

SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING

Summary Minutes

March 27, 2014

CALL TO ORDER

The meeting was called to order at 10:32 a.m. by Committee Chair Larry Phillips, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

ROLL CALL

Chair

(P) *Larry Phillips, King County Council Chair*

Vice Chair

(P) *Dave Enslow, Sumner Mayor*

Committee Members

(A) *John Lovick, Snohomish County Executive*

(P) *Mike O'Brien, Seattle Councilmember*

(A) *Joe McDermott, King County Councilmember*

(P) *Josh Benaloh, Citizen Oversight Panel Chair*

(P) *Mary Moss, Lakewood Councilmember*

Ms. Katie Flores, Board Coordinator, announced that a quorum of the Committee was not present at roll call.

REPORT OF THE CHAIR

Brian McCartan, Executive Director of Finance and Information Technology, reviewed the agenda. Under direction from the Committee Chair, at the next Audit and Reporting Committee meeting Sound Transit staff will provide options for the content and structure of future meetings.

Chair Phillips asked to hold the business item until a quorum of the Committee was present.

FINANCIAL REPORTING

Overview of 4Q 2013 Financial Results and Reports

Pete Rogness, Director of Budget and Financial Planning, gave a report on the fourth quarter 2013 Financial Results and Reports. Revenues for the year were strong, with no large variances. Total revenues were 3.4%, or \$28 million higher than the budget, mainly due to higher sales tax revenue. Federal grants were at 94% of the budget due to slower than expected spending for the University Link Extension, South 200th Link Extension and the Mukilteo Sounder Station project. There were also impacts due to mark to market adjustments that reduced investment income. Local and State contributions were higher than budgeted because of land bank transactions.

Total fare revenue was 8% above budget for transit operations. Boardings on all transit modes except Tacoma Link were on budget or ahead of budget forecasts. The fare box recovery rate exceeded the annual target for all transit modes. Transit operations expenses were 95% of the annual budget. Sounder, ST Express and Central Link were all at 90% of the budget or higher for the year. Sound Transit will reconcile expenditures against forecasted spending for ST Express, Central Link and the Downtown Seattle Transit Tunnel, and it appears that actual expenditures were lower than anticipated.

All departments are within budget, including interlocal agreements, legal services, software and hardware, auditing services, and temporary services. Salary and benefits were 1.4% below budget. The agency had

a 7% position vacancy rate at the end of the year, and averaged 9% throughout the year. Mr. Rogness noted that an average of 9% is normal for the past few years.

(Boardmember Moss arrived at this time)

Total agency capital expenditures were \$600 million, or 80% of the total budget. Mr. Rogness reviewed the reasons for spending being under budget. Eighty-seven percent of the budget variance is due to schedule changes that were planned or a result of external factors. Eleven percent of the budget variance, or approximately \$17,000, is due to budget savings in existing Sound Transit projects, or projects near closeout. Link projects are at 90% of the budget. Mr. Rogness noted that the report includes information on each project for the year and life to date expenditures. The agency progress reports and Link progress reports include information on accomplishment rates for each project.

BUSINESS ITEM

Minutes of the January 23, 2014 Audit and Reporting Committee Meeting

It was moved by Boardmember Moss, seconded by Mr. Benaloh, and carried by the unanimous vote of all members present that the minutes of the January 23, 2014 Audit and Reporting Committee be approved as presented.

FINANCIAL REPORTING (CONTINUED)

4Q Asset Liability Management Report

Tracy Butler, Treasurer, gave a presentation on the fourth quarter report. There were no significant changes from the 3rd quarter. The fed fund rate continues to float between 0 and 25 basis, and will likely remain there until the second quarter of 2015. The borrowing rate at the end of the fourth quarter was 4.4%.

Ms. Butler noted that in May, the Board would likely decide whether to continue participating in the State Investment Pool by accepting or rejecting the new prospectus developed by the investment pool. The prospectus aims to improve disclosure and transparency for pool participants.

Mr. McCartan noted that the agency currently has \$517 million in unrestricted cash. When that number nears \$200 million, Sound Transit will consider returning to the Bond market. Sound Transit will need to issue \$7 billion in debt, so staff continues to monitor interest rates.

Contract Reports

Ted Lucas, Director of Procurements and Contracts, reviewed the four contract reports included in Boardmember packets: a report covering fourth quarter contracts awarded by the CEO that are between \$100,000 and \$200,000; a report covering fourth quarter sole source and propriety contracts awarded by the CEO that are between \$10,000 and \$100,000; a report covering fourth quarter proprietary contracts awarded by the CEO that exceed \$100,000; and all open contracts in excess of \$10,000 that were still current in the fourth quarter.

The first three reports are required under the Board's procurement policy, Resolution No. R78-2. The report showing all open contract contracts over \$10,000 that were still current in the fourth quarter was included for the Committee's information. Mr. Lucas responded to questions about some specific contracts included in the reports.

INTERNAL AUDIT UPDATE

Internal Control Presentation

David Hammond, Internal Audit Director, provided the quarterly status update for the Internal Audit division. He reviewed the internal controls that apply to the division. Resolution No. R2010-19, which created the Internal Audit division, outlines the Audit and Reporting Committee's responsibility to consider the effectiveness of the agency's internal controls. The Internal Audit division reviews the agencies internal controls on behalf of the agency. The division performs an annual risk assessment to consider areas to add to the internal audit plan.

2013 Internal Audit Annual Report

The report shows 50% completion of the audit goals for 2013—short of the goal to complete 90% of the planned audits for the year. The remaining audits planned for 2013 will be carried over to 2014. The division will request an additional staff position for possible inclusion in the budget for 2014.

(Boardmember O'Brien arrived at this time)

2014 Internal Audit Work Plan

Sound Transit completed procurement of an auditor to begin work on the public safety program performance audit. The Committee selected this topic in January as the annual performance audit. A subject matter expert will complete nearly half of the work. The audit work is expected to be complete in September 2014 with a report to the Committee in either September or December. Mr. Hammond also reviewed the 2014 work plan for the audit team, including audits in progress, carry-over audits from 2013, and prior year follow-up.

Prior Recommendation Status

Mr. Hammond reviewed the prior audit recommendation summary showing the follow-up status of audits completed in 2012, 2013 and early 2014.

Internal Audit Reports Issued

Three audits were completed in the past quarter including an audit on Link light rail partner costs that is scheduled to be presented at the June Audit and Reporting Committee.

Internal Audits in Progress

There are seven audits in progress, including partner cost audits for the public safety program and regional express, two follow-up audits on paratransit and the Downtown Seattle Transit Tunnel, annual audits of travel expenses and procurement cards, and an audit of performance metrics.

Chair Phillips confirmed the importance of the audit function and noted the value that this function has brought to Sound Transit and King County. He asked that future reports continue to highlight areas where there are differences of opinions between the audit findings and management, or where finances or business practices are not in compliance with state law or statute.

NEXT MEETING

June 26, 2014
9:30 a.m. to 11:00 a.m.
Ruth Fisher Boardroom

ADJOURN

The meeting was adjourned at 11:15 a.m.



Larry Phillips
Audit and Reporting Committee Chair

ATTEST:



Katie Flores
Board Coordinator

APPROVED on September 25, 2014, KWF