

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

### **Summary Minutes**

**March 15, 2018**

### **CALL TO ORDER**

The meeting was called to order at 11:04 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) Bruce Dammeier, Pierce County Executive

#### Committee Members

(P) Nancy Backus, Auburn Mayor

(A) David Baker, Kenmore Mayor

(P) Joe McDermott, King County Councilmember

(P) Dave Earling, Edmonds Mayor

(P) Fred Auch, COP Chair

Paige Armstrong, Board Coordinator, announced that there was a quorum of the Committee present at roll call.

### **REPORT OF THE CHAIR**

Committee Chair Johnson reported the status of the Federal Audit Plan, which will be presented to the committee in June. Mr. Johnson also announced that the 2016 State Auditor's Office Accountability report is in committee member's packets for review, and there were three findings, nine of which were significant.

#### Welcome of Michael Tzrupek

Committee Chair Johnson introduced the interim Chief Financial Officer, Michael Tzrupek, who will be serving in the role while the hiring process is completed to fill the position.

### **PUBLIC COMMENT**

Alex Tsimmerman  
Paul W. Locke

### **BUSINESS ITEMS**

#### Minutes of the September 21, 2017, Audit and Reporting Committee Meeting

**It was moved by Board Member Earling, seconded by Board Member Backus, and carried by unanimous vote that the minutes of the September 21, 2017, Audit and Reporting Committee Meeting be approved as presented.**

## **SPECIAL TOPIC: SOUND TRANSIT'S DISADVANTAGED BUSINESS ENTERPRISE AND SMALL BUSINESS PROGRAMS**

Michael Harbour, Deputy CEO, introduced the presentation on Sound Transit's Small Business Development and Disadvantaged Business Enterprise programs.

Svea Stromme, Diversity Programs Specialist, and Beverly Cobb-Zahir, Lead Diversity Specialist, provided the staff report. The general responsibilities of the Office of Small Business and Labor Compliance (OSB DLC) include the Disadvantaged Business Enterprise (DBE) small business program, which is federally mandated, Project Labor Agreement Administration, and Title VI programs. The DBE plan and program is submitted for federal review every six years, and was last submitted in 2016, and is bi-annually updated with new goals and targets.

Ms. Stromme noted that today's presentation will focus primarily on the DBE program, and even more specifically on target development and tracking. All contractors who compete for Sound Transit business must complete a Small Business Commitment Form, which lists all DBE's or qualifying small businesses that will be utilized to complete the work. The form was recently updated by the OSB DLC in collaboration with the procurement and contracts division. Once a contract award is made, contractors must submit Affidavits of Amounts paid as a requirement to be paid for work, which allows verification that the small business commitments were met.

In addition, Sound Transit utilizes a tracking software called B2GNow, an online diversity compliance system, which allows staff to see data entered by all Prime contractors, and to assure that the DBE's and small businesses on contract have received their payments in a timely fashion.

The department also utilizes a running tally to track the percentage of dollars being spent by Sound Transit, and the amount being awarded to small businesses and DBE's. This tally tracks amounts in both race conscious and race neutral dollars, and that data is submitted to the Federal Transit Administration (FTA) every six months.

Committee Chair Johnson inquired about how Sound Transit establishes its DBE and small Business goals. Ms. Stromme replied that the agency overall goal is 12.2 percent, and each contract also has a built in goal for subcontracting opportunities, which is set by analyzing the availability of DBE's and small businesses in that area of service. Mr. Johnson asked about contractors that frequently meet and exceed their goals, and if that would imply that goals need to be increased. Ms. Cobb-Zahir commented that Sound Transit encourages contractors to meet and exceed our race conscious dollar award goal level, and is completing a study currently to see if it is feasible for the agency to increase its overall goal.

COP Chair Fred Auch asked about the process that small businesses or DBE's must go through to be certified as a viable entity for reaching the goals. Ms. Stromme replied that the State of Washington Office of Minority and Women Business Enterprises does all certifying for the State of Washington. There are a number of requirements that these entities must meet, including site visits, interviews, size and revenue guidelines.

Ms. Stromme continued the presentation, showing the performance of the DBE program over the last several years, and noting that from 2014-2017, the office has met all of its performance targets, and the program is currently on track to meet the 2018 fiscal year goals. Ms. Stromme commented that the program has resulted in over 60 million dollars paid to small business and DBE firms in 2017, and that amount went to 53 different firms.

COP Chair Fred Auch asked about the outlook on increasing the number of firms being awarded contracts by Sound Transit. Ms. Stromme replied that the OSBDLC works throughout the year on increasing the number of certified firms that qualify for these awards, and runs a number of outreach programs to work with potential new awardees.

Lastly, Ms. Stromme commented that an internal audit on the DBE goal setting process was recently completed, and that the Internal Audit Division found that management has effective management controls over the DBE program and the Title VI reports.

## **2017 PERFORMANCE AUDIT REPORT**

Committee Chair Johnson introduced Jack Hutchinson, Director of Internal Audit, and the external consultant to present the results of the 2017 performance audit. Mr. Hutchinson introduced that within the accountability provisions of both Sound Transit 2 (ST2) and Sound Transit 3 (ST3) the financial policies that were approved by voters requires the agency to undertake a performance audit program. The agency has been performing annual performance audits since 2010, and has audited a variety of different subject areas. In 2016, the selected performance audit topic was real property acquisitions, and the external contractor selected to perform that audit was Miller and Miller, P.S.

Steve Miller, Shareholder with the firm Miller and Miller, presented the findings of the 2017 performance audit. The purpose of the performance audit was to determine whether management controls within the agency are designed well to provide:

- A fair and reasonable acquisition price, including allowable relocation costs, in compliance with applicable federal, state, local, and agency regulations
- Timely acquisition in alignment with construction schedules.

Mr. Miller reported that Sound Transit's real estate function performed well in the areas of equitable and timely acquisitions, and that the agency complies fully with all required regulations and internal policies. Mr. Miller reported that the audit team was unable to get sufficient peer comparison data from peer agencies, however the audit team did seek evaluations of acquisition values from O.R. Colan, a national firm, to provide validation of valuations and the correct submittal of all FTA requirements. Government Auditing Standards were used for the assessment of internal controls.

Miller and Miller made recommendations for future improvement to the internal process, and they are categorized into four subject areas: Real Property activity scheduling, systems to improve efficiency, community relations, and other miscellaneous recommendations. None of these recommendations qualified as findings, they are simply recommendations, and management and staff were fully cooperative and provided assistance with the process throughout.

Committee Chair Johnson expressed concerns over the frequency that the final settled upon valuation is much higher than the agency's initial valuation. Mr. Miller responded with some clarification about the process length, and explained that a change in one of many factors can result in delay and an increase to valuation. Peter Rogoff, CEO, also commented that the Puget Sound area specifically is experienced unprecedented and unrivaled increases to property values, and that this can cause final acquisition number to be higher than projected due to an owner's ability to contest the valuation of the appraisal.

## **INTERNAL AUDIT UPDATE**

### Internal Audits Completed

Four engagements have been completed since the last ARC meeting:

- Non-construction Change Orders
- Miscellaneous Revenues
- IT Asset Management
- Non-Revenue Vehicle Program

Mr. Hutchinson introduced Shelli Applegate, Senior Internal Auditor, to present the Non-construction Change Orders audit. Ms. Applegate introduced the audit objective, which was to determine whether the agency has effective controls over non-construction change orders to ensure fair and reasonable cost, proper approval, and full and open competition in compliance with applicable rules and regulations.

The audit finding concluded that management has implemented effective controls over non-construction change orders to reasonably ensure open competition, fair and reasonable cost, proper approval in compliance with applicable rules and regulations. The audit did note several opportunities for process improvement, which were communicated to management in a memorandum.

Ms. Applegate continued to the audit of Miscellaneous Revenue, which had the objective of determine whether the agency has effective controls to ensure revenues from advertising are accurately calculated and appropriately recorded in a timely manner, and that miscellaneous revenue receipting processes are working as intended.

The audit concluded that management has implemented controls to ensure advertising revenues are recorded in timely manner; however, management has not implemented controls to reasonably ensure revenue amounts are complete and accurate. There was one audit finding, which indicated that management does not have adequate controls over agency advertising contracts.

Committee Chair Johnson asked if management had a response, and Craig Davidson, Executive Director of Communications and External Affairs, responded that management is actively working with contractors who provide the agencies advertising programs to address the reporting they complete.

Mr. Hutchinson then introduced Gana Byambaa, Senior Internal Auditor, to present the findings from the IT Asset Management internal audit. The objective of the audit was to ensure that management has effective controls over the following three areas:

- Policies and procedures in place provide concrete definition of IT assets based on relevant criteria to enable the complete identification of all IT assets
- Roles & responsibilities of staff involved are clearly defined at process level
- IT asset data attributes are closely aligned with the IT lifecycle (including change and configuration) management

The findings of the audit were that management lacks effective internal controls over assets, citing that asset definitions, staff roles and responsibilities, and the configuration of attributes were too ambiguous to provide adequate internal controls.

Jason Weiss, Chief Technology Officer, provided a staff response, stating that the rapid growth of the Information Technology division has highlighted the need for new systems and quality assurance methods. He commented that management was already working on an IT Service Maturity program, so the audit caught the department mid-transition. Asset management is one of the fundamental elements of this new tool, which is well on its way to being fully implemented.

Committee Chair Johnson asked about the tracking function of asset management, and the consequence of the lack of tracking that the audit found. Mr. Weiss commented that there was some tracking taking place in the department, however they are currently working on raising the level of detail and availability of tracking information.

The final completed internal audit is the internal audit on the Non-Revenue Vehicle (NRV) Program. Soon Kwon, Senior Internal Auditor, presented the audit findings. Sound Transit's Operations department is responsible for administering the non-revenue vehicle program, including managing the fleet and the use of the vehicles by staff for agency uses. The audit objective was to analyze whether the agency has adequate controls over non-revenue vehicles to ensure in the following:

- Complete and Accurate Inventory
- Appropriate and Reasonable Operating costs
- Appropriate Fleet size at an expected Utilization rate

The audit found that the agency has reasonable controls over NRV inventory. However, the controls related to NRV utilization and operating costs are not effective. Mr. Kwon then introduced Bruce Polnicky, Director of Facilities, to respond to the audit findings. Mr. Polnicky commented that the inability to roll out adequate restrictions and guidelines must be improved, stating that the current use targets and usage guidelines are no longer aligned with the agency's needs. Management concurs that more prescriptive procedures for the use and management of fuel cards and NRV use is necessary.

Committee Chair Johnson asked about the audit report, which shows multiple uses of a single fuel card in a single day, and if that is caused by one card-holder being on multiple trips per day. Mr. Polnicky explained that the cards have limits on them for fuel charges in one day, and the number of uses per day, but that the example Mr. Johnson pointed out is a good example for the need for improved guidelines.

### Internal Audits In-Progress

Mr. Hutchinson then presented the list of audits still in progress:

- U830 EC/CM Close-Out Audits
- Sole Source Contracts
- Asset Disposal
- Small Capital Project Management
- Security Customer Complaints Management
- Change Orders From Design Errors and Omissions

### 2018 Internal Audit Work Plan

Mr. Hutchinson reviewed the work plan for the full year, which includes the following audits:

- IT Information Security Governance
- Partner Cost Monitoring – Pierce Transit

- System-wide Review of Custodial and Landscaping Services
- Security Customer Complaints Management
- Asset Disposal
- Budgeting During Project Development
- Sole Source Contracts
- PLA Compliance Management
- GC/EC/MC/CM Close-Out Audits
- Small Capital Project Management
- Construction Configuration Management
- Change Orders From Design Errors and Omissions
- Continuous Monitoring – pay applications, relocation, P-card, T-card, honorariums, misc., etc.
- Management Requests

### 2018 Performance Audit Topic Selection

The Internal Audit department uses an outside consultant to complete a yearly performance audit on a topic that is chosen by the Audit and Reporting Committee. The topic is chosen based on primary agency activities and risk areas.

Mr. Hutchinson presented two ideas for the performance audit:

- Project controls during construction
- Fleet maintenance (buses and trains)

Committee Chair Johnson asked for feedback on the topics proposed, and heard from Mr. Auch and Ms. Backus that the project controls during construction topic seems appropriate. Based on the discussion, Mr. Johnson directed Mr. Hutchinson to move forward with the 2018 Performance Audit on project controls during the construction process.

## **FINANCIAL REPORTING**

### 2017 Financial Performance

Ann Sheridan, Director of Budget, provided the report. Total expenditures for 2017 were 1.7 billion, including debt service of 140,000. Total revenues were two billion dollars, which exceeded the budgeted revenues of 1.6 billion by over 25 percent. Tax revenues were 1.5 billion, an increase from 2016, in part due to the increased Motor Vehicle Excise Tax (MVET) rate, and the new property tax collected which was the result of the voters passing the Sound Transit 3 plan. All revenue categories performed above expected, with the exception for federal grants, due to the timing of federal budget appropriations.

Overall, 93 percent of department budgets were spent, and a large driver of department costs was staffing. One hundred and sixty three new positions were hired in 2017. Ridership was up on all modes aside from ST Express, which is down one-half percent. This was largely driven by 2017 being the first full year of service of the University of Washington and the Angle Lake Light Rail Stations. Total project spending was 86 percent of budget, which was up from 2016.

Committee Chair Johnson asked about project budgets, and if a project was in the 2017 budget but then was not completed or began, if that project rolls into the 2018 budget or if it must be reconsidered. Ms. Sheridan responded that projects are reconsidered, and that in 2018 the budget is being reallocated for project managers to hopefully be more aligned in completing a higher

percentage of the budgeted projects. Mr. Johnson commented that some of the areas with underspending are the bike lockers program and the state of good repair projects, which are an integral part of the rider experience, and noted he would like to see those be given more attention.

## **ASSET AND LIABILITY MANAGEMENT REPORT**

Tracy Butler, Agency Treasurer, presented the Asset and Liability Management (ALM) report. She stated that the performance overall has been very positive, and there are few changes from the previous report. One change is the movement of the investment performance performance indicator from 'average' to 'above average.' In addition, risk adjusted return was added as a performance measure for the investments portion of the report.

The first TIFIA master credit agreement draw down was completed for the Northgate project, in the amount of 56 million dollars. Ms. Butler then noted that the Executive Committee in April would be seeing a presentation about the updates to the Asset and Liability Management policy.

## **QUARTERLY CONTRACT REPORTS**

Ted Lucas, Director of Procurements and Contracts, provided the contract reports. The contract reports show four contract areas:

- Contracts awarded by the CEO below 200,000 dollars
- Sole source contracts awarded by the CEO that exceed 100,000 dollars
- Proprietary contracts awarded by the CEO in excess of 100,000 dollars
- Competitive open contract awards

## **EXECUTIVE SESSION**

None.

## **NEXT MEETING**

June 21, 2018  
11:00 a.m. to 12:30 p.m.  
Ruth Fisher Boardroom

## **ADJOURN**

The meeting adjourned at 1:03 p.m.

ATTEST:



Kathryn Flores  
Board Administrator



Rob Johnson  
Audit and Reporting Committee Chair

APPROVED 6/21/18 PIA.