

SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING

Summary Minutes

December 15, 2011

CALL TO ORDER

The meeting was called to order at 11:34 a.m. by Committee Chair Richard Conlin, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

ROLL CALL

Chair

(P) *Richard Conlin, Snohomish County Executive*

Vice Chair

(P) *Joe Marine, City of Mukilteo Mayor*

Committee Members

(P) *Fred Butler, Issaquah Deputy Council President*

(P) *Dave Enslow, Sumner Mayor*

(P) *Claudia Thomas, Lakewood Councilmember*

(P) *Stuart Scheuerman, Citizen Oversight Panel Chair*

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

REPORT OF THE CHAIR

None.

CONSENT AGENDA

Minutes of the June 16, 2011 Audit and Reporting Committee Meeting

Minutes of the September 15, 2011 Audit and Reporting Committee Meeting

It was moved by Committee Vice Chair Marine, seconded by Boardmember Butler, and carried by the unanimous vote of all members present that the consent agenda be approved as presented.

EXTERNAL AUDITS

2010 State Compliance Audit

Hong Nguyen, Lead Auditor, Carol Ehlinger, Audit Manager, and Tony Martinez, Assistant Audit Manager presented the findings from the 2010 State compliance audit. Ms. Nguyen reviewed the draft audit report including the three management letter items. There were no findings related to the audit.

The exit conference included discussion on three management letter items. Transportation service provider agreements, Non-revenue vehicles covering Sound Transit's motor pool, and the Regional Apprenticeship Preparation Integrated Delivery (RAPID) program related to collecting a \$.05 contribution per labor hour for apprentice training. Boardmember Butler asked for more information on the RAPID program; Alec Stephens, Diversity Technical Advisor, explained that the program is part of the Project Labor Agreement. The parties to the PLA agreed that they would use the \$.05 contribution to a fund to provide funding for apprenticeship preparation programs.

Ms. Nguyen noted that the audit found that one of the service provider agreements was not monitored adequately. Overhead cost allocations were incorrectly reconciled based on supporting documentation. The auditors recommended that Sound Transit improve monitoring of the service provider and ensure adequate documentation in the future. Boardmembers asked what corrections may be made; going forward a new reconciliation process has been developed to reconcile actual numbers for all contract areas not only the major areas. The audit also reviewed how Sound Transit ensures non-revenue vehicles are used only for business purposes.

The audit period was from January 2010 through December 2010. During the audit period, there was not enough monitoring or documentation to ensure appropriate vehicle usage. Sound Transit implemented a policy in October 2011 that was outside the audit period that will address these concerns.

The RAPID program accounting was found to be inadequate; Sound Transit under-collected \$2,641 during the audit period. Kelly Priestly, Controller, noted that the contracts where underpayments occurred have not been closed out and Sound Transit will recover the underpayment. Steps have been implemented to reconcile the labor hours to ensure the proper amount is collected.

Ms. Nguyen also reviewed the audit cost; the audit cost of \$45,000 was less than .1% of total agency expenditures.

2011 Financial and Federal Audit Entrance

Tom Evert and Tara Crawford of KPMG reviewed the audit plan for the 2011 financial Audit. Sound Transit has around \$6 billion in assets; the audit will focus on areas of high materiality or high judgment. Exceptions above a certain threshold will be reported at the conclusion of the audit. The deliverables will include the results of the financial statement audit, the single audit of federal grants, and the results of the agreed on procedures for auditing subarea and national transit database reporting. Findings on internal controls or business efficiencies will be included in a management letter. The audit will also review whether there are audit adjustments, or accounting policy changes.

Ms. Crawford reviewed the entrance conference held with Sound Transit. There is increased spending with University Link, and fleet replacement. These factors will increase the sample size but won't affect the overall audit approach. The audit is based on a risk-based approach, the majority of the audit areas remain the same. Mr. Evert reviewed a chart showing the significance and likelihood of different audit areas. Areas with high judgment, and significance and likelihood will be audited more. The A133 audit will review federal grant funding. Reporting requirements will be monitored along with other criteria.

The audit team has completed preliminary field work, including some preliminary work on the ORCA audit. The audit timeframe is accelerated to work towards issuing an audit in May 2012, and April 2012 for ORCA. The ORCA audit will look at the reconciliation and allocation of revenues, the collection of expenses and allocation, and institutional pass revenue. Ms. Priestly noted that Sound Transit is responsible for preparing the financial statement for the ORCA program.

Mr. Evert reviewed the audit team that will be conducting this year's audit.

INTERNAL AUDIT UPDATE

David Hammond, Internal Audit Director, presented the internal audit update. In November, Sound Transit learned that the State Performance Auditor would be conducting an audit of Sound Transit to follow up their prior audit on Link construction, evaluate Sound Transit's adjustment to declining revenues, review Sound Transit's ridership forecasting, and the Board responsiveness to Citizen Oversight Panel questions.

Mr. Hammond reviewed the audit reports issued this quarter; the Motor Vehicle Excise Tax (MVET) Program Audit, and the Property Acquisition and Leasing-Internal Controls Audit. The MVET program at Sound Transit provides quality assurance to the Department of Licensing in applying Sound Transit taxes to people inside the Sound Transit district. Sound Transit is able to correct the DOL error rate of 1.5%. The IT and accounting divisions worked together to support the DOL and have put a good program in place. The audit made recommendations that will reduce the error rate further, make the program more efficient, and strengthen internal controls. An audit report was issued on the internal controls over leasing property Sound Transit owns, and renting property owned by others. There were no findings, but audit recommendations were made to improve consistency and oversight.

There are several audits in progress. A value engineering audit will likely be ready for the March Audit and Reporting Committee meeting. The audit of the paratransit services contract, fuel purchasing contracts, internal control of medical premium payments, and ticket vending machine sales reconciliation are still in progress.

Mr. Hammond reviewed a list of recommendations from prior internal audits. The internal audit division will begin following up on audit recommendations in the second year and will report back on those findings. Mr. Hammond also reviewed a two-year audit plan for the IT division. The audit will include management controls, disaster recovery, management of wireless devices, and asset inventory management. In 2013, phase two of reviewing management controls, and follow-up on the MVET audit will take place.

Two audits were deferred; the worker's compensation program and the follow-up on the 2007 Link construction audit. The workers compensation program is mandated and overseen by the State and does not have many claims. The recommendation is to not conduct the audit in 2011. The follow-up on the State Compliance Auditor's audit will be conducted by the State Auditor's Office in 2012.

The 2011 Audit report and 2012 audit plan will be presented at the March Audit and Reporting Committee meeting. Information on the issue of audit fatigue will be also presented.

FINANCIAL REPORTING

Overview of 3Q 2011 Financial Results and Reports

Pete Rogness, Budget Manager, gave a report on the third quarter 2011 Financial Results and Reports.

Third quarter results were positive. Sales and use taxes were below budget by 2%, but fare revenues and MVET were above budget by 3.4%. Fare revenues improved from the second quarter due to stronger ridership. Transit operations are at 99% of the year to date budget; overages in fuel costs and purchased transportation services, including payments to BNSF were offset by an under run in services for discretionary vehicle maintenance. Mr. Rogness reviewed the budget for each of the service modes; Sounder is above budget by 1%, ST Express is at 99% of the budget, Central Link is at 99% of the budget; and Tacoma Link is at 83% of the budget. All departments are in their year to date budget; the agency has a vacancy rate of 9%.

Mr. Rogness reviewed capital expenditures; the Regional Express program is at 169% of the year to date budget which is due to a late payment on the Burien Transit Center and the overall program is tracking in the mid-90%. Central Link is at 84% of the year to date budget due to faster than anticipated vehicle production and higher expenditures on University Link, and offset by delayed right-of-way expenditures for North Link. Service delivery is at 84% of the annual budget and the Other Agency budget is at 86% of the annual budget.

3Q Asset Liability Management Report

Tracy Butler, Treasurer, gave a presentation on the third quarter Asset Liability Management report.

There has been a change to the stop light indicator for Investment Performance from yellow to green. The change is due to three straight quarters of above-benchmark performance and budget in the current investment environment. There were no other changes to the stoplight indicators since the last quarter. The federal government will keep the fed rate floating between 0 and 25 basis points through May 2013. As a result, Sound Transit changed its investment strategy. The majority of the investment portfolio is agency securities such as the federal home loan bank backed by the United States government. The long-term rate is around 3.5% for 30-year loan. Sound Transit is due for its annual credit review with Moody's. Moody's may implement a new special tax rating methodology in response to market criticism and declining investor confidence in the current rating methodologies. Based on the new methodology, there could be changes to Sound Transit's credit ratings in the first quarter of 2012.

Contract Reports

Brian McCartan, CFO, reviewed the contract reports.

The report covering contracts for the third quarter 2011 shows 11 contracts within the Board's authority for final action and 114 within the CEO's authority. The report of sole source contracts opened in the third quarter shows only two contracts. There is also a report showing proprietary contracts opened in the third quarter and a contract report showing contracts that have been in place for more than five years.

NEXT MEETING

March 15, 2012
11:30 a.m. to 1:00 p.m.
Ruth Fisher Boardroom

ADJOURN

The meeting was adjourned at 12:56 p.m.



Dave Enslow
Audit and Reporting Committee Chair

ATTEST:



Katie Flores
Board Coordinator

APPROVED on March 22, 2012, KWF.