

SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING

Summary Minutes

March 19, 2015

CALL TO ORDER

The meeting was called to order at 11:06 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

(P) John Lovick, Snohomish County Executive

(A) Mike O'Brien, Seattle Councilmember

(A) Joe McDermott, King County Councilmember

(P) Josh Benaloh, Citizen Oversight Panel Chair

(A) Mary Moss, Lakewood Councilmember

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

REPORT OF THE CHAIR

Chair Phillips introduced Brian McCartan, Executive Director of Finance and Information Technology. Mr. McCartan noted that the agenda today would be presented in three parts: 4th quarter financial reports, an update from Dave Hammond, Director of internal audit, and an executive session topic to close out the meeting. There are no external audits to review.

BUSINESS ITEMS

Minutes from the September 25, 2014 Audit and Reporting Committee meeting minutes

It was moved by Vice Chair Dave Enslow, seconded by Boardmember Lovick, and carried by unanimous vote that the minutes of the September 25, 2014 Audit and Reporting Committee Meeting Minutes be approved as presented.

Minutes from the December 11, 2014 Audit and Reporting Committee meeting minutes

It was moved by Vice Chair Dave Enslow, seconded by Boardmember Lovick, and carried by unanimous vote that the minutes of the December 11, 2014 Audit and Reporting Committee Meeting Minutes be approved as presented.

FINANCIAL REPORTING

Fourth Quarter Financial Report

Brian McCartan, Executive Director of Finance and IT presented the staff report. Mr. McCartan clarified that the reports provided include 2014 results, not only 4th quarter financial information. Sound Transit had one of the strongest years in its history due to favorable economic forces and low interest rates. Revenues exceeded budget, ridership increased, and fuel cost declined. All Agency revenues are exceeding budget with the exception of Grants. Sound Transit expects this to equalize in future years. 2014 is the first year the agency spent more than a billion dollars in total building out the regional transit system.

Sound Transit tracks three budget categories: 1) Service Delivery, 2) Ridership, and 3) Project Delivery. Sound Transit Service Delivery cost was below budget due to lower fuel and maintenance costs. Ridership exceeded forecast in all modes and Fare Box recovery was above target for all modes. Costs per boarding

per revenue hour were below target. Fare per boarding was lower than forecasted and ORCA data provided suggests riders are purchasing products that are more cost effective to them.

Sound Transit did not meet the target for capital spending on construction projects. A budget amendment at the end of the year added funding that was not expended, resulting in Northgate being significantly under budget for the year. East Link was also under budget. Finally, a right-of-way purchase for the Tacoma Trestle project and Sounder easements purchases was not completed as scheduled.

Fourth Quarter Asset Liability Management Report

Jim Block, Cash Investment Administrator presented the staff report. There are no significant changes in the Asset and Liability Report from last quarter. The Fed met twice in the fourth quarter and concluded their Asset Purchasing program in October. Over the fourth quarter, the average yield on total cash and investment earnings increased five basis points. This increase is due to the 2014 capital replacement contribution. The State pool did not change between the third and fourth quarter. There were no investment purchases through the unrestricted portfolio in the fourth quarter. Performance returns are above the benchmark for both the unrestricted and the capital replacement portfolio and all portfolios are in compliant with policy limits and guidelines.

Mr. McCartan announced that Jim Block is leaving Sound Transit after 15 years as the Cash Investments Administrator. Mr. McCartan expressed appreciation for Mr. Block's tremendous sense of integrity in guarding public funds. The Board Chair also thanked Mr. Block for his contribution to Sound Transit and the citizens in the district.

Fourth Quarter Contract Reports

Brian McCartan, Executive Director of Finance and IT stated that Ted Lucas, Director of Procurement and Contracts was available to answer any questions about the contracts report provided.

INTERNAL AUDIT UPDATE

David Hammond, Internal Audit Director presented the report.

Peer Review Results

The Agency established a formal internal audit function in 2010. In February, four audit managers and directors from the City of Los Angeles, Los Angeles Metro, San Antonio Metro, and the Port of Seattle completed a peer review covering both the International Professional Practice Framework and Government Audit standards and passed Sound Transit with full compliance. The review team highlighted several strengths including recognition that all Sound Transit team members were professionally certified. Further, they recognized Sound Transit's work with Seattle University and the development of a graduate accounting Internal Audit Certification program. Mr. Hammond serves as a committee advisor for this program. Areas for improvement included some clean up activity including updating of the charter, some policies and procedures that ensure that Sound Transit stays on track. Mr. Hammond stated that the updated charter would be brought before the committee in the next few months. The next peer review will be in three years.

Performance Audits – Status Update

Mr. Hammond reported that the draft report for the 2014 Public Safety Program Audit did not include enough specificity or corrective actions. Sound Transit requested a revised draft report that provides more cohesive, actionable findings. Sound Transit will provide the revised report to the Committee for review in June.

Representatives from construction management, design, operations, and quality assurance have put together a scope of work for the upcoming 2015 audit on Construction Quality Control and Quality Assurance. Sound Transit issued a Request for Proposals using the developed scope of work and Mr. Hammond anticipates fieldwork beginning in April, with a report by the September meeting.

2014 Internal Audit Annual Report

Sound Transit completed 60% of the 2014 planned engagements. An additional 20% of audits were started but have not completed. 10% of the engagements were not ready for management to audit and will be carried over to the next year. Mr. Hammond will continue to right size the planned engagements. All quarterly reporting and annual reporting due dates were met.

2015-16 Internal Audit Work Plan

Sound Transit uses a two-year plan with a yearly update to increase predictability for the Agency and add flexibility in terms of scheduling and impact to the agency. Until Sound Transit acquires additional resources or budget for staff assistance, four to six new engagements are planned for completion each year in addition to regular recurring audits. Recurring audits look at routine transactions with a simplified reporting framework intended to be efficient and provide assurance to management and the Board on high-risk areas. This year's assessment will look at Fare Box Recovery.

Prior Recommendation Status

Mr. Hammond explained that each of the items on the list of prior recommendations tracks completion of corrective action status and are part of the overall plan for 2015. This standard quarterly report will continue until all recommendations are resolved.

Internal Audit Reports Issued

Five projects completed over the last quarter. Mr. Hammond introduced the internal audit team to provide status. Shelli Applegate, Certified Internal Auditor provided the Phase Gate Audit report results. Gates and phases represent key decision points throughout the life of Sound Transit projects. The audit objective was to determine if agency projects comply with policies and procedures, whether the program is running effectively, and efficiently, and whether the program reporting and record keeping is adequate. The results showed that both agency stakeholders and the Board understood the Phase Gate Process and projects are in compliance. The audit provided nine recommendations to improve the process. These included areas that could benefit from further clarification, the need for additional training, and opportunities to increase efficiencies by better aligning the phase gate process with other capital processes within the agency. Management provided responses to all recommendations.

Mr. Hammond introduces the Certified Information Systems auditor to provide a report on two audits including the IT Project Management and the performance metrics within the earned value management system used by DECM to track capital projects.

The Project Management Office is responsible for the management of IT projects. The PMO is currently managing fourteen projects in the execution phase and sixteen projects in the planning phase. The audit scope included projects that completed in 2013 and projects that were active in 2014. Audit objectives were to evaluate the maturity of the IT project management program against industry standards to determine whether project scope, schedule and budget documentation was appropriate. The use of the PMO and reporting of performance metrics evaluation provided five major findings:

- 1) System acceptance is not documented in any formalized manner and contract close-out procedures do not include a document acknowledging delivery.
- 2) There should some agreement between departments about what project information should be included for each phase gate e.g. comparison between actual cost and baseline budgets.
- 3) A post implementation review would be a good time to identify lessons learned and to compare project results to the business case used to initiate the project.
- 4) The existing performance metric used to report on all projects does not fully include scope, schedule, and budget so several alternate metrics were suggested such as budget to actual comparisons, schedule performance, on-time project delivery percentage, end user satisfaction surveys, and project benefit realization metrics.
- 5) Current business process controls used rate between two and three out of five, meaning controls are in place and some are documented but others are not.

The report includes an appendix that details the nine process maturity assessments given. The report identifies sixteen detailed recommendations, which include formalizing documentation, consistency of reporting, and additional performance metrics. Management concurred with the findings and is committed to implementing recommendations by next year.

There will be annual audits of performance metrics. The first group is the Earned Value Management technique used by DECM. These performance metrics were selected based on importance to ST management. The audit objective was to determine the accuracy and reporting of these core performance metrics. The overall conclusion was that the capital projects performance metrics are accurately calculated and consistently reported. The internal control structure developed by the project controls division is very strong. There was a recommendation was to standardize some of the document archives that would increase the efficiency in reviewing these projects.

Mr. Hammond reported on a memo provided explaining that the IT management control audit corrective action plan is being deferred so similar recommendations from other audits can be incorporated.

Internal Audits in Progress

The Goods and Services and Blanket Purchase audits are being done in a combined engagement. A 2013 Contract Management audit recommended that additional work be done on continuous assurance testing of expenditures given the decentralized nature of contract management at Sound Transit. Significant resources have been added under the heading of Continuous Assurance and Payment Testing to ensure that regular audits can be performed. The Architecture and Engineering Management Audit is an audit being done on five contracts that share services. Field work is under way and results are expected in June or July. Finally, the Business Systems and Data Recovery Audit is going to be limited to a maturity assessment model. Sound Transits view of the agency's IT Business Continuity Planning using an established framework for assessing maturity.

Future audits for 2015 include and audit within the facilities division focusing on inventory management, contract management, and asset condition rating processes.

EXECUTIVE SESSION

At 12:03 p.m., Committee Chair Phillips asked everyone not directly involved in the executive session to leave the Boardroom so Boardmembers could consider a matter concerning Sound Transit's computer network. The executive session was expected to last 30 minutes and is authorized under RCW 42.30.110(1). No action will be taken following the executive session.

At 12:32 p.m. Committee Chair Phillips reconvened the meeting.

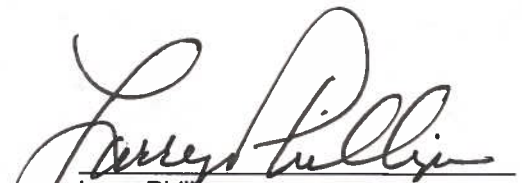
NEXT MEETING

June 18, 2015
11:00 a.m. to 12:00 p.m.
Ruth Fisher Boardroom

ADJOURN

The meeting adjourned at 12:32 p.m.


Kathryn Flores
Board Administrator


Larry Phillips
Audit and Reporting Committee Chair

APPROVED on October 15, 2015