

## **SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING**

### **Summary Minutes**

**June 28, 2012**

### **CALL TO ORDER**

The meeting was called to order at 10:36 a.m. by Committee Chair Dave Enslow, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

### **ROLL CALL**

#### Chair

(P) *Dave Enslow, Sumner Mayor*

#### Vice Chair

(A) *Larry Phillips, King County Councilmember*

#### Committee Members

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

(P) *Mary Moss, Lakewood Councilmember*

(A) *Dow Constantine, King County Executive*

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

(P) *John Marchione, Redmond Mayor*

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 March 22, 2012 Audit and Reporting Committee Meeting

**It was moved by Boardmember Butler, seconded by Boardmember Moss, and carried by the unanimous vote of all members present that the minutes of the March 22, 2012 Audit and Reporting Committee be approved as presented.**

### **EXTERNAL AUDITS**

#### 2011 Financial Statements

Kelly Priestly, Controller, noted that the Financial Statements and Single Audit Report are included in Committee member packets. The Single Audit Report includes audit reports required under the Single Audit Act including compliance with internal controls and requirements. The Single Audit report also includes a schedule of federal awards and the amount expended by Sound Transit during the year. KPMG will review a report to the National Transit Database as part of their presentation. The report on agreed-upon procedures for subarea equity is not completed and will be discussed at a future ARC meeting.

KPMG audited the financial information that Sound Transit prepared for the ORCA Joint Board since Sound Transit is the fiscal agent for ORCA. It was a clean report with no exceptions and no management letter. The report is used internally and no management report or analysis is included in the report. A compliance audit of ORCA card procedures was also conducted; the report was issued in compliance with contract terms and was a clean audit.

Lacy Ferguson, Accounting Manager, reviewed the results of the Financial Statements audit. In 2011, Sound Transit's performance was similar to 2010. Sound Transit's loss from operations in 2011 was \$271.5 million, a 3% decrease from 2010, the decrease is due to an increase in fare revenues and service restructuring that reduced operating costs. Sound Transit's change in net assets is positive at \$406 million. Total assets increased to \$6.2 billion primarily due to increases in capital projects spending. More information on capital asset replacement costs will come to the Board in the future. Total liabilities decreased to \$1.7 billion because the majority of Central Link construction claims have been settled.

Operating revenue in 2011 was \$51.9 million including passenger fares of \$46.1 million and other operating revenues of \$5.8 million, an increase of 29.4% over 2010 because of fare increases. ORCA system information has allowed Sound Transit to price ORCA cards for businesses using actual ridership data. Ridership increased across all modes, and other operating revenue increased because of leasing buses to Pierce Transit to allow them to continue their non-peak and weekend service following an explosion at their fueling facility.

Operating expenses in 2011 was \$213 million including service delivery expenses of \$182 million and general and agency administration expenses of \$29.5 million. Service delivery expenses increased by only 1.9% over 2010. Expenses by mode were similar to 2010 except for a 8.2% increase for Central Link due to an increase in operator rates and additional vehicle and facility maintenance costs because the vehicles are no longer under warranty. ST Express operating expenses were reduced because of restructuring and transferring some routes from King County Metro to Pierce Transit. Non-vehicle maintenance expenses decreased because of completing the major mid-life maintenance on the Downtown Seattle Transit Tunnel in 2010. This decrease offset the increases in track and facility maintenance for rail modes. General and administrative expenses decreased by 13.5% because construction claims related to Central Link were substantially settled by 2011. Net non-operating revenues were \$498 million. Tax revenues were \$595 million, an increase of 4% over 2010 due to an amnesty program the Department of Revenue ran to help businesses who had not filed taxes previously. Investment income increased to \$20.9 million due to favorable market conditions. Contributions to other governments increased \$74 million as a result of the completion of the Mountlake Terrace Freeway Station, Kirkland Transit Center and Edmonds Transit Center. Interest expenses decreased to \$48.3 million because more was capitalized to the University Link and ST3 programs. Capital contributions from others increased 6% because Sound Transit was able to draw down additional amounts on the University Link grant.

Sound Transit's balance sheet includes \$991 million in current assets versus \$152 million in current liabilities for a total working capital of \$839 million. Long-term debt is at \$1.5 billion and net assets are at \$4.5 billion. There were two changes to the income statement format; contributions to other governments was moved to the non-operating section. Recovery of prior year insured losses has decreased so it was consolidated with the other revenues line.

#### Results of the 2011 Financial and Federal Audits

Tom Evert, Tara Crawford, and Karissa Lackey of KPMG reviewed the results of the audit. The financial statements audit had an unqualified opinion and no material weaknesses or deficiencies were identified. There were also no findings for the A133 audit.

The financial statement audit focused on operational results and showed an overall increase in assets. Generally accepted auditing standards are used to audit Sound Transit. There was continued spending on University Link and Sounder projects as well as easements from BNSF. Managements, judgments and estimates were reviewed by audit. KPMG agreed with Sound Transit's methodology and calculations. The audit looked at estimates for claims and actuals and did not see material variances. There were no audit adjustments to report and there were no disagreements with Sound Transit management. KMPG remains independent from Sound Transit.

The A133 Single Audit looked at expenditures from federal awards and compliance with federal awards requirements. It was an unqualified audit opinion with no findings. Eleven of the fourteen requirements for auditing this area are applicable to Sound Transit.

The National Transit Database report includes twenty-six recommended procedures including policies and procedures, and statistical data. The audit is not complete at this time; it is expected to be complete in August.

The audit of ORCA was completed in April, with an unqualified opinion, no material weaknesses or significant deficiencies. The audit included an emphasis paragraph because the ORCA audit does not include management discussion and analysis. There was one reclassification that the ORCA participating agencies decided not to record as an audit finding. KPMG concurred with their conclusion.

The subarea equity report has been changed in the last couple years to more closely align with the financial plan. KPMG is finalizing work procedures for that audit and expects to be complete soon. Committee member packets also included some information on challenges and priorities shaping Audit Committee agendas in governments and private businesses.

Joni Earl, Chief Executive Officer, thanked KPMG and the accounting group for the successful audits.

## **INTERNAL AUDIT UPDATE**

David Hammond, Internal Audit Director, gave a quarterly update on current audit reports, audits in progress and the status of the State Auditor's performance audit.

### Current Reports

There are no audits to review today.

### Audits in progress

There are three audits near completion: fuel procurement, ticket vending machine internal controls and the Paratransit program. The audit on the Paratransit program will result in a credit to Sound Transit based on the preliminary audit findings. There is also an audit looking at the cost sharing agreement for the Downtown Seattle Transit Tunnel. There are also some follow-up activities on the audit on Agency-wide small and attractive assets. The internal audit division is looking at follow-up work based on past audits to see if the recommendations are being followed and are if they are meeting the intent of the original audit recommendations. More follow-up information will be presented in the future.

### State Performance Audit Update

Mr. Hammond noted that the State Auditor's office has completed its on-site fieldwork. Some of the questions raised during fieldwork will be reviewed and the first draft of the report should be completed in August.

## **FINANCIAL REPORTING**

### Overview of 1Q 2011 Financial Results and Reports

Pete Rogness, Budget Manager, gave a report on the first quarter 2012 Financial Results and Reports. First quarter revenues are seven percent under budget because less grant money was used. Sales and use tax was under budget by 2%, or 2.5 million. Fare revenues were above budget by \$1.4 million and investment income was above budget by \$400,000 because of higher interest rates assumed in the budget. Based on tax revenues through May, the sales tax is below budget by \$6.1 million, Motor Vehicle Excise Tax is 5% below budget and the Rental Car Tax is at budget, for a total of 4.4% below budget for overall tax revenues.

Total fare revenue was at 113% of the budget for transit operations. Boardings and fare revenues were ahead of 2011 and the 2012 budget for all modes. Transit operations expenses were at 96% of the year to date budget; Sounder was at 87% of budget because of savings in vehicle maintenance and fuel costs and some delayed maintenance. ST Express is at 102% of the year to date budget, the largest variance was due to purchased transportation services that happened in a different quarter. Central Link is at 95% of its budget related to higher expenditures for materials and supplies for spare parts offset by savings in fare vending machine and supplies because the majority of the work is being done in-house. Purchased transportation services were also lower in the first quarter 2012. Tacoma Link is at 86% of the year to date budget because discretionary expenditures for repairs and maintenance did not occur in the first quarter.

The agency as a whole is at 86% of the year to date budget and all departments are within budget. Salaries and benefits, and services make up 82% of the total agency administration budget. Salaries and benefits were \$775,000 or 5% below budget. There was a vacancy rate of 10.4%. In 2012, 29 new positions were created, 24 were budgeted in the first quarter of 2012.

Capital expenditures for ST Express are at 29% of the year to date budget due to under spending on the I-90 stage two project. Invoices for that project are expected in the second quarter. There were also project savings on the 85<sup>th</sup> street corridor in Kirkland and the Kirkland Transit Center. Sounder capital expenditures are at 37% of the year to date budget, due to under spending in the D to M Street Track and Signal Project, M to Lakewood layover Project and Positive Train Control. Central Link is at 90% of the year to date capital budget. University Link is at 110% of the year to date cash flow due to progress on tunneling offset by an East Link right of way acquisition that was budgeted for the first quarter but will take place in the second quarter. The First Hill Streetcar is also behind in budgeted expenditures. Service delivery is at 95% of the year to date budget due to changes in

vehicle procurements. Other agency projects were at 43% of the year to date budget, including under spending in fare integration, and asset management programs.

### 1Q Asset Liability Management Report

Jim Block, Cash Investment Administrator, gave a presentation on the first quarter Asset Liability Management report.

There were no changes to the stoplight indicators. The federal government now says they will keep the fed rate floating between 0 and 25 basis points through late 2014. In the first quarter, the average yield on total cash and investment holdings decreased by six basis points. The state investment pool was at 14 basis points at the end of the first quarter and the King County investment pool was at 52 basis points. There was no change in strategy in the first quarter. \$20 million in open market securities were purchased for the unrestricted portfolio at an average yield of 42 basis points. Interest earnings exceeded the budget by \$400,000, but without unrealized gains and losses, investments were over budget by \$300,000. The investment portfolio is meeting all the benchmarks and all portfolios comply with policy limits and guidelines. Taxable bonds are back to being higher yielding than tax-exempt bonds. The current borrowing rate for long-term debt is at 3.2%.

### Contract Reports

Contract reports covering contracts opened during the first quarter of 2012, sole source and propriety contracts opened in the first quarter, first quarter contracts under \$10,000, and all contracts over five years old were included in Committee members packets.

### **EXECUTIVE SESSION**

At 11:46 a.m., Chair Enslow announced that the Board would convene an executive session for 20 minutes. Desmond Brown, General Counsel, announced that the purpose of the executive session is to consider matters affecting national security relating to Sound Transit's operations. The executive session is authorized by RCW 42.30.110 subsection (1)(a).

At 12:06 p.m., the executive session was extended by 20 minutes.

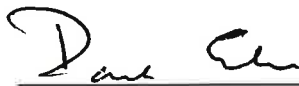
Chair Enslow reconvened the meeting at 12:26 p.m.

### **NEXT MEETING**

September 27, 2012  
10:30 a.m. to 12:30 p.m.  
Ruth Fisher Boardroom

### **ADJOURN**

The meeting was adjourned at 12:26 p.m.

  
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Dave Enslow  
Audit and Reporting Committee Chair

ATTEST:

  
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Katie Flores  
Board Coordinator

APPROVED on September 27, 2012, KWF.