



Summary Minutes

Finance and Audit Committee Meeting December 15, 2023

Call to order

The meeting was called to order at 8:31 a.m. by Committee Chair Nancy Backus.

The meeting was recorded and can be found at <https://www.soundtransit.org/get-to-know-us/board-directors/livestream-video>.

Roll call of members

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

| Board Members | |
|--|--|
| (A) 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 Deputy Mayor |

Alejandro Monzon, Board Relations Specialist, announced a quorum of the Committee was present at roll call.

Report of the Chair

2024 Regular Meeting Schedule

At the September 8, 2023, special committee meeting, many committee members agreed to adding two additional meetings. Committee assignments would be decided early 2024 and staff would find dates and times that worked best for the committee members before formalizing the new schedule.

CEO Report

CEO Julie Timm provided the CEO report.

Recent grant award

The State Department of Ecology recently awarded \$400,000 to Sound Transit for planning and investigative work to support environmental remediation on Sound Transit-owned property planned for affordable housing and Transit-Oriented Development (TOD). The property was located near the University of Washington. The grant would fund information-gathering and planning efforts needed to facilitate the process of preparing the site for a developer to construct affordable housing. CEO Timm thanked the Department of Ecology and the agency's grants team for securing this award, and the TOD and environmental teams who would manage implementation of this project.

Moody's Rating update

Last month, Moody's Investor Services affirmed Sound Transit's Aaa rating on its first lien Prior Bonds, as well as the Aa1 rating on its second lien Parity Bonds. The affirmed ratings reflected the strong and robust debt service coverage by pledged revenues, as well as the size and strength of the service area's

economy from which the pledged revenue was generated. The Board's realignment efforts and staff's financial stewardship had positively impacted the rating and potential future borrowing costs. While the construction industry across the country faced financial pressures, this rating was a solid indication of ongoing confidence in Sound Transit's fiscal management.

Public comment

Chair Backus announced that public comment would be accepted via email to meetingcomments@soundtransit.org and would also be accepted virtually and in person.

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

Community Oversight Panel presentation to the Finance and Audit Committee

Paul Thompson, Community Oversight Panel (COP) Chair, noted that the panel reviewed the two options for audit topics at the November 8, 2023, COP meeting. Those topics were Service Interruption Communications and System Expansion Time Charging Accountability. The COP agreed to recommend System Expansion Time Charging Accountability as the topic the Finance and Audit Committee should select for the 2024 Performance audit. The recommendation was based on the importance of financial accountability as a whole and the reputational risks associated with inaccurate or inappropriate charging.

Business Items

Item for Final Committee Action

October 19, 2023, Finance and Audit Committee meeting minutes

It was moved by Committee Vice Chair Dammeier, seconded by Board member Walker, and carried by unanimous vote of the committee members present that the minutes of the October 19, 2023, Finance and Audit Committee meetings be approved as presented.

For Recommendation to the Board

Resolution No. R2023-40: Adopting an annual budget for the period from January 1 through December 31, 2024, and adopting the 2024 Transit Improvement Plan.

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

Board member McDermott praised staff for quickly updating the budget based on the System Expansion Committee's modifications that were made the day prior to this meeting.

Committee Vice Chair Dammeier recognized the Moody Rating award and noted that reflected highly of the finance team.

It was moved by Committee Vice Chair Dammeier, seconded by Board member Frizzell, and carried by the unanimous vote of all committee members present that Resolution No. R2023-40 be forwarded to the Board with a do-pass recommendation.

Board member McDermott and Chair Backus noted this committee engaged in brief discussion and voted quickly towards forwarding this action the full Board due to numerous presentations and discussions having been presented at all other committees prior to this meeting.

External Audit Presentation

2023 Financial and Single Audit Entrance

Brad Schelle, Lead Engagement Partner with Crowe LLC, provided the presentation. As a new external auditing firm with the agency, Mr. Schelle provided an introduction to Crowe LLC (Crowe). He noted Crowe audits 10 of the top 25 public transit agencies. The audit deliverables included financial statement, Federal compliance, and agreed-upon procedures reports. Financial statement audits included independent auditor's report of Sound Transit financial statements, management letter of communication of internal control deficiencies under Statements on Auditing Standards (SAS) 115, and SAS 114 letter which was required communications with those charged with governance. Federal compliance audits included independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards, independent auditor's report on compliance for major Federal program, report on internal control over compliance, "in relation to" opinion on the schedule of expenditures of federal awards, and Crowe's electronic certification of the data collection form through Federal audit clearinghouse. Agreed-upon procedures reports included national transit database Federal funding allocation statistics form and schedule of sources and uses of funds by subarea. Crowe's audit approach included internal controls, implementation of four new standards, Federal grant funding compliance, and traditional risk areas such as cash, capital, assets, debt, and revenue.

Mr. Schelle provided a brief timeline overview of upcoming audit activities. The interim financial audit fieldwork and single audit planning would begin mid-November 2023. Year-end financial audit and wrap up of single audit fieldwork would begin on February 26, 2024. On April 28, 2024, Sound Transit would be issued financial statements. Subarea AUP testing and report issuance would take place in May 2024. NTD testing and report issuance would take place in June 2024 as well as a final reports presentation to this committee.

Crowe identified potential fraud risks in the public transit industry that could be discussed within the committee if a committee member selected a topic to discuss. Those risks included misappropriation of assets, undisclosed related party relationships, unauthorized or improperly applied employee compensation and benefits, loss of funds due to improper/unauthorized access to financial assets such as hacking or phishing, loss of personal or sensitive information due to data breach, and misapplication or misuse of restricted funds. Mr. Schelle paused to ask the committee on whether there were any potential risks they would like Crowe to study.

Committee Vice Chair Dammeier noted he had no knowledge of any instances of fraud.

Board member Frizzell asked why the previous auditors were no longer auditing for the agency. Jeff Clark, Deputy Executive Director of Financial Operations, explained the contract terms had ended for the previous agency, Moss Adams. A competitive procurement process took place and Crowe, LLC provided more value and was chosen as the new auditing firm.

Mr. Schelle reviewed emerging issues which included the Governmental Accounting Standards Board (GASB) 100 and 101 which were being adopted early and ongoing COVID-19 related issues.

Committee Vice Chair Dammeier noted Washington State was not listed as an office on Crowe's website. Mr. Schelle replied Crowe was a national firm that did not currently have an office in Seattle and was operating out of the Midwest. Committee Vice Chair Dammeier shared interest in receiving a report that focused on the overall review of assumptions in projections towards the agency's long term financial plans and long-term capital construction and operating plans. Mr. Schelle replied that was currently under the scope and they could look into adding that as a separate report.

Chief Financial Officer Report

John Henry, Chief Financial Officer (CFO), Ryan Fisher, Deputy Executive Director of Financial Planning, Analysis and Budget, and Jeff Clark, Deputy Executive Director of Financial Operations, provided the presentation. For October year to date (YTD) performance, the agency was \$1.1 billion, or 51 percent, above budget mainly due to an unbudgeted TIFIA draw and higher investment income. For expenditures, the agency spent \$330 million lower than planned. The majority of this was project related timing and did not reflect cost savings for the agency. Debt Service covered principal repayments and interest expense on agency loans and October YTD, was being spent to plan. Other expenses included the fees that were paid to the Department of Revenue (DOR) and Department of Licensing (DOL). These were tracking towards budget and was expected to be close to that at year end (YE).

A chart was provided to show the variances of the different revenue and financing sources as compared to their budget YTD. All of the boxes between budget and actuals added up to the total variance of \$1.1B. The largest blue box was the TIFIA draw. Higher than budgeted tax revenues were a result of the resilient regional economy, however the growth over budget had slowed down the last few months so staff would continue to track these closely as the agency updated its long-range plan in spring 2024. Investment income was higher from the increased cash balance from the TIFIA draw along with higher interest rates than originally projected. Slightly lower than assumed passenger fares from ridership on Link and Sounder as well as lower than budgeted boardings with fare media. Overall, staff expected revenues to be very close to budget for taxes, fares, and other revenues with grants, investment income, and TIFIA expected to exceed budget.

As for modal transit operating expenses as compared to their budget YTD, lower Link spending was driven by lower service contract needs than planned across various areas such as radio repair, use of Sound Transit staff resources for Link Control Center network work, and on-call services utilized less than budgeted levels. Additionally, agency vacancies were still tracking higher than initially assumed in the budget. Sounder lower spending was driven by vehicle maintenance with less vehicles than originally assumed in the budget to maintain, along with lower fuel rates than originally assumed in the budget, and lower than anticipated insurance rates from a softening market and entrance of more insurers. Tacoma Link (T Link) lower spending was driven by the delayed Hilltop Tacoma Link Extension (HTLE) opening. Overall, staff expected transit operations to come in under budget for the full year by a smaller amount than the 8 percent, estimated at 4 percent due to year-end accruals to be booked for purchased transportation costs.

Overall, system expansion projects were 14 percent below budget through October. Some of this spending would occur in 2024, offset by some projects with earlier spending than planned. Overall, staff expected to end the year at 9 percent under annual budget. Sounder was 37 percent below budget with Sumner, Kent, and Auburn Parking Access and Improvements below budget mainly due to delay in property acquisitions. Link was below budget primarily due to Tacoma Dome Link and Lynnwood Link extensions along with the light rail vehicle (LRV) Fleet Expansion. T Link was expected to end the year under budget with the preliminary engineering/design work delay due to the additional alignment options assessment. Lynnwood Link was expected to recover and finish the year closer to budget with some work to happen in early 2024. LRV Fleet Expansion was under budget due to delays in software installation and lower than expected manufacturer production rate. This work was expected to carry into 2024. Stride was below budget with I-405 BRT below budget mainly due to slower WSDOT construction progress than planned on NE 85th Interchange and Brickyard along with slower property acquisition for SR 522.

As for enhancements, also called improvements, state-of-good repair (SOGR), and administrative projects, the main driver for much of the underspend was due to resourcing constraints, with most of the spending expected to continue into 2024. Enhancement or improvement projects were below budget with the largest contributors being the Digital Passenger Info System project due to acceptance of the

contractor work, the Portfolio Services Programmatic Work with a delayed start on completing the requirements manual, updating specs and procedures, and engineering software trials, and the Data Management Program project as the Cloud Data Infrastructure implementation was on hold due to resourcing constraints. SOGR projects were below budget due to resource constraints and availability for the Sounder Vehicle Overhaul program and the IT Network Redesign project as well as equipment replacement purchases lower than assumed in the budget for the IT Tech Infrastructure program. Administrative projects were below budget, with the agency admin operating program below budget primarily due to higher than budgeted staff vacancies across the agency. Overall, staff expected to end the year in aggregate about the same amount of budget underspend at \$62 million due to the resource availability that was mentioned.

Mr. Clark reviewed asset and liability management highlights. The agency continued to have strong liquidity. Investment balances remained favorable and there are no planned debt issuances in the medium term of three to five years. Staff continued to monitor Federal actions and the market. As needed, the portfolio was adjusted to minimize risk and maximize returns. Rising interest rates in Q3 resulted in higher yields on the agency's investments. The portfolio continued to outweigh the State Investment Pool to capture high short-term rates, while also locking in yield in medium and long term in the Unrestricted portfolio. The portfolio continued to outperform budget driven by the portfolio action with \$1 billion of TIFIA drawn on August 15, 2023 with interest rate 1.91 percent, funds had been invested at an average yield of 4.99 percent and the action generating approximately \$30 million of 2024 net interest income and rising interest rates in which during Q3 yields rebounded, led by the 10-year treasury increasing by .73 percent, while the two-year increased by .15 percent.

Committee Vice Chair Dammeier referenced the system expansion projects being below budget due to delays which would ultimately yield in more expensive budgets. Mr. Fisher explained most of the projects that were under construction had a baseline budget and set contracts but would apply to the ST3 projects still in their planning phases which would be captured in the long-range financial plan.

Committee Vice Chair Dammeier referenced the asset and liability management report highlights slide that showed higher yields of agency investments and asked the reason behind diversifying the agency portfolio was when the state pool was performing well. Mr. Clark replied that the state pool was capturing high short-term rates and the slide was comparing those rates to the agency's mid and long-term yields which would protect the agency's return.

Audit Update

2023 (Q4) Internal Audit Update

Patrick Johnson, Audit Director, provided the presentation. The data classification was unrestricted. Mr. Johnson reported at the last committee meeting that the Federal Transit Administration (FTA) had closed five deficiencies from their final report. As of December 15, 2023, one additional deficiency had closed, bringing the total of remaining open deficiencies down to two. Those two remaining open deficiencies remained on track with submission timelines and the agency remained poised to close out the FTA's deficiencies by December 31, 2023.

For the compliance audit group, which were primarily safety audits required to be completed annually by Federal and State safety oversight requirements, had four audits still in progress and were under review for content. Those four internal audits were Safety Management Systems (SMS) Audit, Internal Safety Audit Program, Link Light Rail Annual Internal Safety Audit, and Tacoma Link Annual Internal Safety Audit. The Internal Safety Audit Program Internal Audit was a required audit to be completed of the agency's internal safety audit program, which was completed by the compliance audit group within Mr. Johnson's team. Federal and the Washington State Department of Transportation (WSDOT) State Safety Oversight mandates required internal audits of all components of Sound Transit's Agency Safety

Plan (for Link and Tacoma Link) and its System Safety Plan (for Sounder Commuter Rail) within a three-year timeframe. Staff completed that work, but those rules also meant internal audits of the agency's own safety audit program during the same time period. The last audit of the program completed back in the Spring of 2020. That 2020 audit and all previous audits of the safety audit program were handled internally by internal audit. However, when the internal audit and safety audit functions merged, outsourcing this work was required for the agency to meeting Federal and State requirements.

For safety and security certification audits, the final audit for 2023 for East Link Starter Line construction conformance safety and security certification audit was still in the process of addressing the finding, which moved the audit into the monitoring and follow-up process to ensure of closure.

For performance audits group, Mr. Johnson reminded the committee these audits were chosen based on risk. Three audits were still in progress and were under management review for content. Those included evaluating state of good repair for Northgate Link, SCADA integration within transit systems, and capital project closeout process.

Mr. Johnson reviewed audit plans for 2024. For the 2024 compliance audit plan, the team would continue to perform modal audits as they worked through the various required safety elements that need to be audited over a three-year cycle. A few changes had been made in the compliance audit plan including the first operational internal security audit which would take place in Q2 2024 and be led by the agency contracted consulting firm, ADS System Safety Consulting. The other change was the removal of the SMS and Asset Management Internal Audits. Agency staff were still working on many critical items and needed time to implement these processes before returning to assess the progress of the entirety of both management systems.

For safety and security certification audits, audit plans were based on what projects reached a specific hold point in the capital project lifecycle and on information that came from agency partners in safety and the capital project teams. While there were several audits listed within this category, it was subject to change based on actual timing of each project. If there were changes in project milestone dates, audit plans would be adjusted accordingly.

The 2024 performance audit recommended topic was System Expansion Time charging accountability. This was the suggested topic asked for 2023 but was postponed because of agency work being completed over the last 11 months. The Community Oversight Panel also recommended this topic.

Board member Frizzell requested for more information on the findings noted for the Hilltop Link Operational Readiness safety and security audit and the track maintenance for Link light rail performance audit. Mr. Johnson replied that the finding for Hilltop Link was on documentation based on information going into the system and had been corrected. For the track maintenance findings, Mr. Johnson believed they were also related to documentation and noted they were in progress.

Discussion and Action to select the 2024 Performance Audit Topic

Chair Backus stated per the committee responsibilities established by the Board in 2018, the selection of the performance audit topic was within the committee's authority. Mr. Johnson reviewed the audit topic selection in the audit report and Mr. Thompson, the COP Chair, noted the COP's recommendation of the System Expansion Time Charging Accountability topic. Last year's decision to select two topics demonstrated that the heavy workload while having an audit occur during the progress of either would hinder any improvements being made by agency staff.

Board member Frizzell asked for clarification on time charging. CFO Henry explained that staff could charge certain worked hours towards a specific project for time spent working outside of their usual department or project scope. Board member Frizzell asked if that could lead to going over in budget if

that were to occur in excess amounts. CFO Henry replied that the purpose of the audit was to ensure time was being appropriately charged to the correct projects.

It was moved by Committee Vice Chair Dammeier, seconded by Board member Walker, and carried by the unanimous vote of all committee members present that System Expansion Time Charging Accountability be selected as the 2024 Performance Audit Topic.

Executive session – None

Other business – None

Next meeting

Thursday, March 21, 2024

12:30 to 2:00 p.m.

Ruth Fisher Boardroom and Virtually via WebEx

Adjourn

The meeting adjourned at 9:33 a.m.



Bruce Dammeier
Finance and Audit Committee Vice Chair

ATTEST:



Kathryn Flores
Board Administrator

APPROVED on March 14, 2024, JG.