for Purchased Transportation. This included \$12.4M for ST Express and \$8.2M for Link.

The main driver for the YTD underspend and anticipated year end underspend is due to vacancies internally and driver/mechanic shortages from our partners. This shows up in the year end accrual for anticipated partner reconciliations.

Additionally, there has been a softening in the insurance carrier market and delay in the timing of the DSTT turnover.

Expense Transfers were 67 percent, or \$15 million, under budget largely due to delays on operating projects. Agency overhead was \$1.2 million under due to high vacancies. The Operations department overhead was \$2.5 million under due to high vacancies.

Hilltop Tacoma Link Extension (HTLE) startup was \$1 million under due to delays in HTLE going live. Link was \$3.8 million under budget, primarily driven by less spare parts usage from delayed Link LRV Overhaul and delays in state of good repair (SOGR) work and Link Bridge Repairs. Sounder was \$4.7 million under budget, primarily driven by delays on new car procurement delivery, including testing and commissioning on the Sounder Vehicle Overhaul project. ST Express was \$1.6 million under budget, primarily driven by delays in SOGR work, construction started in late Q3.

Services was 84 percent, or \$12 million, under budget due to various delays in facility maintenance work, prior year partner reconciliations, and security and safety understaffing. Insurance was 67 percent, or \$6 million, under budget due to a softening insurance carrier market and timing of Downtown Seattle Transit Tunnel (DSTT) turnover. Purchased transportation was 98 percent, or \$3 million, under budget due to low spend on Sounder – lower wages on South line (assumed due to staff shortages) and partially by Link Paratransit (assumed due to low usage).

Overall system expansion project spending was at 78 percent of budget, which was \$380 million under budget through October YTD due to timing on project spending. By year end, the forecast was expected to continue to perform at 78 percent, or \$474 million, below budget. The majority of this under spending was timing for the major light rail projects due to the impact of the concrete strike which delayed the spending curve. STRIDE was at 47 percent, or \$56 million, under budget with delayed starts to construction for Brickyard, 85th, and UW Bothell driving this YTD performance. Sounder was under budget by \$14 million due to the Sounder Fleet car shipment delays and Sounder South Capacity Expansion. Regional Express was \$7 million under budget due to the Pacific Ave SR 7 Bus Corridor lower reimbursement activities YTD.

Overall Non-System Expansion projects was at 36 percent, or \$53 million, below budget mainly due to timing of project spending across the board. By year end, the forecast was to be at 59 percent, or \$22 million, below budget, as Enhancements and SOGR projects were expected to catch up. Enhancements was at 28 percent, or \$26 million, below budget mainly driven by the Digital Passenger Information Management with delays in vendor delivery meeting milestones and Fare Paid Zone construction activity was expected to complete in 2023. State of Good Repair was at 41 percent, or \$23 million, below budget mainly from delays in procurement and supply chain for Sounder Vehicle Overall, and IT Network Redesign from staffing availability for Link LRV Overhaul. Administrative was at 43 percent, or \$4 million, below budget primarily due to resource availability for IT Program.

Mr. Clark reviewed the Asset Liability Management report. Highlights included the expectation that the fed tightening cycle would continue as increased market volatility was expected as inflation and employment data was analyzed. Sound Transit will be monitoring market movements and adjusting the portfolio to minimize risk and maximize returns and beginning the process to obtain additional Federal loans of approximately \$500 million. Mr. Clark provided an update on enterprise risk management. Foundational activities were underway to proactively create Agency level risk management. Moving to an Agency level aggregation and awareness of risks and working to meet ISO standards, focusing on internal audit efforts and allocating budget dollars.

Mr. Fisher reviewed the shared business planning goal which included a business planning model to improve efficiencies, quality, and coordination of planning processes. This has shown up in recent years as staff focused energy on workforce planning and non-system expansion project prioritization processes and integrating more effectively into the budget process. Mr. Fisher reviewed a graphic that showed the annual shared business planning cycle for the agency and where the Budget process was in that cycle. Each year, the agency kicks off budget during the May timeframe that culminates in a

December Board action to approve the proposed budget and move into the next year. Since the cycle takes 6-7 months for the agency, it was important to ensure spending targets that were developed each year align with priorities and any initiatives or major project milestones.

Boardmember McDermott asked if the agency had considered bi-annual budgeting. Mr. Fisher responded that his team managed the Long Range Financial Plan which included detailed forecasting that could be used for the overall budgeting forecasting.

## **Audit Update**

### Internal Audit Updates

Patrick Johnson, Audit Director, provided the presentation. The data classification was Unrestricted. The Compliance Audit work was Federally and State mandated. Auditors recently completed the Safety and Asset Management Systems internal audits and were finalizing the last two audit reports. Mr. Johnson noted the completed audits were included in the meeting packet and the work that was being finalized would be provided at the Committee's March 2023 meeting. Performance audits were risk-based, and the audit team was in process of completing their annual audit work. The Capital Project Safety and Security Certification Audit program audits were completed at various points in conjunction with the agency's Capital project lifecycle. The last three audits for the year were in final stages of report review and would be included in the next meeting's packet.

Mr. Johnson noted that an audit plan for the work of the internal audit group was published annually. As the division included compliance and Capital project audits, staff would develop a proactive, longer-range audit plan to understand audit coverage, be flexible towards audit topics, division resourcing, and to adjust to risks that were identified over time.

Mr. Johnson reviewed the compliance audit plan and noted each mode was audited annually and must include all aspects of safety oversight over each transit mode within a three-year cycle. In 2024, audits on all modes would occur as the team worked through various required safety elements that required to be audited over a three-year cycle, which would be completed in 2025. For the Performance audit plan, the team typically used a one-year look ahead and had decided to take a similar three-year planning approach, which was outlined in the presentation. ADA Accessibility Compliance at transit stations was added based on input from the COP. The Supervisory Control and Data Acquisitions Systems, or SCADA audit, was listed and had been recommended previously by the committee. Mr. Johnson noted that requests for proposals from consultants was insufficient and was now assigned to Mr. Johnson's internal audit team and would be completed by end of year. Mr. Johnson reviewed the Performance audit plan for 2024 that was tentatively planned. The advanced planning incorporated new and follow-up audits and was based on risk analysis assessment by the audit department. In 2025, topics were marked as tentative since new risks may warrant changes.

While other audit programs were on a three-year cycle, the Capital Project Safety and Security Certification Compliance audits were on a two-year cycle. The timing of these audits was done in conjunction with specific points of the lifecycle of the capital projects and was based on information that came from agency partners in safety and the Capital project teams. The audit list depicted many tentative audits for 2023 and was subject to change based on timing of each project. If there were changes in project milestone dates, the audit plan would be adjusted accordingly. The 2024 audit list was also tentative based on where each project was in the Capital program and where safety felt they were ready for audits.

Mr. Johnson noted the COP's topic endorsements for audit topics were taken into consideration for future audits. Two topics were chosen because one was customer facing and the other was transparency and accountability oriented. The first topic was Temporary Service Changes Collaboration, which was customer facing and a pain point for riders. Mr. Johnson briefed that service outages were a

frequent and expected occurrence in the transit industry and passengers expect clear communication and for the agency to work with partners to move passengers when service was interrupted and return service back to normal once outages ended. This was a constant challenge for agency leaders as the agency and service grew and expands its footprint. The second topic was System Expansion time charging accountability. This topic would evaluate the agency's controls to ensure employees were charging their time on System Expansion contracts correctly and ensure processes to monitor such entries were working as intended.

Boardmember Walker noted the importance of transparency and audit work. She noted the Hilltop Tacoma Link project was mentioned in the audit plan and asked what the difference was for spot check audit versus ongoing audits for all projects. Mr. Johnson answered that audits for Capital projects would look to each individual and stage of the project. Boardmember Walker asked how that information was communicated to the Board and public. Mr. Johnson replied that the results were presented to the Finance and Audit Committee and State Safety Oversight – any corrective actions would be taken prior to revenue service.

#### Review 3-year Audit Work Plan

Mr. Johnson included this topic in his prior presentation.

### **Discussion and Action to select 2023 Performance Audit Topic**

Chair Backus explained that the Finance and Audit Committee was responsible for selection of the performance audit topic per the committee responsibilities established by the Board in 2018.

Boardmember Frizzell noted her interest in the Temporary Service Changes Collaboration topic considering the number of re-routes that were necessary recently. She recommended both topics, Temporary Service Changes Collaboration and System Expansion time charging accountability, be explored.

**It was moved by Boardmember Frizzell and seconded by Boardmember Walker to select the Temporary Service Changes Collaboration and System Expansion time charging accountability as the 2023 Performance Audit Topics.**

Chair Backus asked if Mr. Johnson's team had bandwidth to address both topics. Mr. Johnson responded that these efforts were completed through a procured consultant and confirmed that he could procure to have both topics completed.

Chair Backus called for a roll call vote.

#### Ayes

Christine Frizzell  
Joe McDermott  
Kristina Walker  
Nancy Backus

#### Nays

**It was carried by unanimous vote of the four committee members present to select the Temporary Service Changes Collaboration and System Expansion time charging accountability as the 2023 Performance Audit Topics.**

**Executive session** – None

**Other business** – None

**Next meeting**

Thursday, March 16, 2023  
12:30 to 2:00 p.m.  
Virtually via WebEx

**Adjourn**

The meeting adjourned at 1:34 p.m.

ATTEST:

\_\_\_\_\_  
Nancy Backus  
Finance and Audit Committee Chair

\_\_\_\_\_  
Kathryn Flores  
Board Administrator

APPROVED on \_\_\_\_\_ . JG.