



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

Summary Minutes

October 15, 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*

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

(A) *Joe McDermott, King County Councilmember*

(P) *Philip Lovell, Citizen Oversight Panel Chair*

(P) *Mary Moss, Lakewood Councilmember*

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

### **REPORT OF THE CHAIR**

Chair Phillips welcomed Philip Lovell, recently elected Chair of the Citizen Oversight Panel to the Committee and then introduced Brian McCartan, Executive Director of Finance and Information Technology who reviewed the agenda.

### **BUSINESS ITEMS**

Minutes from the March 19, 2015 Audit and Reporting Committee meeting minutes

**It was moved by Boardmember Lovick, seconded by Vice Chair Dave Enslow, and carried by unanimous vote that the minutes of the March 19, 2015 Audit and Reporting Committee Meeting Minutes be approved as presented.**

Minutes from the June 18, 2015 Audit and Reporting Committee meeting minutes

**It was moved by Boardmember Lovick, seconded by Vice Chair Dave Enslow, and carried by unanimous vote that the minutes of the June 18, 2015 Audit and Reporting Committee Meeting Minutes be approved as presented.**

### **EXTERNAL AUDIT RESULTS**

#### Annual External Reporting

Kelly Priestley, Director of Accounting reported introduced the team from the State Auditor's Office (SAO) to present results of the accountability audit. On an annual basis, the SAO evaluates internal controls and performs audit procedures on the activities of the agency, as well as determining whether Sound Transit has complied with state laws and regulations.

#### State Auditor's Office 2014 Annual Accountability Audit

Anastasia Kavanaugh and Heidi Wiley from the SAO provided a summary of the audit results. The audit completed ahead of schedule and Ms. Kavanaugh reported that Sound Transit implemented the majority of recommendations during the audit discover work. Areas of audit included: safeguarding of small and attractive assets, ORCA related activity, passenger fare, cash receipting, relocation assistance, and payment

expenditures (invoices). This was a clean audit with no findings or management letters. The SAO will publish the completed report on its website next week. In conclusion, Ms. Kavanaugh reviewed upcoming audits that included accountability of public resources and review of CPA work papers as parts of both a financial statement and federal grant compliance audit.

### 2014 Subarea Reports

Subarea equity is a core element of Sound Move. It requires tax revenues collected in a subarea to be used for projects and services that benefit the subarea. The application of subarea equity is reviewed annually, and the results are provided in two reports, the single-year report and the summary report. Independent auditors perform agreed upon procedures, developed with input from the Citizen's Oversight Panel, to verify Sound Transit's schedule of subarea equity.

Ms. Priestley continued with a summary of the single-year report results. The auditor's report was clean and noted no exceptions. The annual review of procedures provided suggestions to improve clarity. The substance of the procedures is unchanged.

Revenues were up in all subareas and most significantly in Pierce County. Other changes are consistent with increase in tax revenues, ridership and related fare growth. Capital uses by subarea are consistent with plan year over year. Capital expenditures increased significantly with the Light rail projects in north King County. South King and Pierce had year over year reductions in spending as Sound Move and ST2 capital programs complete. Operating and maintenance expenditures increased in all subareas consistent with revenue. There were significant increases to system-wide projects as a result of ST3 regional planning and increased activity in the fare and technology programs. North King operations and maintenance increased more due to light rail expenses. Other variances included copper wire recovery in 2013 from a theft in 2012. Uses exceeded revenue for the year. Almost \$100 million in debt was repaid during 2014 and \$59 million was set aside for capital replacement.

### Summary of Sources and Uses of Funds for the 15-Year Period Ending in 2023

Ms. Priestley noted that the summary report is prepared in the same manner as the single-year report. The fifteen-year view showed the most significant change and related to the incorporation of the TIFIA loan. Prior plans reflected and assumed a higher borrowed rate than the actual TIFIA loan rate. Sound Transit updated this rate during the 2015 refresh of the finance plan. Other changes in this plan included incorporation of the Tacoma Trestle and Point Defiance Bypass Projects. The Point Defiance Bypass Project has offsetting revenue as a project funded by the State. The report shows increased costs in locating the Operations and Maintenance Satellite Facility (OMSF). Sound Transit is meeting subarea equity over the life of the plan.

### 2014 Audit of the Original Data Submission of the Federal Funding Allocation Statistics Form (NTD)

The FTA defines procedures to ensure the validity of the information presented for the National Transit Database. Congress established this database as the primary source of statistics and transit systems for the country. Statute requires that recipients of FTA grants submit data. The audit of Sound Transit's initial data submission noted exceptions including: receiving partner agency audited reports and other clerical type exceptions. Sound Transit is working with partner agencies to obtain audited reports in time for inclusion in the audit of Sound Transit data.

### FTA Final Report on FY2014 ST Cost Allocation Plan and Indirect Cost Rate Proposal

Sound Transit received FTA plan approval and completed implementation of the cost allocation plan. This allows Sound Transit to federalize all dollars to maximize the ability to recover on expenditures.

## **FINANCIAL REPORTING**

### Second Quarter Financial Report

Brian McCartan, Executive Director of Finance and IT presented the report. He noted that revenues are above budget and expenditures are just below budget. Construction in the North King County subarea is

very strong and Sound Transit is seeing good growth year over year on the sales tax base that is outperforming the budget. Both Capital and Operating expenditures were close to 96% of budget, a good indicator of successful forecasting. All operational modes are below budget with the exception of a few major capital projects. Central Link is at 100% due to the accelerated schedule for University Link. Right of way purchases for Northgate Link completed earlier than expected, leading to the project exceeding budget for the year but not the lifetime budget. The S 200<sup>th</sup> project is ahead of schedule but still within the planned budget.

#### Second Quarter Asset Liability Management Report

Mr. McCartan reported no changes to the asset liability management report for the second quarter. The intensity of the Sound Transit capital program is drawing down cash levels. Sound Transit completed the \$940m bond purchase in August to raise additional funds to pay for the capital program. Cash balances in the report will change substantially in the next report.

#### Second Quarter Contract Reports

Mr. McCartan completed his presentation with a summary of the types of contracts executed by the chief executive officer during the second quarter.

### **INTERNAL AUDIT UPDATE**

#### Public Safety Performance Audit

Shelli Applegate introduced Tom Krippaehne from Moss Adams to present the results of the audit. With the system expansion in mind, the audit sought to identify opportunities to evolve the efficiency and effectiveness of the Public Safety Program. The internal audit and operations departments provided a number of themes for focus including resource optimization and structure within the security and law enforcement divisions.

In conclusion, the auditor provided a summary of seven observations, associated recommendations, and other information about original audit objectives. Recommended alternatives ranged from maintaining status quo and incremental expansion to resourcing 100% to law enforcement and private security. Overall, Sound Transit's approach to date is acceptable but Moss Adams recommends further study of agreements and available data to achieve further optimization. There were no lessons learned from peer review that would dramatically change Sound Transit's program. Finally, the Department of Homeland Security has given the agency excellent scores for its threat and vulnerability assessments program. Management is currently reviewing the report and will provide a formal response and action plan from Sound Transit to the Board at a future meeting.

#### Non-Revenue Vehicle Program Audit

Ms. Applegate introduced David Huffaker, Acting Director of Facilities and Asset Control to provide an update from Operations on the implementation of Non-Revenue Vehicle Program Audit recommendations.

The NRV Program fleet is comprised of more than 180 vehicles and other equipment including passenger vehicles, vans, utility, specialty vehicles, and maintenance vehicles. Sound Transit previously managed the program through a division within the facilities branch of the Operations department. In June 2014, Sound Transit hired a dedicated NRV Coordinator that now manages the program. The audit provided fifteen recommendations. Some recommendations required adjustment to existing programs while some would require new program elements.

Mr. Huffaker provided a high-level summary of ways that Sound Transit is addressing audit recommendations focused on policy, program oversight, procedures and documentation, and training. Sound Transit reviewed current policy and will submit an updated policy along with a recommended parking policy for Union Station by the end of the year. The policy revisions include incorporation of existing procedures for regular monitoring of both unassigned or pool vehicles for all staff as well vehicles assigned

to specific departments and individuals and more explicit recording and monitoring of driver's licenses to ensure compliance and defensive driver's training. The interagency agreement with King County Metro specifies that KCM employees will follow the KCM policy on NRV and in recent meetings, the KCM Light rail manager expressed support for addressing audit recommendations.

Sound Transit is comprehensively updating process and procedures documentation. New documentation will include new processes that utilize software tools including a new maintenance management information "MMIS" system. This system supports the fleet program by recording specific preventative maintenance activities as well as unplanned repairs. This system will also provide reminders to staff to revalidate justification forms for individual assignments. Staff routinely looks for anomalies in mileage and fuel consumption to flag potential unauthorized use of vehicles but staff is evaluating other available measures to identify possible violations of use.

Mr. Huffaker completed his report with a summary of the program communication plan. The plan includes both large and small group meetings over the next few months, a presentation to Sound Transit staff, and a number of online communication tools.

#### Internal Audit Division Ongoing Work

Awet Habtemariam provided a status of the 2015 Performance Audit that focused on the Committee-selected audit topics of Construction Quality Assurance and Quality Control. Fieldwork for this audit is complete and the results will be available in December. Staff will present topic options for the 2016 Performance Audit in Q4.

#### Completed Audits

Ms. Applegate reported that the Goods and Services Payment Audit was a partial follow up to the Blanket Purchase Order Audit reported in November 2012 and the Post Award Goods and Services Contract Management Performance Audit reported in October 2013. The audit focused on compliance of the payment transactions with related contract terms and conditions. The audit also partially addressed a recommendation to internal audit to develop ongoing contracts compliance monitoring functions. Auditors issued a single finding stating that the internal control structure for contract management needs improvement. The audit report provided Procurement and Contracts with ten recommendations and the accounting division received two recommendations. Management provided responses to the recommendations and internal audit will follow up next year to determine if actions were implemented and effective.

Mr. Habtemariam reported that Farebox Recovery Ratio, Operating Cost Per Boarding and Average Fare Per Boarding performance metrics were calculated accurately and reported in a timely manner. The audit did recommend that Sound Transit create procedural documentation and utilize estimation parameters for calculating Special Rates of Fare Boardings.

Internal audit also performed a maturity assessment on the IT Division's Disaster Recovery Planning. Auditors used a Control Objectives for Information Technology, or "COBIT" 5, framework. The audit concluded that the current IT Disaster Recovery Plan does not adequately address all requirements. Recommendations included additional input from users for critical systems and functions and prioritization of critical business systems. The report included twenty-five recommendations. IT has a plan in place to address recommendations and business impact assessments are underway.

### **EXECUTIVE SESSION**

None


**NEXT MEETING**

December 17, 2015  
11:00 a.m. to 12:30 p.m.  
Ruth Fisher Boardroom

**ADJOURN**

The meeting adjourned at 12:31 p.m.

ATTEST:

  
Kathryn Flores  
Board Administrator

  
Dave Enslow  
Audit and Reporting Committee Vice Chair

APPROVED on December 17, 2015, LM