



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

Summary Minutes  
December 15, 2016

### **CALL TO ORDER**

The meeting was called to order at 11:08 a.m. by Committee Chair Rob Johnson, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

### **ROLL CALL**

Chair

(P) Rob Johnson, Seattle Councilmember

Vice Chair

(A) Dave Enslow, Sumner Mayor

Committee Members

(P) Nancy Backus, Auburn Mayor

(A) Dave Somers, Snohomish County Executive

(A) Joe McDermott, King County Councilmember

(P) Philip Lovell, Citizen Oversight Panel Chair

(P) Mary Moss, Lakewood Councilmember

Ms. Katie Flores, Board Administrator, announced that there was not a quorum of the Committee present at roll call. Committee Chair Johnson noted that a quorum was expected, so the committee would hear reports first and move to Business Items after an additional member arrives to establish a quorum.

### **REPORT OF THE CHAIR**

None.

### **EXTERNAL AUDIT RESULTS**

#### 2016 Financial and Federal Audit Plan

Kelly Priestley, Director of Accounting, introduced Karissa Marker, Audit Partner, Michael Ortman, Engagement Manager, and Rachel Kehoe, Engagement Manager, from KPMG to provide the presentation. Staff met with auditors in October and November to provide the information needed for the audit plan.

Ms. Marker provided a summary presentation of the audit objectives, compliance standards, roles and responsibilities of those involved, and audit deliverables. Ms. Marker noted that there are no changes to the reports being issued from 2015 to 2016, and that the agency can expect final audit results in June of 2017. Ms. Priestley also noted that there are no changes to the subarea procedures for 2016 auditing.

#### 2015 State Auditor's Office Exit Presentation

Ms. Priestley introduced Kelly Collins, Director of Local Audit for the State of Washington, Joe Simmons and Heidi Wiley. Kelly Collins stated that the Accountability Audit focused on Self-insurance, Payroll/personnel, Housing rental, and Contracts and Agreements. There was only one exit-item from the audit, and no management letter or findings.

Committee Chair Johnson asked about the one exit-item, and its implications. Ms. Collins clarified that the exit-item was in relation to new state standards on Self-insurance programs, and Ms. Priestley clarified that the requirements are being addressed by management.

## **FINANCIAL REPORTING**

### Third Quarter Financial Report

Brian McCartan, Executive Director of Finance and IT provided the report. Mr. McCartan reported that the agency is ahead of budget forecasted revenues in every area, and that all four lines of service are tracking below projected spending levels. Capital projects are above budget on two projects, the South 200<sup>th</sup> Link station, and the Northgate Link Extension. The Lynnwood Link project is below budget, at only 43 percent of projected spending.

### Third Quarter Asset Liability Management Report

Mr. McCartan introduced Jon Baldwin, Assistant Treasurer, and Tracy Butler, Treasurer, to provide the staff report. There have been no changes to spotlight indicators since the second quarter report. At the end of the third quarter, total unrestricted and restricted cash was 1.3 billion. The average investment yield was 0.5 percent. Year-to-date interest earnings are 79 million dollars over budget, due primarily to fair market value changes in the sale of two different investments. All investment compliance guidelines are being met. At third quarter end, total outstanding debt was 1.9 billion dollars. The long-term market borrowing rate remains 3.9 percent with a fixed tax exempt rate. Federal interest rates were increased yesterday by one quarter of a percent.

Ms. Butler reported on the 400 million dollars in green bonds that were approved for issuance at the Board meeting on November 29, 2016. The bonds were priced at 3.59 percent, a rate possible due to good timing in the market, Sound Transit's AAA credit rating, and incredibly high demand for green bonds.

### Third Quarter Contract Reports

Mr. McCartan completed his presentation with a summary of the types of contracts executed by the chief executive officer during the third quarter. These contracts included several contracts for proprietary licensed machinery.

(Boardmember Backus arrived at this time).

Committee Chair Johnson noted that a quorum of the Committee was now present.

## **INTERNAL AUDIT UPDATE**

### Internal Audits Completed

Jack Hutchinson, Director of Internal Audit, reported that four internal audits have been completed in 2016, and three will be reported on today.

### Wireless Device Program Audit

Mr. Hutchinson introduced Shelli Applegate, Senior Internal Auditor, for the internal audit of the Wireless Device Program. Ms. Applegate stated that the wireless device program covers various forms of wireless technology used by both employees and contractors. This policy includes a stipend for individuals using personal technology for business purposes. The audit objective was to identify whether management has taken corrective action based on the opportunities for improvement that were covered in the prior audit in 2013. The reportable condition from the completed audit reports that action has not been taken by Sound Transit management to address unnecessary costs incurred.

A mitigation plan is now being implemented by Sound Transit management to insure necessary controls and processes are in place to prevent further unnecessary costs. As a part of the management response, relevant agency policies will be overhauled and the result will be a consolidated agency policy entitled "Acceptable Use of Technology Policy." In addition, Information Technology will begin to utilize the Audit Support function that is now available from the Information Technology Security department. Sound Transit

management will conduct a review of the agency's mobile enablement strategy to ensure that the criteria for issuance of mobile devices continues to meet agency needs.

#### Construction Change Order Audit

The objective of the Construction Change Order Audit was to determine whether management controls were effective to prevent and detect duplicate change orders and incomplete change order packages. There was no reportable condition following the completion of this audit.

#### Records Management Audit

The audit objective was to determine whether agency departments and divisions have effective document controls to create, use, and store records during their active phase. The audit also sought to determine whether the Records Management Division has effective controls for retaining and disposing of inactive records during the archival phase.

The audit had a reportable condition that there is a lack of agency-wide procedures for the proper controls over storage, retention, and disposition of records. The audit recommends that there be new records management procedures to solidify and make accessible the process of archiving records.

Boardmember Enslow requested information about external guidelines for public records procedures and maintenance. Mr. Hutchinson clarified that the audit finding does not imply that external requirements and guidelines are not being met, but merely that agency policy is not on the same level in all departments, meaning there can be gaps found in records management from the active phase through the archival phase.

#### Diversity Program Reporting Audit

The audit focused on determining whether the Office of Small Business, Diversity, and Labor Compliance (OSBDLC) has an effective process to determine a Disadvantaged Business Enterprise goal in compliance with applicable federal and Sound Transit policy requirements, in addition to controls to ensure timely, complete, and accurate submission of the semi-annual Uniform Disadvantaged Business Enterprise and triennial Title VI reports to the Federal Transit Authority.

There were no reportable conditions for this audit. It was found that the OSBDLC was found to have effective processes and controls for audited topics.

#### Internal Audits in Progress

Audits that are in the reporting phase--meaning the data has been obtained and analyzed but the report is still underway--include the 2016 Performance Audit, an Indirect Cost Rate audit, Facilities Service Contract Monitoring, Electrical Contractor, Mechanical Contractor, and Construction Manager audits, and Payment Accuracy.

#### Discussion of Potential Topics for the 2017 Internal Audit

Mr. Hutchinson reported the potential topics for the 2017 Internal Performance Audit. The topics include construction budgets, real property acquisitions, construction scheduling, and consultant co-location.

Chair Johnson inquired if a decision on the 2017 Internal Performance Audit Topic at the March meeting will still provide sufficient time for the completion of the audit, which Mr. Hutchinson replied is satisfactory. There were no objections to delaying the selection of the 2017 Performance Audit topic until the March Audit and Reporting Committee meeting.

## **BUSINESS ITEMS**

Minutes from the September 15, 2016 Audit and Reporting Committee meeting minutes

It was moved by Boardmember Moss, seconded by Boardmember Backus, and carried by unanimous vote that the minutes of the September 15, 2016 Audit and Reporting Committee Meeting Minutes be approved as presented.

## **EXECUTIVE SESSION**

At 12:21 p.m., Chair Johnson announced that the Committee would convene Executive Session for 15 minutes. Amy Pearsall, Senior Legal Counsel, cited RCWs 42.30.110(1)(a) and 42.30.110(1)(i)(iii) to authorize the Executive Session regarding issues of national security and public safety. Chair Johnson noted that there would be no action following the Executive Session.

At 12:36 p.m., the Executive Session was extended by 5 minutes.

The Executive Session concluded at 12:41 p.m.


## **NEXT MEETING**

March 16, 2017  
11:00 a.m. to 12:30 p.m.  
Ruth Fisher Boardroom

## **ADJOURN**

The meeting adjourned at 12:41 p.m.

ATTEST:

  
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Kathryn Flores  
Board Administrator

  
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Rob Johnson  
Audit and Reporting Committee Chair

APPROVED on 4/20/17. PIA.