

**SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING**  
**Summary Minutes**  
**September 16, 2010**

**Call to Order**

The meeting was called to order at 11:48 a.m. by Committee Chair Richard Conlin, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

**Roll Call**

Chair

(P) *Richard Conlin, Seattle Council President*

Committee Members

(P) *Fred Butler, Issaquah Deputy Council President*      (P) *Claudia Thomas, Lakewood Councilmember*  
(P) *Dave Enslow, Sumner Mayor*      (P) *Paul Wiesner, Citizen Oversight Panel Chair*  
(P) *Joe Marine, City of Mukilteo Mayor*

Ms. Katie Flores, Board Coordinator, announced that a quorum of the Committee was present at roll call.

**Report of the Chair**

None.

**Business Items**

Minutes of the March 18, 2010 Audit and Reporting Committee Meeting

**It was moved by Chair Conlin, seconded by COP Chair Wiesner, and carried by the unanimous vote of all Committee members present that the minutes of the March 18, 2010 Audit and Reporting Committee meeting be approved as presented.**

Resolution No. R2010-19 - Establishing Audit and Reporting Committee responsibilities, and superseding Resolution No. R2001-03.

Brian McCartan, CFO, explained that in 2001 a resolution was approved that established the Audit and Reporting Subcommittee and established its roles and responsibilities. Updated responsibilities and procedures were drafted and reviewed at the last Audit and Reporting Committee. The resolution streamlines the Committee responsibilities without making substantive changes. The resolution clarifies responsibilities with respect to reviewing financial reports, audits, and internal controls.

The procedure for audits involves Committee review before the audit begins, review of the audit results and receiving Sound Transit staff reports on audit follow-up. Audits include internal, external, performance, and State Auditor's Office audits. Internal controls is a new responsibility of the Audit and Reporting Committee. Other agencies commonly include review of internal controls as part of the responsibilities for Committees such as the ARC. A change has been made to include the Citizen Oversight Panel as a recipient of audit status information. The resolution also establishes a meeting format that will continue to be used if the Resolution is approved. The format includes sections on financial reporting, audits and internal controls.

**It was moved by Boardmember Thomas, seconded by Boardmember Marine, and carried by the unanimous vote of all Committee members present that Resolution No. R2010-19 be forwarded to the Board with a do-pass recommendation.**

## **Audits**

### **State Auditor's Office Accountability Audit Status**

Kelly Prestley, Controller, introduced Huong Nguyen with the State Auditor's Office. An entrance conference was held with Sound Transit and ARC Chair Conlin for the State's accountability audit. The entrance document for the audit is included in Committee members' packets. The document includes the audit scope and the areas the auditors plan to look at. The document also includes a section on state law regarding known or suspected loss notification. Internally, Sound Transit will conduct a review to see if any additional work or training needs to take place to address that issue. The audit should be completed in October and a report on the audit results will be scheduled for the December ARC meeting.

### **2010 Performance Audit Status**

Sound Move and annual financial policies call for a performance audit program. Sound Transit has committed to performing a performance audit annually. The state also has a performance audit program, so in years the state does not perform an audit Sound Transit will conduct an audit.

David Hammond, Acting Internal Audit Manager reviewed the performance audit that will be conducted this year by Sound Transit. In June, the ARC selected the audit topic—procurement of IT systems. NGT of America has been selected to perform the audit through a competitive process. They are scheduled to begin field work next week, and the audit should be completed by the end of this year.

### **2010 3<sup>rd</sup> Party Contract Audit Status**

Mr. Hammond noted that the Third Party Contract Audit is being conducted by the firm Protivity. The auditors have completed their field work, are following-up on open items, and drafting a final report. The report should be finalized in the next few weeks. Sound Transit estimates receiving significant cost savings as a result of the way the audit was performed. Sound Transit staff performed the testing based on guidance from the auditors and their expertise.

### **FEMA Audit Results**

Monica Overby, Grants Administrator, noted that Sound Transit is the recipient of homeland security transit security grant funds. In August a financial review was conducted by the local FEMA office. Sound Transit's capability and progress was measured in managing the grant and the projects being funded by the grant. Financial and procurement records were reviewed. A final report was sent and there were no findings or corrective actions. There was a recommendation to mark equipment purchased with the grant with a label saying it was purchased with Department of Homeland Security funds.

### **FTA Triennial Audit Status**

An FTA Triennial review will take place next week. The reviews take place every three years and include a comprehensive review covering 24 subject areas. The technical and financial capacity of the Agency in managing FTA grants is monitored. A final report should be available in time for the December ARC meeting. Sound Transit has just under \$4 million in transit security grant funds but only the 2009 grant in the amount of \$830,000 was audited. In 2009, a change occurred and Sound Transit now works directly with FEMA for that grant money. The audit was required under the grant funding. Since the money has not been expended yet, the audit reviewed policies and procedures in terms of financial procurement.

## **Financial Reporting**

### **2<sup>nd</sup> Quarter Financial Results**

Pete Rogness, Budget Director gave an update on financial progress through the second quarter of 2010. There are no red flags to report, everything is within appropriate expenditure levels. Revenues in the second quarter were 1% ahead of the budget forecast, a positive variance of \$4.2 million. Part of that is due to one-

time payments that are not part of the normal revenue stream. Investment income was the largest positive variance based on investment gains and the selling of an investment. Miscellaneous Income included a \$3.8 million subsidy payment for the Build America Bonds. Funds were received through the Regional Mobility Grant Fund for the ST Express and Sounder capital programs, and some money received from the State for the Point Defiance project. Federal grants were down \$4.8 million due to staff drawing down the American Recovery and Reinvestment Act grants first. By the end of year, the Agency should be on track for grant spending. On Retail Sales and Use Tax, there was a \$5 million negative variance, or 2% below budget. Mr. Rogness reviewed tax revenues through June. Tax revenues are trending slightly lower than the budget forecast. Ms. Priestly noted that when the June financial statements are completed, an estimate is used for tax revenues in June. These numbers show that the actuals are lower than what was estimated.

The total Transit Operations budget was at 89% of the year to date budget. The Sounder program is at 79% of the year to date budget. The largest variance is for discretionary vehicle maintenance that was scheduled to occur later in the year. Ridership on Sounder was 2% below last year and 6% below budget estimates. ST Express bus program expenditures were at 90% of the budget, under-spending was in costs related to DSTT expenses and lower fuel costs than budgeted for 2010. Ridership is above last year's ridership by 2% but below the budget forecast by 9% through the second quarter. Central Link program expenditures were at 95% of the budget, primary variances were materials and supplies for spare parts as well as electrical utilities being lower than budgeted. Ridership is below budget forecast by 5%, but is continuing to increase. The Tacoma Link program was at 74% of its budget, the primary under-spending areas were security costs and inventory. Ridership was below last year by 8% and below budget estimates by 11%. All departments are within their year to date staff budget.

Capital expenditures through the second quarter were at 99% of the year to date budget. On the Sounder program the largest variance was in right-of-way for the D to M Street project where property acquisition is still in process. In ST Express, the greatest variances were in the construction area based on Mountlake Terrace expenditures taking place faster than expected. Kirkland Transit Center work has been delayed waiting for utility work to take place. Two projects managed by partners, the SR522 Bothell project and Rainier Avenue Arterial Improvement project had budget expenditure forecasts that have not been met by the partners. In Link, University Link expenditures for tunnel boring machines were lower than expected.

## 2<sup>nd</sup> Quarter Asset Liability Management Report

Jim Block, Investment Administrator, noted that there are no changes to the stoplight indicators in the Asset Liability Management Report. Yields have not changed, the Federal Funds rate is still between zero and 25 basis points. The average yield on total cash investments decreased by four basis points from 1.3 to 1.26%. The State Investment Pool was paying 30 basis points at the end of the second quarter, up from 22 basis points at the end of the first quarter. The King County Investment Pool was paying 91 basis points at the end of the second quarter, down from 1.1% at the end of the first quarter.

During the second quarter, Sound Transit purchased \$187 million of open market securities for the unrestricted portfolio with an average yield of 92 basis points. Interest earnings for the year to date are \$7.4 million over the budget. When unrealized gains from the mark-to-market entry are factored out, Sound Transit is at 167% of the budget for interest earnings. Performance returns for the unrestricted portfolio are above the benchmark, for capital replacements they are below the benchmark. All portfolios are in compliance with policy limits and guidelines. The spread between taxable and tax-exempt debt continues to be very tight, with longer term tax-exempt debt yielding slightly higher returns. The average borrowing cost is around 3.9%.

Boardmember Butler asked if Sound Transit's exposure through the King County Investment Pool has been resolved. Mr. Block responded that the issue has been resolved; the pool had four impaired investments but settlement agreements have been negotiated with all of them where the pool will recover 40-75% of the original amount. Sound Transit made adjustments in 2007 and 2008 to be conservative by writing those losses off. As Sound Transit receives recovery payments, it is being realized as additional principal. Sound Transit is monitoring their reports on a monthly basis.

Mr. McCartan updated the Committee on the status of the lease-leaseback transaction for the Sounder Commuter Rail vehicles through AIG and First Hawaiian. No significant change has occurred with this transaction. The transaction was impaired as a result of AIG needing to be taken over by the federal government. AIG has moved into a more secure position, but it is still a risk to Sound Transit.

Chair Conlin asked about the 1999 bond rate and asked if Sound Transit has a policy on when the Agency refinances previous bond issues. Mr. McCartan explained that the Asset Liability Management Policy talks about refunding savings targets. Mr. McCartan noted that he could report back on that issue.

Contract reports are also included in Committee members' packets that summarize the open contracts, quarterly activity, and sole source contracts. Two sole-source contracts were issued in the second quarter, one for Amtrack Sounder operations and one for a proprietary IT contract.

Real Estate reports include terminated and active lease arrangements that Sound Transit has for its property. More information on the use of these reports will be covered at a future meeting.

Boardmember Butler and COP Chair Wiesner asked about a contract awarded in the first quarter of 2010 that had a large change order shortly after the contract was awarded. He asked for further information on contracts that meet that criteria. Boardmember Marine asked why a lease for Airport property does not appear on the Real Estate Report. Mr. McCartan noted that he would follow-up on these questions.

#### **Internal Controls**

There were no items.

#### **Next Meeting**

December 16, 2010  
Ruth Fisher Boardroom

Chair Conlin asked that the ARC meetings be scheduled for a longer period of time when substantial audits are scheduled for review.

#### **Adjourn**

The meeting was adjourned at 12:27 p.m.

APPROVED ON December 16, 2010.

  
Richard Conlin  
Audit and Reporting Committee Chair

ATTEST:

  
Katie Flores  
Board Coordinator