

SOUND TRANSIT

MOTION NO. M99-34

**Audit Services
BACKGROUND AND COMMENTS**

Meeting:	Date:	Type of Action:	Staff Contact:	Phone:
Finance Committee	6/3/99	Discussion/Possible Action	Jan Hendrickson Hugh Simpson	206-398-5097 206-398-5082

ACTION:

Approval of a Finance Committee Motion, amending Motion No. M98-8, for Audit Services with Deloitte & Touche LLP in the amount of \$758,618 to an approved total amount of \$1,058,618.

BACKGROUND:

In January 1998, the Finance Committee passed Motion No. M98-8 for Audit Services that authorized executing a contract with Deloitte & Touche LLP for a three year period through 2001. The purpose of this contract is to provide comprehensive audit services to Sound Transit on an annual basis, to include financial statement audits that includes federal compliance elements, subarea reports, performance audits, contract auditing, business process redesign support, bond issuance support and general auditing support.

The original contract was approved for \$300,000. The total approved amount of \$300,000 was an estimate until the audit program for Sound Transit could be developed. During the procurement, the cost evaluation portion was based on composite hourly rates and defined rates for the 1997 and 1998 financial statement audit. During 1998, staff worked with the Finance Committee, Performance Audit Committee and the Citizen Oversight Panel in developing the Sound Transit audit program. Contract-to-date costs through April 1999 are \$255,297. The table below depicts actual costs to date through April 1999, and forecasted costs through March 2001 in order to complete the 2000 financial audit. Descriptions of each audit program category and yearly costs follow:

Sound Transit Audit Program Category	Actual Through April 1999	Forecast Through March 2001	Total Contract
Financial Statement Audits	\$61,100	\$250,000	\$311,100
Subarea Review	8,000	40,000	48,000
Performance Audits	90,578	265,000	355,578
Contract Auditing	6,679	173,321	180,000
Business Redesign	48,527	-	48,527
Bond Issuance Support	22,500	25,000	47,500
Auditing Support	17,913	50,000	67,913
Total Contract	\$255,297	\$803,321	\$1,058,618

RELEVANT BOARD POLICIES AND PREVIOUS ACTIONS TAKEN:

- Adoption of *Sound Move* (May 31, 1996)
- Adoption of Resolution No. 78-1 (April 9, 1998)
- Adoption of Fiscal Year 1999 Budget (November 12, 1998)
- Adoption of Motion No. M98-8 (January 16, 1998), approving contract with Deloitte & Touche LLP

FORECASTED WORK PRODUCTS:

- Financial Statement Audits include reviewing the internal control environment, recording and classifying of transactions, financial statement presentation, financial statement notes, financial systems, federal compliance, policies and procedures and national transit database compliance verification. Costs for 2000 and 2001 are estimated at \$125,000 a year for a total of \$250,000.
- Agreed Upon Procedures Subarea Reports includes reviewing transaction classifications and allocations by subarea. Costs for 2000 and 2001 are estimated at \$20,000 a year for a total of \$40,000.
- Performance Audits include performing limited scope audits on areas selected by the Performance Audit Committee. Costs for 1999 are estimated at \$115,000 and costs for 2000 are estimated at \$150,000.
- Contract Auditing includes reviewing progress payments for contract compliance and performing limited scope audits during the life of the contract that will facilitate contract closeouts. Costs for 1999 are estimated at \$63,321, for 2000 costs are estimated at \$85,000 and for 2001 costs are estimated at \$20,000.
- Business Process Redesign includes reviewing internal processes for improvement. The Contracts Division was reviewed in 1998, but no reviews are planned in the future.
- Bond Issuance Support includes review of unaudited financial disclosures, issuance of awareness letters and review of official statements that is required for all bond issuances. Costs for 1999, 2000 and 2001 are estimated at \$25,000.
- General Auditing Support includes policy and procedure development, technical accounting support, State Auditor's audit support and industry updates. Costs for 1999, 2000 and 2001 are estimated at \$50,000.

KEY FEATURES:

- Deloitte & Touche LLP will provide Audit Services to Sound Transit in the areas of financial statement audits, performance audits, agreed upon procedures, subarea reports, contract auditing, bond issuance support and general auditing support. The total amount of the contract will increase by \$758,618, from \$300,000 to \$1,058,618.
- Deloitte & Touche LLP has assembled a team that includes a certified WBE firm whose participation accounts for 18% of the total contract amount. As additional sub-consultants are required, Deloitte & Touche LLP is committed to expanding M/W/DBE participation.
- Compensation to Deloitte & Touche LLP will be based on composite hourly rates, except for the annual financial statement audit and agreed upon procedures subarea report that will be a bid in total at the beginning of each year.

FUNDING:

Funding is provided in the Fiscal Year 1999 budget of \$296,340. This dollar amount is adequate for 1999 costs and future year costs will be addressed in each annual budget process.

ALTERNATIVES:

The Finance Committee could direct staff to re-procure the audit services contract.

CONSEQUENCES OF DELAY:

Delay in awarding this contract will result in the agency's annual audit program not being completed in a timely fashion for 1999.

HOW WILL THIS CONTRACT BE ADMINISTERED AND MONITORED?

Overall, responsibility for these contracts will be assumed by the Director of Finance and Administration. The Finance and Administration Controller/Treasurer will provide day to day management of these contracts.

LEGAL REVIEW:

The Legal Department has reviewed and approved the Background and Comments and Motion.

**SOUND TRANSIT
MOTION NO. 99-34**

A motion of the Finance Committee of the Central Puget Sound Regional Transit Authority authorizing the Executive Director to amend the existing contract with Deloitte & Touche LLP for a total amount not to exceed \$1,058,618.

Background:

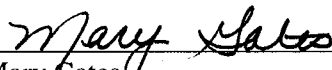
In January 1998, the Finance Committee passed Motion No. M98-8 for Audit Services that authorized executing a contract with Deloitte & Touche LLP. The purpose of this contract is to provide external audit services for the Sound Transit audit program on an annual basis for financial statement audits that include federal compliance elements, agreed upon procedure subarea reports, performance audits, contract auditing support, business redesign support, bond issuance support and general auditing support.

The original contract was approved for \$300,000. Contract-to-date costs through April 1999 are \$255,297. During the procurement, the cost evaluation portion was based on composite hourly rates and defined rates for the 1997 and 1998 financial statement audit. The total approved amount of \$300,000 was an estimate until the audit program for Sound Transit could be developed. During 1998, staff worked with the Finance Committee, Performance Audit Committee and the Citizen Oversight Panel in developing the Sound Transit audit program.

Motion:


It is hereby moved by the Finance Committee of the Central Puget Sound Regional Transit Authority that the Executive Director is authorized to execute an amended contract with Deloitte & Touche LLP for audit services in a total amount not exceed \$1,058,618.

Approved by the Finance Committee of the Central Puget Sound Regional Transit Authority at a regular meeting thereof on the 3rd day of June, 1999.



Mary Gates
Finance Committee Vice Chair

ATTEST:



Marcia Walker
Board Administrator