

SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING

Summary Minutes**June 21, 2018**

CALL TO ORDER

The meeting was called to order at 11:01 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**(P) 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

Board Member Request to Participate via Teleconference

Committee Chair Johnson announced that Boardmember Backus asked to participate in the meeting by phone. The Board's Rules and Operating Procedures allow members to attend meetings by teleconference with a two-thirds affirmative vote of those members in attendance.

It was moved by Boardmember Baker, seconded by Boardmember McDermott, and carried by unanimous vote that Boardmember Backus be allowed to participate in the meeting by telephone.

PUBLIC COMMENT

Alex Tsimmerman

BUSINESS ITEMS

Minutes of the March 15, 2018, Audit and Reporting Committee Meeting

It was moved by Boardmember McDermott, seconded by Boardmember Baker, and carried by unanimous vote that the minutes of the March 15, 2018, Audit and Reporting Committee Meeting be approved as presented.

FINANCIAL REPORTING

First Quarter Financial Performance

Ann Sheridan, Director of Budget, provided the report. Department spending was at 90 percent of projected for the first quarter, which was partly caused by timing issues and a higher than projected vacancy rate, and partly caused by the delay in transition of the Downtown Seattle Transit Tunnel (DSTT) which caused permanent bankable savings. The agency's total staff count at the end of March is 844.

The transit mode expense budgets are at 91 percent of budget, which has been driven by lower than expected spending on fuel, fare collection, facilities maintenance, and security services, most of which are permanent savings. The year-end forecast is 94-97 percent of budget. Ridership and fare revenue was up 3 percent year of year, Link and Sounder experienced high increases from 6-8 percent respectively, while Tacoma Link and ST Express saw moderate declines.

Chair Johnson asked why the ridership projections were slightly lower than expected, yet the projected fare revenue is higher than projected. Ms. Sheridan replied that a conservative estimate of fare revenue could lead to the exceeding of that number, but that the numbers were very close to expected range.

Project spending was at 89 percent of budget, with a projected year-end spending of 92-95 percent. The Downtown Bellevue tunnel excavation continued ahead of schedule, in addition to the Roosevelt Station construction in the Northgate alignment. State of Good Repair Projects were at 59 percent of budget, with spending being driven by the receipt of 6 replacement buses for ST Express routes. The yearend forecast will be significantly lower than budget, as 20 replacement buses on order have been delayed for receipt until 2019.

Chair Johnson asked about a line item under the System Expansion portion of the budget for the University Link Extension, which accounts for \$5.5 million dollars in spending. Mr. Rogoff commented in reply that there are close out items related to project completion.

Mr. Johnson continued that a critical future investment for the system is system access improvements for non-motorized connections, and that the budget is lagging in expenditures in that area. He expressed concern that the spending will pick up in the third and fourth quarter, which will be behind the peak access period for pedestrians and bicycles, therefore missing the peak season.

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 noted that within the accountability provisions of both Sound Transit 2 (ST2) and Sound Transit 3 (ST3) the financial policies that were approved by voters require 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; and
- 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 Associates, 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.

COP Chair Fred Auch asked about the line item under real estate acquisitions that referenced the difficulties in keeping up with acquisitions due to the number of acquisitions and the uncertainty of the real estate market. Ms. Sheridan provided clarification that the number of acquisitions has been increasing steadily due to the capital expansion in all four directions of the service district, and commented that Sound Transit also relies on contractors for some real estate work which can lead to ebbs and flows in the availability of resources.

QUARTERLY CONTRACT REPORTS

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

- 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

ANNUAL EXTERNAL REPORTING

Standard External Reporting

Chair Johnson introduced Kelly Priestley, Director of Accounting, to present the standard reporting completed in quarter one of 2017. Ms. Priestley began by presenting the reports completed, which included:

- 2017 Financial Statement
- 2017 Single Audit
- 2017 ORCA Financial Statements

Reports that will be issued later in 2018 include:

- 2017 National Transit Database Report
- 2017 Subarea Revenue Report
- 2017 State Auditor's Office Accountability Audit

Ms. Priestley then presented key accounting treatments for the 2017 year. There were no significant policy changes for accounting practices; however, there were new disclosures including the recent new collection of property tax. Four new accounting pronouncements were evaluated and implemented with no impact.

Overall, key highlights of the 2017 fiscal year included passenger fare revenue at \$90.3 million, an increase of \$9.7 million, and system-wide ridership growth of over nine percent. Tax revenues of \$1.5 billion reflected the ST3 voter approved taxes, an increase of 84 percent from 2016. Capital contributions of \$372 million were up 83.5 percent or \$169 million, which includes utilization of \$272 million of WSDOT land bank credits. Federal funding received was 45 percent lower than the prior year. Capital project spend was \$1.4 billion, up \$555 million as agency activity ramps up on East Link, North Link and Lynnwood Link as well as other capital projects.

Total agency assets were reported at \$11 billion, and total liabilities reported at \$2.8 billion. As construction on capital projects continues to increase, agency spending will be increasing steadily over the coming year. Fare revenue and ridership increased significantly, with 2017 as the first full year of service for the Angle Lake and University of Washington Link Stations. In correlation, the operations and maintenance expense for Link saw an increase of 11 percent, and system wide operations and maintenance increased slightly as a response to more facilities being in operation.

KPMG Presentation on the 2017 Financial Statements Audit and the 2017 Single Audit

Ms. Priestley then introduced the agency's external auditors, KPMG, to present the 2017 Financial Statement Audit, and the 2017 Single Audit. Present from KPMG were Karissa Marker, Audit Partner, and Michael Ortman, Audit Engagement Senior Manager. The purpose of these audits was to provide reasonable assurance that the financial statements are in accordance with Generally Accepted Auditing Principles (GAAP). KPMG issued an unmodified opinion dated May 23, 2018, stating that the financial statements of Sound Transit are fairly presented, and in all materials aspects in accordance with GAAP.

The audit also focused on agreements and contracts signed by Sound Transit and other public entities, including a large land bank deal that was concluded with the Washington State Department of Transportation (WSDOT). Also analyzed were large construction contracts and ongoing spending, and federal funding and income received by the agency, predominately for grants received which is in the purview of the single audit.

Mr. Ortman presented an audit that was also completed in the past year for the ORCA Financial statements, as Sound Transit serves as the fiscal agent for all agencies participating. An unmodified opinion was issued on April 13, 2018, stating that there are no evidenced material deficiencies, and no proposed audit adjustments. KPMG reported excellent cooperation from Sound Transit and the other ORCA partner agencies.

Boardmember McDermott asked about the Subarea Equity Report, which is being completed later this year, and what procedures will be used for that analysis. Ms. Marker replied that management and the Customer Oversight Panel (COP) came to an agreement about the procedures for the audit and they will be used as a guideline throughout the process to ensure the audit is fair and

complete. Ms. Priestley added that many of the audit requirements and details for the Subarea Equity Report are included in the voter-approved plans.

INTERNAL AUDIT UPDATE

Chair Johnson introduced Jack Hutchinson, Director of Internal Audit, to present the update.

Internal Audits In-Progress

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

- U830 EC/CM Close-Out Audits
- Sole Source Contracts
- Asset Disposal
- Small Capital Project Management
- System-wide Custodial and Landscaping Services
- Change Orders From Design Errors and Omissions

2018 Performance Audit Update

In March of 2018, the committee selected project controls during construction as the 2018 performance audit topic. Consultant procurement is still in progress, and the contractor is expected to be on board in July. The results of the audit are anticipated to be available for the December 2018 meeting of the Audit and Reporting Committee.

EXECUTIVE SESSION

None.

NEXT MEETING

September 20, 2018
11:00 a.m. to 12:30 p.m.
Ruth Fisher Boardroom

ADJOURN

The meeting adjourned at 12:06 p.m.

ATTEST:



Kathryn Flores
Board Administrator



Rob Johnson
Audit and Reporting Committee Chair

APPROVED 9/20/2018. PIA.