



## Summary Minutes

### Finance and Audit Committee Meeting February 21, 2019

#### Call to order

The meeting was called to order at 11:04 a.m. by Committee Chair Nancy Backus, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

#### Roll call of members

Chair	Vice Chair
(P) Nancy Backus, Auburn Mayor	(A) Bruce Dammeier, Pierce County Executive

Board Members	
(P) Dylan Counts, WSDOT Alternate	(P) Joe McDermott, King County Councilmember
(A) Dow Constantine, King County Executive	(A) Roger Millar, WSDOT Secretary
(A) Jenny Durkan, Seattle Mayor	(P) Dave Somers, Snohomish County Executive
(P) John Marchione, Redmond Mayor	

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

#### Report of the Chair

Chair Backus announced that she approved a request from Boardmember Somers to participate via telephone.

Chair Backus continued that there was another request to participate by phone, but this would require the suspension of the Board's Rules and Operating Procedures to allow for the participation of more than 25 percent of the committee members via telephone.

**It was moved by Boardmember McDermott, seconded by Boardmember Marchione and carried by unanimous vote that rules be temporarily suspended to allow Boardmember Dammeier to participate in the meeting via teleconference.**

Chair Backus then welcomed the committee members to the first meeting of the Finance and Audit Committee, which was established in November 2018. She stated that this new committee has been formed to reflect a new Board emphasis on the budget development process, and also to take on many of the responsibilities of the recently disbanded Audit and Reporting Committee.

Ms. Backus invited the committee members to come to her with any questions, or to contact her in regards to any topics they wish to see on the Finance and Audit Committee agendas in the future so she can communicate that desire to staff.

#### CEO Report

Finance and Audit Committee First Meeting

CEO Peter Rogoff began his report by congratulating Chair Backus on her new leadership role in this committee, and by welcoming the committee members to the first meeting. Additionally, Mr. Rogoff commented that the work of this committee will be absolutely instrumental to the success of the agency moving forward as the agency reaches the years that are known as the period of maximum constraint when considering expenditures of the capital expansion program and the agency's debt capacity limits.

## **Public comment**

Alex Tsimmerman

## **Financial Performance Reporting**

Tracy Butler, Chief Financial Officer, provided an overview of the agenda. Ms. Butler also offered a preview of the committee's calendar for the year, wherein staff is hoping to add in topics of special interest in depth in addition to the standard annual reports brought to the committee.

Ms. Butler then began the 2018 Financial Performance Report. Revenue was higher than anticipated, due to a strong economy and increased federal receipts. Capital spending was lower than anticipated due to slower than scheduled Right of Way (ROW) acquisitions, and other factors. Operations spending continues to rise, as the cost of purchased transportation is coming a concern, with increasing costs outpacing the projections.

The current projections are that there will be sufficient funds to deliver the voter approved program. However, the long term capacity of the agency is under stress due to continued elevating construction costs, the real estate market in the region, and the rising costs of purchased transportation.

Ms. Butler then continued with more detail about the Capital program spending. Overall, projects performed at 71 percent of the 2018 budget, with spending at \$1.3 billion versus the budgeted \$1.7 billion. This is primarily due to ROW acquisitions taking longer than accounted for, and the 2019 proposed budget has been adjusted to take this factor into account. The spending for Link was the largest cause of the overall underspend, due to Federal Way, Downtown Redmond, and Lynnwood Link all ending the year at less than half of their respective budgets spent.

Boardmember McDermott asked about the impacts of this underspend on the overall project costs, as the cost of real estate is continuing to rise region-wide. Ms. Butler responded that as of yet, the cost and the schedule of the projects have not been impacted. However, if the delays continue to occur, the delays may trigger a higher overall cost. Mr. Rogoff continued that staff can take a closer look at that and get more information to Boardmember McDermott.

Ms. Butler continued with the operating performance of the various transit modes, stating that all modes are below the 2018 forecast for operating costs, due in large part to continued growth in ridership. The only modes that have decreased in ridership during 2018 are ST Express and Tacoma Link, which is in large part due to park-and-ride closures that had to be completed for Link construction projects. Fare revenue has been higher in large part due to the increased business of the Business Passport program. Agency expenses were four percent under budget, due to a higher than expected vacancy rate and lower than anticipated fuel costs. However, year over year, spending is up 14 percent which is attributed to staffing increases and purchased transportation services spending.

### Asset Liability Management

Ms. Butler continued by presented the Asset Liability Management Report for the fourth quarter of 2018. Ms. Butler introduced the 2018 investment strategy and highlights of the management. The investment durations have been kept short, due to anticipated increases in the federal interest rates. In 2018 the Federal Reserve did raise the interest rate four times, and the Sound Transit portfolio performed well.

The Lynnwood Link Extension TIFIA loan closed in December of 2018, and the Federal Way Link Extension is scheduled to close its TIFIA loan in 2019. The strategy of leveraging TIFIA loans is to access less expensive debt before issuing additional bonds.

Ms. Butler then introduced several graphs to illustrate the remaining debt capacity the agency has, and in which years there will be the smallest margin between expenditures of the capital program and the agency's revenues and debt capacity. The highlights that Ms. Butler covered included:

- The capital program remains affordable based on current projections.
- Some capacity is lost in years earlier than previously projected due to faster cost relative to revenue growth.
- Capacity becomes very constrained in approximately 2028 and will require close monitoring.
- Continued cost and scope discipline is required to ensure long term affordability of the capital program.

Ms. Butler then listed some of the risks and challenges facing the agency, which include a near term recession, potential MVET revenue loss, federal funding uncertainty, higher than anticipated costs of capital projects, higher than anticipated purchased transportation costs, and potential higher costs of borrowing.

Boardmember Somers asked about the horizon of the project delivery schedule and the period of debt constraint and the relationship between funding risk and the projects that are at the end of the project delivery schedule. He continued that he is curious how sub-area equity interplays with this systemwide financial picture, to ensure that the projects scheduled for the end of the capital program are not at a higher element of risk due to their timeline. Mr. Rogoff replied that a detailed explanation of subarea equity can be provided, as the internal workings of that system are quite intricate.

## **Internal Audit Update**

Jack Hutchinson, Director of Internal Audit, provided the presentation. Mr. Hutchinson introduced the three sections of the presentation, which will include a summary of internal audits in progress, the 2019 Internal Audit Work plan, and the presentation of staff proposed topics for the 2019 Performance Audit.

The internal audits that are currently in progress are:

- PLA Compliance Management
- Customer Complaints Management
- Construction Configuration Management
- Partner Cost Monitoring – King County Metro

The 2019 Internal Audit Work plan includes:

- IT Information Security Governance
- Partner Cost Monitoring – Pierce Transit
- Budgeting During Project Development
- Construction Configuration Management
- Partner Cost Monitoring – King County Metro
- Work Order Process at OMF
- Small and Attractive Assets Process
- QA/QC Assurance Program
- Continuous Process Improvement Program
- IT Project Management
- Construction Progress Payment Processing
- Use of Construction Contingency

- Continuous Monitoring of Cash Disbursements – P-card, T-card, honorariums, misc., etc.
- Prior Audit Issue Follow-Up
- Management Requests

Boardmember Marchione asked about the earlier mention of ROW Acquisition and if that is an area that will be looked at for an audit or process improvement. Mr. Hutchinson replied that the ROW process was the subject of the 2017 Performance Audit, and opportunities for improvement were identified, but agency management controls were found to be adequate. Additionally, Ron Lewis, Executive Director of Design, Engineering and Construction Management, commented that there have been several large adjustments to the ROW process within the last year, and it is expected that performance and capacity of acquisitions will improve in 2019.

Boardmember Dammeier asked if there was a suggestion for an audit of employee resources and onboarding given the significant growth of the agency. Mr. Hutchinson replied that there was an audit of the Asset Disposal Process in 2018 which did have a finding, and will be followed up on in 2019, and additionally there is the topic of Small and Attractive Assets proposed in the work plan for 2019.

The proposed topics for the 2019 Performance Audit include:

- Phase Gate Process
- Workforce Performance Management

The recommendation from staff for the 2019 Performance Audit is the Phase Gate Process. Mr. Hutchinson noted that he has received some inquiry from the State Auditor's Office (SAO) that they are interested in performing a performance audit this year. If the SEO decides to complete a performance audit, it is not typical that internal staff would complete a second performance audit, however, until that information is final, staff would like to move forward with the beginnings of a performance audit topic for this year.

**It was moved by Boardmember Marchione, seconded by Boardmember Somers, and carried by unanimous vote that the Phase Gate Process and Workforce Performance Management be added to the work plan for the 2019 year.**

Mr. Rogoff clarified that the selection of the topic will move forward only in the situation that the SAO does not complete a performance audit in 2019.

Boardmember Dammeier asked about the continuous process improvement work that has been completed by staff within the last year, and if that work would signal that the Phase Gate Process is not the top priority for a performance audit. Mr. Rogoff stated that there have been a number of internal improvements on the Phase Gate Process within the last eighteen months, however, a performance audit would be valuable to ensure that the improvements are serving their intended purpose and to examine the overall process for efficacy and project controls.

Boardmember McDermott asked if the SAO completes an audit on the Phase Gate Process, if there will then be an internal audit on the Workforce Performance Management program. Mr. Hutchinson clarified that it has been past practice to only complete one performance audit per year, and that if the SAO completed an audit on the agency, then internal audit would bow out from a performance audit for that year. Boardmember McDermott asked if it is an acceptable workload for staff to be directed to complete one performance audit for 2019, and for that audit to be on the Phase Gate Process in the event that the SAO does not complete an audit, and for that audit to be on Workforce Performance Management in the event that the SAO does complete an audit on the Phase Gate Process. Mr. Hutchinson replied that this would be constrained by the time period required to find a contractor to complete the performance audit requested, but would not be infeasible.

**It was moved by Boardmember McDermott, seconded by Boardmember Marchione, and carried by unanimous vote that the Phase Gate Process be the first priority for a 2019 performance audit, and that Workforce Performance Management be the second priority for a 2019 performance audit.**

#### *2018 Performance Audit Results*

Mr. Hutchinson introduced Robert Bright, President and Founder of Talson Solutions LLC, the firm selected to complete the 2018 Performance Audit on Project Controls During Construction. Mr. Bright spoke on the background of his firm, which is based in Philadelphia with several offices both nationally and internationally, and is focused exclusively on capital project constructions and construction management.

The objectives of this audit were to determine whether project controls are designed well and working effectively to ensure on-time and on-budget construction project delivery, and to identify opportunities for continuous improvement with practical recommendations.

Talson's methodology to meet the audit objectives primarily consisted of the following tasks:

- Become familiar with ST through documentation review of PCPP and progress reporting for projects contained in the Link Light Rail Program and Sounder Program
- Hold initial meetings with ST personnel to gain a greater understanding of Project
- Control's Organization, PCPP and current implementation on capital projects
- Assess ST's capital project activity for audit sample
- Test PCPP through review of available SharePoint, LiveLink and other storage system documentation
- Conduct a project site visit and interview Project Control and Project team personnel in Seattle, WA
- Become familiar with the PCPP in relation to project and construction management practices promoted by the Project Management Institute, National Transit Institute, and
- Construction Management Association of America
- Perform additional documentation review

Talson has concluded that there are no findings resulting from the performance audit that require immediate attention to the PCPP or addressing by the agency, consultants and contractors performing project control activities on the capital projects reviewed. DECM Project Controls is performing effectively to ensure successful project delivery and identify risks during the construction phase.

Sound Transit and the assigned project teams were compliant and effective with the DECM Project Controls Policies and Procedures. The project teams have a clear understanding of the policies and procedures and are performing within industry standards.

Mr. Bright offered a number of practical recommendations based on the no-findings audit. As Sound Transit's capital program continues to grow, the increased usage of agency, consultant and contractor project controls personnel will be challenged to continually comply with the PCPP and ensure the effective evaluation of project performance during construction. Although not fully reviewed under the scope of the audit, ST should ensure the following is in place to maintain effective DECM Project Controls:

- (1) Monitor assigned level of skilled project controls personnel to contract scope and level of effort to the support projects

- (2) Maintain required training of all DECM Project Control personnel
- (3) Planned periodic reviews of PCPP to address "lesson learned" as construction progresses, new contract strategies and industry developments including new project controls software
- (4) Monitor the available level of skilled agency, consultant and contractor personnel for assignment to future capital projects.

Boardmember Dammeier clarified that Talson Solutions is based in Philadelphia, and asked if the firm was encouraged to leverage local subcontractors or firms in order to benefit local talent. Mr. Bright responded that this work is incredibly specialized and highly skilled, but added that whenever possible Talson tries to partner with local firms to complete work for both this agency and for other government agencies when responding to Requests for Proposals.

Boardmember Dammeier asked if Mr. Bright or his staff noticed any especially large change orders in construction contracts. Mr. Bright responded that based on the selected projects which were chosen for in depth auditing, there were no large change orders or any change orders that drew attention. Mr. Rogoff commented that change orders should not be confused with contract amendments which are planned and approved in advance within the initial contract scope. Mr. Bright continued that the audit focused on four large capital projects, and specific sample contracts within those projects that were within each phase of project completion, to ensure a well-rounded examination of project controls.

### **Risk Management Program Overview**

Chair Backus stated that without objection, due to length of the previous agenda items, that this presentation would be moved to a later meeting.

### **Executive session**

None.

### **Other business**

None.

### **Next meeting**

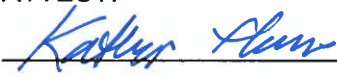
Thursday, April 18, 2019  
11:00 a.m. to 12:30 p.m.  
Ruth Fisher Boardroom

### **Adjourn**

The meeting adjourned at 12:38 p.m.

  
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Nancy Backus  
Finance and Audit Committee Chair

ATTEST:

  
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Kathryn Flores  
Board Administrator

APPROVED on 6/20/19. PIA.