

**SOUND TRANSIT  
STAFF REPORT**

**MOTION NO. M2003-106**

**Contract for Independent Financial and Federal Audit Services**

<b>Meeting:</b>	<b>Date:</b>	<b>Type of Action:</b>	<b>Staff Contact:</b>	<b>Phone:</b>
Finance Committee	10/16/03	Discussion/Possible Action	Hugh Simpson, Chief Financial Officer <b>Kelly Priestley, Controller</b>	(206) 398-5082  (206) 398-5479

<b>Contract/Agreement Type:</b>		<b>Requested Action:</b>	
Competitive Procurement	✓	Execute New Contract/Agreement	✓
Sole Source	✓	Amend Existing Contract/Agreement	
Interlocal Agreement		Contingency Funds Required	
Purchase/Sale Agreement		Budget Amendment Required	

**OBJECTIVE OF ACTION**

To secure financial and federal audit services.

**ACTION**

Authorizes the Chief Executive Officer to execute a contract with KPMG, LLP, for independent financial and federal audit services for a total authorized contract amount not to exceed \$930,687, for a three-year term with the option of two additional one-year extensions, effective October 20, 2003.

**KEY FEATURES**

- Scope of the contract includes: financial statement audits that have federal compliance elements, financial, federal A-133, national transit database audits, subarea reports, contract auditing, bond issuance support, and accounting and financial reporting services, and general accounting support.
- Additional specialized accounting services to include: awareness letters for debt issuance, analysis of new accounting pronouncements, analysis of accounting treatment for complex transactions and tax consulting.
- KPMG, LLP, has provided service in the Seattle area for over 60 years with 25 professionals who dedicate a significant portion of their time serving public sector and transit clients. They have six offices within the Pacific Northwest. Key transportation authority clients include Tri-Met and Greater Vancouver (BC) Transportation Authority (Skytrain).
- The client service partner, senior manager and in-charge auditor are based in Seattle. However, key to the team is the engagement partner and the technical senior manager who are based out of Portland and head up the Tri-Met engagement. This brings strong industry experience and knowledge to the engagement.

**BUDGET IMPACT SUMMARY**

There is no action outside of the Board-adopted budget; there are no contingency funds required, no subarea impacts, or funding required from other parties other than what is already assumed in the financial plan.

**BUDGET DISCUSSION**

The total estimated cost of audit services over the three-year period is expected to be \$795,687. There is an additional \$135,000 for specialized accounting services, estimated at \$45,000 per year. The Proposed 2004 Budget contains sufficient funding within the Finance and Information Services Department staff operating budget to cover the expenses for the first year. The balance will be accounted for in future staff operating budgets.

**REVENUE, SUBAREA, AND FINANCIAL PLAN IMPACTS**

The proposed action is consistent with the current Board-adopted budget and is affordable within Sound Transit's current long-term financial plan and the subarea financial capacity.

**BUDGET TABLE**

Action Item: Auditing and Accounting Services					
	(A) Current Approved Contract Value	(B) Spent to Date	Balance	(C) Proposed Action	(D) Proposed Total Contract Value
<b>Contract Budget:</b>					
Auditing and Accounting Services Contrat	-	-	-	930,687	930,687
Contingency					-
<b>Total</b>	-	-	-	930,687	930,687
Percent Contingency	0%			0.00%	0.00%

Accounts to be charged:	2003 Staff Budget	Future Staff Budgets	Direct Charges to Projects	Total
Auditing and Accounting Services	282,500	542,782		825,282
Consulting Services	60,000	90,000		150,000
				-
<b>TOTAL CONTRACT CHARGES:</b>	<b>342,500</b>	<b>632,782</b>	<b>-</b>	<b>975,282</b>

Budget Shortfall			
Level	\$	Potential Revenues	Funding Source
NA	-	-	NA

**Notes**

The contract is for annual financial audit and some specialized consulting in accounting area.  
 The auditing fees for the three years are \$795,687  
 Estimate for specialized accounting services \$135,000 (\$45,000 per year)  
 The actual service will be performed during 2003 thru 2006 for audits of 2003, 2004 and 2005 year-end financial results

## **M/W/DBE – SMALL BUSINESS PARTICIPATION**

### **Prime Consultant/Contractor**

KPMG, LLP is the prime auditor for this contract. KPMG, LLP is committed to a 17% M/W/DBE and Small Business goal on the total engagement. Francis & Kirshner, an MBE CPA firm, will participate on the financial, federal and national transit database audit.

### **Utilization Breakdown Table**

<b>Subconsultant</b>	<b>Business Type</b>	<b>% of Work</b>	<b>Dollar Value</b>
Francis & Kirschner PLLC	MBE	17%	\$159,137

### **EEO Commitment**

KPMG's workforce demographics are 49% women and 9% minorities. Within their proposal KPMG demonstrated a strong commitment to EEO and has won a number of awards in recognition of their efforts.

### **Apprentice Utilization Commitment**

Not applicable to this action.

## **HISTORY OF PROJECT**

In January 1998, the Finance Committee authorized the execution of a contract with Deloitte & Touche LLP for audit services for a three-year period through January 2001. The original three-year contract was extended for two additional one-year periods. In March 2003 staff conducted a new procurement for audit services.

This contract was competitively procured and represents a change in auditors for the agency. There were two proposals, which included Sound Transit's current auditors and KPMG, LLP. KPMG's proposal was significantly lower in cost and included a larger M/W/DBE component.

After a competitive RFP process, KPMG, LLP was selected in September of 2003, with Board approval anticipated in October 2003. The Audit and Reporting Subcommittee reviewed the procurement at its September 17, 2003 meeting.

## **CONSEQUENCES OF DELAY**

Sound Transit would be unable to complete its independent audit requirements within the prescribed timeframe.

## **PUBLIC INVOLVEMENT**

Not applicable to this action.

## **LEGAL REVIEW**

MB 10/4/03

**SOUND TRANSIT**

**MOTION NO. M2003-106**

A motion of the Finance Committee of the Central Puget Sound Regional Transit Authority authorizing the Chief Executive Officer to execute a contract with KPMG, LLP, for independent financial and federal audit services for a total authorized contract amount not to exceed \$930,687, for a three-year term with the option of two additional one-year extensions, effective date is October 20, 2003.

**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 January 2001. The original three-year contract was extended for two additional one-year periods and in March of 2003 the agency went out to do a new procurement for audit services.

After a competitive RFP process, KPMG, LLP was selected in September of 2003 and represents a change in auditors for the agency. There were two proposals, which included Sound Transit's current auditors and KPMG, LLP. KPMG's proposal was significantly lower in cost and included a larger M/W/DBE component. The purpose of the proposed contract is to provide audit services to Sound Transit on an annual basis, to include financial statement audits that have federal compliance elements, subarea reports, contract auditing, bond issuance support and general accounting support.

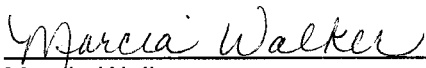
**Motion:**

It is hereby moved by the Finance Committee of the Central Puget Sound Regional Transit Authority authorizing the Chief Executive Officer to execute a contract with KPMG, LLP, for independent financial and federal audit services for a total authorized contract amount not to exceed \$930,687, for a three-year term with the option of two additional one-year extensions, effective date is October 20, 2003.

APPROVED by the Finance Committee of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on October 16, 2003.

  
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Kevin Phelps  
Finance Committee Chair

ATTEST:

  
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Marcia Walker  
Board Administrator