



Summary Minutes

Finance and Audit Committee Meeting July 20, 2023

Call to order

The meeting was called to order at 12:39 p.m. by Committee Chair Nancy Backus.

The meeting was recorded and can be found at <https://www.soundtransit.org/get-to-know-us/board-directors/livestream-video>.

Roll call of members

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

Board Members	
(P) Dow Constantine, King County Executive	(A) Joe McDermott, King County Councilmember
(P) Christine Frizzell, Lynnwood Mayor	(P) Ed Prince, Renton Councilmember
	(P) Kristina Walker, Tacoma Councilmember

Josephine Gamboa, Board Relations Specialist, announced a quorum of the Committee was present at roll call.

Report of the Chair

Finance and Audit Committee Meeting Cadence

Chair Backus considered a new bi-monthly meeting cadence for this committee to allow Board Members to receive more routine updates about the agency's financial health and audits. She asked staff to look into steps needed to implement the new cadence in 2024.

CEO Report

CEO Julie Timm provided the CEO report.

Upcoming Fall update to the Long-Range Financial Plan

CFO John Henry and his team would present the Fall update to the Long-Range Financial Plan at the next Finance and Audit Committee meeting in October 2023. The detailed update would include the potential impact of projects on the financial plan and updated assumptions on fare revenue and non-fare compliance.

Public comment

Chair Backus announced that public comment would be accepted via email to meetingcomments@soundtransit.org and would also be accepted virtually and in person.

The following people provided written comments:

Michael Williams

The following people provided in-person comments:

Alex Tsimmerman

The following people provided virtual comments:

Joe Kunzler

Business Items

Item for Final Committee Action

March 16, 2023 Finance and Audit Committee meeting minutes

It was moved by Boardmember Walker, seconded by Boardmember Frizzell, and carried by unanimous voice vote of the committee members present that the minutes of the March 16, 2023 Finance and Audit Committee meeting be approved as presented.

For Recommendation to the Board

Resolution No. R2023-21: Authorizing the redemption prior to maturity of the Authority's outstanding Series 2015S-2B Bonds using available funds; delegating authority to affect the redemption; and providing for other matters properly relating thereto, contingent upon Board approval of a budget amendment through Resolution No. R2023-22.

Jeff Clark, Deputy Executive Director of Financial Operations, provided the presentation for the Quarterly Asset and Liabilities Management Report and Resolution Nos R2023-21 and R2023-22.

The agency's current total cash and investments was at approximately \$3.7 million and total outstanding debt was at approximately \$2.6 million. Rising interest rates in Q1 resulted in higher yields on the agency's investments.

Boardmember Walker thanked staff for remaining efficient with taxpayer dollars.

Boardmember Frizzell shared her support for these resolutions.

Chair Backus echoed Board members Walker and Frizzell's comments.

It was moved by Boardmember Frizzell and seconded by Boardmember Walker, and carried by unanimous consent of all committee members present that Resolution No. R2023-21 be forwarded to the Board with a do-pass recommendation.

Boardmember Prince joined at this time.

Resolution No. R2023-22: Increasing the 2023 annual debt budget by \$84.3 million to \$229.4 million total budget amount.

It was moved by Boardmember Walker and seconded by Boardmember Frizzell, and carried by unanimous consent of all committee members present that Resolution No. R2023-22 be forwarded to the Board with a do-pass recommendation.

Chief Financial Officer Report

John Henry, Chief Financial Officer (CFO), provided the presentation. An Executive Summary of the Year-to-Date (YTD) report was provided in the committee member packets. Revenues and other financing, as of May YTD, was on track due to higher than planned tax revenues received offset mainly by lower than planned federal grant drawdowns. The agency had spent lower than planned expenditures by \$131 million, or 12 percent, overall. Other expenses were underspent by \$1.9 million mainly due to

lower sales and tax offset fees which were paid as a result of construction related costs, by way of spending less on construction. The other \$600,000 was a result of lower lease expenses of the agency reducing its footprint and recycling the savings back into the agency.

May YTD total revenues were \$194,000, or 0 percent, below budget. This was mainly due to higher than budgeted tax revenue and investment income and had been partially offset by lower than budgeted grant funding and lower than budgeted passenger fares. Federal Grants were \$84 million, or 68 percent, below budget primarily due to the Lynnwood Link Extension and Federal Way Link Extension Full Funding Grant Agreements. The agency received the 2023 annual appropriations from Congress later than anticipated and had started working with the FTA to incorporate the funds into Full Funding Grant Agreements for these projects and expect to be at budget by year-end.

May YTD transit operations were \$23 million, or 12 percent, lower than planned. Link was \$13.8 million lower than planned due to \$2.9 million related to consulting services for Link geometry, rail grinding, testing. \$3.4 million related to timing differences for invoicing including ORCA and purchases such as radio repairs and vertical maintenance contracts. \$1.4 million related to timing of maintenance projects like ADA ramps and gate assessments. \$1.3 million of lower insurance would roll into year-end. \$3.8 million related to lower agency overheads due to higher vacancy rate than budgeted. Sounder was \$7.2 million lower than budget with \$2.2 million related to services, \$1 million of that was related to delay in new vehicle delivery for Amtrak maintenance and \$500,000 related to ORCA fees and separately vertical maintenance fees. Tacoma Link was \$3.1 million lower than planned with \$2.8 million related to lower cost from the delay of Hilltop Tacoma Link Extension opening from an original budget of Q1 2023 opening to Fall 2023. Regional Express had a cost savings of \$2 million related to services. Another \$700,000 due to lower agency overheads due to higher vacancy rates. That was offset by an increase in purchased transportation.

CFO Henry noted the upcoming Long Range Financial Plan (LRFP) update that would be presented at the next meeting would include some adjustments to the assumptions related to vacancy. Staff believed the LRFP included factors that were working positively in favor of a strong financial outlook. CEO Timm asked staff to look into labor costs with salaries, benefits, and full-time employees (FTEs). 6 percent salaries and benefits underspend was driven by 6 percent vacancy over assumed vacancy.

May YTD system expansion projects were \$75 million, or 10 percent, below budget. CFO Henry noted the \$75 million did not equate to savings in the plan and was primarily a result of delays which would settle by year-end or in the next calendar year. For Link, the LRV Fleet Expansion was \$21 million under budget due to delays in software installation and lower than expected manufacturer production rate. Lynnwood Link Extension was \$17 million below budget due to roadway and utility work coordination taking slightly longer than planned. Downtown Redmond Link Extension was \$15.2 million under budget due to the contractor re-sequencing several work elements. Tacoma Dome Link Extension was \$12.5 million under plan due to the project addressing additional alternatives which had resulted in lower spending YTD on planned preliminary engineering supporting NEPA and SEPA activities. For Stride, I-405 BRT was \$10 million below budget mainly due to lower WSDOT construction progress than planned on 44th Street and 85th Interchange and Brickyard project. Offsetting the underspend in the I-405 BRT was the overspending to budget of the SR 522/NE 145th St and BRT Maintenance base projects which had benefited by accelerated progress to plan by the general engineering consultant. For Sounder, Sounder Fleet Expansion was \$4 million below budget mainly due to delayed conditional acceptance of vehicles due to safety and performance related issues. For Regional Express, the Pacific Ave SR 7 bus corridor was \$2 million lower than budget due to the project team from Pierce Transit meeting traffic impact analysis requirements and receiving permits from the City of Tacoma to proceed with the project delivery.

May YTD non system expansion projects were \$30 million, or 36 percent, lower than planned. Enhancements were \$5.7 million below budget mainly due to IT Digital Passenger Information System

project, Portfolio Services Office program work and Data Management Program project. State of Good Repair was \$6 million below budget with \$1.6 due to the Vertical Conveyance Program, \$700,000 for IT Tech Infrastructure, and \$600,00 for LRV system upgrades and another \$600,000 for hardware upgrades. Administrative was \$18 million below budget. The agency was averaging a vacancy at 14.3 percent versus a budgeted 8 percent, which is what caused CEO Timm to request staff to look into critical roles at the agency.

CFO Henry highlighted that additional detailed information would be provided during the Long-Range Financial Plan presentation at the next meeting to assist Chair Backus and the committee in understanding the benefits of holding additional committee meetings in the next year.

Boardmember Walker asked for more information on the staffing issues and asked if there was an anticipated date to fill the vacant positions. CFO Henry replied about the overarching hardships of retainment and recruitment. There was a large percentage of vacancies and staff would take this opportunity to analyze critical roles within the agency without harming future operational goals. Boardmember Walker asked about the timeline of that analysis or when positions would be filled. CFO Henry replied that work was currently underway and staff would return in Fall 2023 with an update. If a role was deemed as critical, such as a Fare Ambassador, then the agency was moving forward with filling those positions.

Boardmember Walker noted the cost savings related to BRT projects and delays and asked when the agency would have more information on the actuals. CFO Henry replied that most would likely get invoiced before year-end and more information should become available by Q3 2023.

CEO Timm added clarity on how the agency was looking at ways to better streamline staffing efforts and resources.

Mr. Clark noted the Annual Green Bond report was included in the committee's meeting materials and summarized the agency's sustainability efforts and met the requirements of the International Capital Market Association Green Bond Principles.

Lisa Wolterink, Deputy Executive Director of Fares, Grants and Revenue provided the 2022 fare revenue report. 2022 system wide ridership increased by 83 percent while fare revenue increased by 60 percent compared to 2021. Fare revenue increased from \$28 million in 2021 to \$45 million in 2022. For comparison, fare revenue was \$96 million in 2019.

The agency continued to experience a lower level of fare payment compliance when compared to pre-pandemic levels, particularly on Link, and there were efforts underway to increase compliance through the Fare Ambassador program. In 2022, 44 percent of light rail boardings and 17 percent of Sounder boardings were made without the use of fare media via ORCA tap, Vending Machine ticket, or Transit Go mobile Tickets. For all modes, farebox recovery rates were significantly below minimum policy thresholds. Link was at 16 percent versus the minimum policy threshold of 40 percent. ST Express was at 9 percent versus the minimum policy threshold of 20 percent and Sounder was at 7 percent versus the minimum policy threshold of 23 percent. The fare revenue report also described how Sound Transit has continued increasing assistance for riders by continuing the Subsidized Annual Pass program for riders with very low or no income, increasing outreach to promote ORCA LIFT enrollment, implementation of a lower ORCA LIFT fare and Free Youth fares in September 2022.

Mr. Clark provided the Enterprise Risk Management Program update. Enterprise Risk Management was an agency-wide strategy to identify and address hazards across the agency such as through operations, system expansion, finance, and others. Risk Management was occurring at the Division level. Foundational activities were underway to create agency level risk management to support ISO certification and help prioritize resources. The foundational activities supported moving to an agency

level aggregation and awareness of risks to further mature the work occurring at the department/division level.

Audit Update

2022 Financial Audit Report Exit Presentation

Laurie Tish and Spencer Stevenson, with Moss Adams, provided the report. Moss Adams had a clean and unmodified opinion on the financial statements. Ms. Tish explained there were several versions of the audit reports issued due to Sound Transit having internal audit statements, formal annual report, and other reports included in other documents such as single audit reports that go to the Federal government. All were unmodified and dated May 5, 2023. The report on Internal Control over financial reporting and on compliance and other matters had no internal control or compliance findings. The report on compliance for the major Federal Program and on internal control over compliance and the report on schedule of expenditures of Federal Awards required by the Uniform Guidance (Single Audit) had no internal control or compliance findings. The schedule of expenditures of Federal Awards was presented fairly in all material aspects in relation to the financial statements.

Ms. Tish reminded the committee that Moss Adams was required to report back to the agency twice a year, typically taking place in the Fall to provide the entrance presentation then Spring or Summer for the exit presentation.

Mr. Stevenson reviewed the items that were required to be communicated under auditing standards. For significant accounting policies and unusual transactions, part of their procedures was to review any significant changes to policies and implementation of new policies. There were no new accounting policies that were adopted and there were no changes in the application of existing policies during 2022. Moss Adams believed management had selected and applied significant accounting policies appropriately and consistent with those of the prior year. No unusual transactions were noted.

For management judgments and accounting estimates, risks and uncertainties, Moss Adams applied audit procedures to management's estimates to ascertain whether the estimates were reasonable under the circumstances and did not materially misstate the financial statements. Significant management estimates impacting the financial statements included the following: useful lives and depreciation of capital assets, assessment of impairment of capital assets, taxes receivable, potential losses related to litigation, asset retirement obligations, environmental pollution remediation, and cost allocations including amounts capitalized to construction. Moss Adams deemed them to be reasonable.

Ms. Tish noted the complexity of the account audits for the agency which equated to robust responses. She described the sampling process and procedures with these complex audits. Sound Transit was subject to potential legal proceedings and claims that arose from the ordinary course of business, which were disclosed in the notes to the financial statements.

For difficulties encountered and disagreements with management, there were no difficulties encountered and no disagreements with management to report.

There were no corrected or uncorrected audit adjustments noted during the course of the audit. Management identified, and provided, a number of post-closing adjustments related to accounts subject to management estimate and true up of tax receivables that were immaterial in amount and that were adjusted in early 2022. Moss Adams concurred with this treatment.

Ms. Tish provided a summary of other projects including the audit of the Regional Fare Coordination System (ORCA), the audit was completed and report was issued on May 5, 2023. The presentation of audit results was made to the Joint Board on May 9, 2023. For Agreed Upon Procedures for the Federal Transit Administration - National Transit Database reports, procedures were completed and report was issued in June 2023. No exceptions or unusual items were noted as a result of Moss Adams'

procedures. For Agreed Upon Procedures on the Schedule of Sources and Uses of Funds by Subarea (Subarea Equity), procedures were completed and report was issued on May 17, 2023. No exceptions or unusual items were noted as a result of Moss Adams' procedures.

The audit progressed on time and in an orderly fashion, all requested schedules and draft financial statements were received on a timely basis. Ms. Tish shared that all Sound Transit personnel organization wide and across all departments were courteous, responsive and fulfilled all requests in a timely manner. 'Tone at the Top' and attitude from management was one of helpfulness, candor, and openness in response to audit requests and discussion points.

2023 Internal Audit Update (Q1 and Q2)

Patrick Johnson, Audit Director, provided the presentation.

Safety and Security Certification audits were completed at specific points in the Capital Expansion project's lifecycle. There were no findings in the security audit of Lynnwood, Federal Way and Hilltop. For the 2022 Performance audits, there were no findings in the Revenue Vehicle Preventive Maintenance audit and one finding in Agency Agreements audit.

The Agency Agreements audit focused on the processes used to develop and manage agreements. Staff noted positively that the processes were documented in a database. The finding was around an incomplete list of Agreement Managers as well as training and self-assessment surveys that were not being consistently executed as described in the pertinent policy. Management agreed with the finding and was currently taking action by reviewing the existing training for contract management and making modifications as well as preparing revisions to agency policy and procedures. Management had stated their corrective actions should be completed by the end of 2023. Mr. Johnson's team would verify those corrective actions once completed.

Mr. Johnson reviewed the results from the FTA recent Triennial review of Sound Transit. As required by United States Code, once every 3 years the FTA requires to review and evaluate the performance of the agency as an award recipient of federal funds. The Triennial Review focused on Sound Transit's compliance in 23 areas, such as Legal, Financial Management, Procurement, ADA Compliance, and Drug and Alcohol programs to name a few. The FTA auditors identified deficiencies in eight areas such as project management oversight of transit management contractors, non-permitted use of equipment disposal proceeds, ADA procedures, implementation of paratransit service, the agency's adoption of the Tacoma Link Substance Abuse Policy, and the development of a written policy describing the public comment process on implementing a major service disruption. Two of the eight deficiencies had already been corrected and would not be carried over into the FTA's final report.

The 2022 Compliance audit plan were primarily safety audits required to be completed annually by federal and state safety oversight requirements. These also included audits conducted as the agency maintained and pursued international accreditation for Environmental, Safety Management, and Asset Management systems. The FRA Railroad Accidents/Incidents Safety Audit, ST Express Annual Internal Safety Audit, and Environmental Management Systems Internal Audit resulted in no findings.

For the Safety and Security Certification 2023 audit plan, the Hilltop Link Construction/Pre-Integrated Testing Safety and Security Audit was completed with no findings. The remaining three audits were in progress. Those audits included the East Link E330/E340 Construction Conformance, Downtown Redmond Link Design Conformance, and East Link E320 Construction Conformance Safety and Security audits.

The 2023 Performance audits were audits that were chosen based on risk. The ADA Accessibility Compliance audit was being delayed until 2024. This was due to some ADA issues identified through the Triennial review.

The Track Maintenance – Link Light Rail audit was to assess the effectiveness of track maintenance scheduling for the Central Link light rail and to determine if those services were performed according to applicable plans, policies, and requirements. Track maintenance was performed by King County Metro through an intergovernmental agreement with oversight by Sound Transit Link operations. Staff found the Track maintenance to be generally compliant with standards. With respect to training, the intergovernmental agreement included requirements that the staff training program would be jointly developed and approved by King County Metro and Sound Transit. The program was also to be reviewed and updated annually by King County Metro and submitted to Sound Transit for this approval. Staff's fieldwork confirmed that King County had established a training program for maintainers; however, Sound Transit did not formally approve the training program nor provide oversight of the training. Finally, as part of a limited review of cost monitoring, staff found a lack of a technical review of invoices to ensure work was performed prior to payment. Management's response to this audit and additional comments were included in the Committee's packets.

Mr. Johnson reviewed the two requested performance audits from the December 2022 Committee meeting: Temporary Service Changes Collaboration and System Expansion time charging accountability. The Audit Division was made aware of agency efforts underway to improve processes related to both topic areas. There was significant work in progress for both topics that were not expected to be completed the end of 2023. Similar to the timing of the ADA audit, with respect to the Triennial Review initiatives, staff felt it was best to postpone both audits to a time after the improvements were made by management. Both topics would not be replaced due to the current workload of the audit team.

Executive session – None

Other business – None

Next meeting

Thursday, October 19, 2023
12:30 to 2:00 p.m.
Ruth Fisher Boardroom and Virtually via WebEx

Adjourn

The meeting adjourned at 1:57 p.m.



Nancy Backus
Finance and Audit Committee Chair

ATTEST:



Kathryn Flores
Board Administrator

APPROVED on September 8, 2023, JG.