

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

**Call to Order**

The meeting was called to order at 11:36 a.m. by Committee member Fred Butler, 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*  
(A) *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 June 17, 2010 Audit and Reporting Committee Meeting

**It was moved by Boardmember Thomas, seconded by Boardmember Enslow, and carried by the unanimous vote of all Committee members present that the minutes of the June 17, 2010 Audit and Reporting Committee meeting be approved as presented.**

Minutes of the September 16, 2010 Audit and Reporting Committee Meeting

**It was moved by Boardmember Enslow, seconded by Boardmember Thomas, and carried by the unanimous vote of all Committee members present that the minutes of the September 16, 2010 Audit and Reporting Committee meeting be approved as presented.**

**Audits**

2009 State Compliance Audit

Hong Nguyen and Carol Erlinger from the State Auditor's Office (SAO) reviewed the State Compliance Audit covering the period 1/1/09 through 12/31/09. The report was issued on November 15, 2010. Eight areas were reviewed including payroll, bond covenants, procurement, and general disbursement. There were no findings, but three exit items were identified in the October exit meeting with Sound Transit management. The items include failure to report known or suspected losses to the SAO, employee compensation pay miscalculations, and splitting credit card purchases to avoid the maximum threshold established by the Sound Transit procurement and disbursement policy. Ms. Nguyen noted that a handout showing the audit costs for the SAO to perform the financial and single audits is included in Committee members' packets. The financial and single audits are currently performed for Sound Transit by KPMG.

(Chair Conlin arrived at this time).

### 2010 Financial Audit Entrance

Tom Evert, Karissa Lackey, and Tara Crawford from KPMG reviewed the audit approach and deliverables for the 2010 financial audit. 2010 Key transactions and events will be reviewed, including increases in revenue volumes as a result of the ORCA project, changes in the methodology for subarea reporting that will require new procedures, and additional reporting requirements related to American Recovery and Reinvestment Act funding. Significant accounts and transactions will be reviewed, including capital assets, revenue generation and implementation of ORCA. Estimate areas will also be reviewed, such as claims and liabilities, OCIP and investment valuation. The audit will review fraud risks by looking at incentives or pressures, opportunities, and attitudes, and will review the Agency's actions when fraud is known. Ms. Lackey presented a risk matrix that plots the significance of certain risks against the likelihood of the risk occurring. Capital projects accounting risks, construction claims and liabilities risks, and public relations risks will all be included in the audit.

KPMG will also conduct a single audit of Sound Transit since the agency receives federal funds. This audit will include changes in the reporting of American Recovery and Reinvestment Act funding.

The audit timeline was reviewed; the planning phases have been completed and control testing is underway. KPMG will return in March for additional fieldwork and will meet with management and the Chair of the ARC Committee to review the final audit report in June 2011. Ms. Lackey reviewed new and proposed changes to accounting practices. Sound Transit management has indicated the new reporting requirement will not have a significant impact.

### FTA Triennial Audit Status

Monica Overby, Grants Administrator, reviewed the results of the recent triennial review. The audit period is 2007-2009 and part of 2010. It covers 24 review areas to test compliance with Federal Transit Administration and other federal requirements including financial, procurement, maintenance, and Title VI and ADA compliance.

19 of the 24 review areas had no deficiencies. Deficiencies were noted in five areas; three have already been corrected. The two remaining deficient areas are procurement and Title VI compliance. Two agreements were found that did not include FTA provisions or cost price analysis. The FTA asked Sound Transit to ensure that all agreements comply with federal requirements. Sound Transit will correct this item before the deadline for response in January 2011. The second deficiency was in the Title VI program, because the recent update to the program did not include a detailed analysis of the meaningful access the Agency provides to its services.

### 2010 Performance Audit Report

Mr. McCartan noted that Sound Transit's financial policies require that a performance audit be conducted. Sound Transit provides performance audits in the years the SAO does not conduct a performance audit of Sound Transit. IT procurement and contract management was selected by the Audit and Reporting Committee as the topic for the 2010 Sound Transit Performance Audit based on a risk assessment.

David Hammond, Internal Audit Director, introduced the audit team from MGT of America that conducted the performance audit. Linus Li and Loretta Hall presented the draft report which has been presented to Sound Transit management for review and response at the end of December. The audit focused on acquisition of IT goods and services, contract and opportunities for potential cost savings or efficiencies. The audit also looked at IT governance, and related areas such as asset management, computer lifecycle management and contract management procedures.

The audit looked at policies and procedures related to procurement. The review showed that Sound Transit performs strongly in that area; there were very few reportable issues. Sound Transit has a strong internal audit function. Controls were strong over purchase cards, approval processes and in comparison with other organizations. Efficiencies could be gained in streamlining the procurement process and documentation, but without weakening the strong internal controls currently in place.

The report identified areas for improvement in IT governance. The audit found that tracking and monitoring of equipment and software could be more mature. The audit recommends updating IT strategic planning documentation to ensure that procurement efforts meet the agency's goals and objectives. IT procurement policies should be updated to ensure they reflect current business processes. Computer lifecycle management should be used to expand the lifespan of the equipment or to save money on equipment replacements. The IT department is in the process of implementing an IT refresh policy regarding replacement schedules and criteria for replacement. Another recommendation is to monitor software usage by using a software inventory that would allow Sound Transit to reassign licenses that are not being used and renegotiate with software companies regarding licenses. A centralized, all encompassing IT inventory should continue to be developed and an IT central store should be developed to manage IT purchasing to give the department more control over reassigning equipment.

Improvements in IT budgeting and reporting were also recommended in the report. Agency-wide reports for IT expenditures should be developed. Tracking IT staffing for projects, software development and help-desk functions would help in creating an agency-wide understanding of costs.

Topics for a 2011 performance audit will be brought to the ARC for their review in March 2011 if the State Auditor's Office does not do a performance audit of Sound Transit in 2011.

#### Internal Audit Charter

Mr. Hammond reviewed the charter developed for the new Internal Audit Division that establishes the purpose, standards, authority and accountability for the division.

#### Financial Reporting

##### Contract Reports

Mr. McCartan responded to questions asked at the September ARC meeting. The Committee asked why more money was added to three specific contracts, a purchase order for Jane North, and contracts with HMI-TI, Inc., and MBI Systems, Inc. The contract with Jane North was used to provide assistance in Sound Transit's legal defense against a RCI Herzog legal claim. The contract with HMI-TI, Inc. provided signage installation services and was later amended to provide install additional signs at another location. The contract with MBI Systems, Inc. was for the purchase of furniture for the 5<sup>th</sup> and Jackson Building. The original contract amount was for one floor of furniture, then Sound Transit later used the same contract for an additional floor of furniture at the 5<sup>th</sup> and Jackson building.

In addition, at the last meeting there was a question about a Port of Seattle property was not listed in the real estate report. This was a result of Sound Transit's practice to not include temporary construction easements on the list of properties that Sound Transit leases.

Mr. McCartan also reviewed the scope of the sole source contracts opened in the third quarter of 2010. Four of the seven contracts are related to fire suppression at the Beacon Hill Station. The original contractor did not complete all of that work and the work needed to be completed quickly. There were two contracts related to the issue of Beacon Hill voids. One contract was for IT systems; the contract was needed because all the transit partners use the same system so Sound Transit needed to use that contractor's technology.

There was also a question about the variance for salary and expenses on the Central Link system. The variance was caused by employees working on Central Link incorrectly charging their time to Central Link Operations. It will be corrected in next quarter's reports.

#### 3<sup>rd</sup> Quarter Financial Results and Reports

Pete Rogness, Budget Director reported that revenues are 1% below budget through the third quarter. Investment income is \$4.9 million due to an unrealized investment gain in the King County Investment Pool, and an unrealized investment gain of \$2.2 million in the debt service investment sale. An unbudgeted \$4.5

million subsidy payment for the Build America Bonds was received in Miscellaneous revenue. \$3.8 million was received in regional mobility grants, and an additional \$700,000 in contributions from the Department of Transportation for the Point Defiance Project. \$6.8 million in American Recovery and Reinvestment Act grants were received.

Sound Transit received lower than budgeted sales and use tax of 5% through the third quarter. Retail car sales tax was 11% below budget, but MVET taxes were on budget. Based on receipts through November, sales and use tax remains 5% below forecast, but only 1% below the finance plan that is the basis for the 2011 Budget.

Transit operations were at 93% of the year-to-date budget through the end of the third quarter. Sounder was at 84% of its budget. Sounder ridership is 4% below the 2009 ridership and below budget forecast by 3%. The ST Express program is about 93% of its budget and spending is lower than expected for fuel and Downtown Seattle Transit Tunnel costs. ST Express ridership is below 2009 ridership by .2% and below budget forecast by 6%. Central Link is at 97% of its year to date budget forecast, the largest budget variance is for spare parts, utilities and salaries. Ridership is below the budget forecast by about 5%. Tacoma Link is at about 76% of its budget. Ridership is 3.5% below last year and below the budget forecast by 12%.

All departments are within their year to date budgets, and overall the agency is just below 90% of budget. In the third quarter the agency had 38 unfilled positions, a vacancy rate of 7.8%.

At the end of the third quarter, the Sounder capital program was \$22.9 million ahead of its annual budget based on a payment for easements between Lakewood and Seattle that was made in the third quarter but that was budgeted in December. Light rail is \$12.2 million ahead of budget related to the globalization of the tunnel contracts and lower than planned expenditures for East Link and the Initial Segment. The Regional Express capital program is \$16.7 million below budget with the Mountlake Terrace Freeway Station, Kirkland Transit Center and Rainier Avenue Arterial Improvement projects under-spent in the construction phase.

### 3<sup>rd</sup> Quarter Asset Liability Management Report

Jim Block, Investment Administrator, reported there are no changes in the stoplight indicators in the Asset Liability Management Report since the second quarter. The future debt has been reduced from \$7.6 billion to \$5.4 billion to reflect the current financial plan. The federal funds rate remains unchanged, it floats between zero and 25 basis points. Over the third quarter, the average yield on total cash and investment increased from 1.26% to 1.27%. The State Investment Pool is still paying 30 basis points, the King County Investment pool decreased by one basis point and now pays 90 basis points.

During the third quarter, Sound Transit purchased \$90 million in open market securities for the unrestricted portfolio at an average yield of 91 basis points. Year to date interest earnings are \$8.4 million above the budget. Factoring out the unrealized gains, the interest is at 142% of the year to date budget. Performance returns are above the benchmark for the unrestricted portfolio, they are still lagging for the capital replacement portfolio. All portfolios are within policy limits and guidelines. The spread between taxable and tax-exempt debt continues to be very tight with tax-exempt debt yielding slightly higher. The current borrowing rate for long term debt is 3.4%.

### Internal Controls

There were no items to report.

### Next Meeting

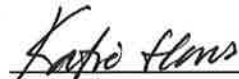
March 17, 2010  
11:30 a.m. to 1:00 p.m.  
Ruth Fisher Boardroom

**Adjourn**

The meeting was adjourned at 12:57 p.m.

APPROVED ON March 24, 2011, KWF.

ATTEST:



Katie Flores  
Board Coordinator

  
Joe Marine  
Audit and Reporting Committee Vice Chair