



**BI-STATE DEVELOPMENT AGENCY / METRO
AUDIT COMMITTEE MEETING
OPEN SESSION MINUTES
JANUARY 23, 2015**

Committee Members in Attendance

Missouri

Constance Gully, Chair
Vincent C. Schoemehl, (absent)
Hugh Scott, (via phone)

Illinois

David Dietzel, (absent)
Jeffrey Watson, (absent)

Other Commissioners in Attendance

Vernal Brown
Michael Buehlhorn, (via phone)
Aliah Holman, (via phone)

Staff in Attendance

John Nations, President & CEO
Barbara Enneking, General Counsel and Deputy Secretary
Shirley Bryant, Certified Paralegal/Assistant Secretary
Jim Cali, Director Internal Audit
Rita Marion, Sr. Administrative Assistant
Kathy Klevorn, Sr. Vice-President, Chief Financial Officer
Patti Beck, Director of Communications
Kent Swagler, Director of Corporate Compliance and Ethics
Mark Vago, Controller
Kathy Brittin, Director Risk Management, Safety & Claims
Angie Staicoff, Internal Auditor
Kelli Fitzpatrick, Internal Auditor, Part-Time
Tammy Fulbright, Director Treasury Services
Antwuan Donley, Internal Audit Department Intern
Andrew Ghiassi, Safety Engineer II, Rail Safety Engineer
Reggie Cavitt, ATU Local 788
Karl Tyminski, Internal Auditor PT
Sheila Hockel, Manager Emergency Preparedness
David Toben, Director Benefits
Jerry Valley, External Communications Manager

Others in Attendance

Bill Grogan, St. Clair County Transit District
James Smith, MoDot

1. Call to Order

8:05 a.m. Commissioner Gully called the Open Session Audit Committee Meeting to order at 8:05 a.m.

8:04 a.m. John Nations, President & CEO, introduced Commissioner Vernal Brown, the newest Missouri member of the Agency's Board of Commissioners representing St. Louis County. She was appointed by Governor Jay Nixon to replace Commissioner Kevin Cahill. Commissioner Brown has a very distinguished and impressive background and is now in charge of benefits for the United Auto Workers, Region 5, an area that encompasses 17 states from Seattle to St. Louis. On behalf of Agency staff, Mr. Nations welcomed Commissioner Brown to the Board of Commissioners.

Commissioners Gully and Holman also welcomed Commissioner Brown to the Board.

2. Roll Call

8:05 a.m. Roll call was taken.

3. Public Comment

8:06 a.m. There was no public comment.

4. Minutes of Prior Open Session Audit Committee Meeting

8:06 a.m. The October 24, 2014, Audit Committee Open Session Meeting Minutes were provided in the Committee packet. A motion to approve the minutes was made by Commissioner Buehlhorn and seconded by Commissioner Scott. **Motion passed unanimously.**

5. September Financials

8:07 a.m. The Agency's Quarterly Financial Statements for FY15, 1st Quarter - Ending September 30, 2014 were provided in the Committee packet. Kathy Klevorn, Sr. Vice President Chief Financial Officer, introduced Mark Vago, Controller, to provide a brief overview. Mr. Vago discussed the operating results, analysis and financial position for Metro Transit and each Business Enterprise entity. The combined net income before depreciation for the Agency was \$11.7 million, and the net income from the other entities offset the loss from the St. Louis Downtown Airport.

Transit: For the 1st Quarter of FY15, ending September 30, 2014, Transit had a net income before depreciation of \$10.4 million. Ridership increased 1.1% over the prior year and passenger revenue increased 2.5% over the same period. The July 1, 2014 fare increase that raised the average fare from \$1.09 to \$1.11 helped revenues outpace ridership. The funds received, in exchange for services, from St. Louis County, St. Louis City and St. Clair County were favorable to budget.

Business Enterprises: The Gateway Arch Trams, Gateway Parking, the Riverfront Attractions, and the St. Louis Downtown Airport combined net operating income before depreciation was \$934,000. The Arch Trams, Parking and Riverfront Attractions were impacted by the CityArchRiver construction. Tram ridership was down 5.9%, Parking was down 35.3% and bike rental has been suspended. The Arch Tram net income before depreciation was \$816,000; the Arch Parking net income before depreciation was \$95,000, and the Riverfront Attractions generated net income before depreciation of \$43,000, which is \$37,000 unfavorable to budget. The St. Louis Downtown Airport had a net loss before depreciation of \$21,000.

Executive Services: Executive Services had a net income before depreciation of \$416, 000 and operating expenses and revenue were favorable to budget.

Commissioner Buehlhorn asked if the completion and opening of the southern half of Leonor K. Sullivan Boulevard (**LKS**) would boost the Riverboat revenues. In response, Mr. Nations stated that the opening of the southern portion of LKS would not have a significant impact on the Riverboat revenue in the short term. The Riverboat attractions would still be impacted because the northern portion of LKS would be closed from the grand staircase to Biddle Street.

This report was informational only and no Committee action was required. A copy of this report will be kept at the office of the Deputy Secretary.

6. September Performance Indicators

8:15 a.m. The Agency's Performance Indicators for FY15, 1st Quarter - ending September 30, 2014 were provided in the Committee packet. Mark Vago, Controller, provided a brief overview discussing the Annual Transit Performance, System Profile, Business Services and Executive Services Profiles. The Transit System expenses were greater than the prior year due to higher wage and benefit costs as a result of the new contract with the ATU and outside service spending on non-capital projects. The Arch Parking Garage operating income was \$130,452 less than prior year actual. Road construction and limited access related to the CityArchRiver development project contributed to lower use of the garage. The garage is currently closed as a result of the construction and plans to tear down the garage. Passenger boarding on the riverboats was down approximately 50%, and operating revenue was 25.4% unfavorable to budget. Operating loss for the St. Louis Downtown Airport was \$102,129 below budget as a result of decreased operating revenue. Operating income for Executive Services exceed the budget by \$269,502 as a result of expenses being lower than budget and a favorable variance of Arch administrative fee revenue.

Some discussion followed regarding the decrease in transit ridership, which could be attributed to lower fuel prices resulting in more people driving their own vehicles. Mr. Friem also reported that the civil unrest during the quarter also had a negative effect on ridership. This report was informational only and no Committee action was required. A copy of this report will be kept at the office of the Deputy Secretary.

7. Treasury - Safekeeping Quarterly Accounts Audit, Ending September 30, 2014

8:15 a.m. The Treasury Safekeeping Quarterly Accounts Audit - Ending September 30, 2014, was provided in the Committee packet. Jim Cali, Director of Internal Audit, provided a brief overview. In accordance with the FY15 Internal Audit Plan and Board Policy requirements, the Internal Audit Department (**IAD**) performed a quarterly audit of the Treasury Safekeeping Accounts. Based on that analysis, it was determined that the Safekeeping Accounts exist, and the respective balances have been fairly presented in the Treasurer's Report dated September 30, 2014. IAD worked with the Treasury Department to add a more detailed explanation in the briefing paper as to the nature of the funds that represent the \$65 million in Safekeeping. This report was informational only and no Committee action was required. A copy of the report will be kept at the office of the Deputy Secretary.

8. Internal Audit Status Report - FY15, 2nd Quarter

8:15 a.m. The Internal Audit Status Report - FY15, 2nd Quarter was provided in the Committee packet. Jim Cali, Director of Internal Audit, provided a brief overview. The Internal Audit Status Report provides a summary of IAD's quarterly activity pertaining to the Annual Audit Plan. In addition to tracking the status of current audits, it also highlights the follow-up activity related to

the implementation of recommendations from prior audits. IAD has added an analysis of areas where the IAD has questioned certain costs and advised management that such costs may be subject to being recouped. To date, the suggestions of the IAD have led to approximately \$148,258 being recovered from Lamar Advertising, a former contractor. IAD is currently working with Benefits Director Dave Toben and Cigna to recover approximately \$45,000 in payments made to Cigna due to billing errors by Cigna. IAD has also advised management that IAD believes approximately \$46,943 was overpaid to Sachs Electric, which has denied the allegation. Sachs maintains that, although the contract between Bi-State and Sachs called for a specific billing rate regarding overhead and Sachs admits it billed at a higher rate than the contract provided, the higher rates were nonetheless appropriate because the higher rate was the rate in effect for work performed in Illinois. Further, Sachs maintains that since Bi-State paid the invoices as presented, nothing is owed by Sachs to Bi-State. Efforts are ongoing by the IAD and others to resolve the dispute with Sachs Electric. Since the matter is essentially a contract interpretation issue, it has been referred to Vice-President of Procurement & Inventory Management, Larry Jackson.

IAD is required to have a Quality Assurance Review (**QAR**) conducted once every five (5) years. To be in compliance, Crowe Horwath, the Agency's independent External Auditors, is scheduled to conduct the QAR in February 2015. The QAR will assess the efficiency and effectiveness of the Internal Audit activity and identify opportunities for improvement. This report was informational only and no Committee action was required. A copy of the report will be kept at the office of the Deputy Secretary.

9. Internal Audit Follow Up Summary - FY15, 2nd Quarter

8:19 a.m. The Internal Audit Follow Up Summary - FY15, 2nd Quarter report was provided in the Committee packet. Jim Cali, Director Internal Audit, provided a brief overview. The Internal Audit Department follow-up findings regarding the status of the prior recommendations during the 2nd quarter of FY15 were presented to the Committee. During the second quarter, IAD was tracking 47 recommendations. Management working with IAD completed or closed out 38 of those outstanding recommendations. Remaining are nine outstanding recommendations, none of which is overdue. This report was informational only and no Committee action was required. A copy of the report will be kept at the office of the Deputy Secretary.

10. Corporate Compliance and Ethics

8:20 a.m. The Corporate Compliance and Ethics report was provided in the Committee packet. Kent Swagler, Director of Corporate Compliance and Ethics, provided a brief overview. This report provided the current state of the Agency with respect to meeting its documented compliance requirements for FY15, as well as the current status of compliance, initiatives, ethics and training programs. Mr. Swagler also presented the status of the Missouri and Illinois Bus Facility underground storage tanks (**UST**) and the three year organizational development and training plan implementation, as well as the Payment Card Industry (**PCI**) compliance update.

Some discussion followed regarding the closure reports required by the Missouri Department of Natural Resources (**DNR**). This report was informational only and no Committee action was required. A copy of the report will be kept at the office of the Deputy Secretary.

11. Report to the Nations on Fraud

8:27 a.m. The *Report to the Nations on Fraud* was provided in the Committee packet. Jim Cali, Director of Internal Audit, provided a brief overview. In the June 30, 2009, External Auditors Annual Audit Report, it was recommended that the Board of Commissioners participate in fraud

awareness training. In an effort to satisfy that recommendation, the Internal Audit Department provided the Board with a copy of the *Report to the Nations on Occupational Fraud and Abuse 2014 Global Fraud Study* that was produced by the Association of Certified Fraud Examiners. This document represented their analysis of 1,483 fraud cases which provided the following information: 1) typical organization loss is estimated at 5% of revenue each year due to fraud; 2) the median fraud loss was \$145,000; 3) the median duration, the amount of time from when the fraud commenced until it was detected, was 18 months; 4) occupational frauds can be classified into three (3) primary categories: Asset Misappropriations, Corruption, and Financial Statement Fraud; 5) The most common form of occupational fraud is Asset Misappropriation, resulting in a median loss of \$130,000; 6) Tips are consistently the most common detection method. Over 40% of all fraud cases were detected by a tip; 7) Employees accounted for nearly half of all tips that led to the discovery of a fraud; 8) Organizations with hotlines were much more likely to catch a fraud by a tip; 9) Organizations with a hotline also experienced frauds that were 41% less costly, and were caught 50% more quickly than organizations without a hotline. The Agency has taken the initiative to have a Helpline and the next step would be to expand it to the vendors.

Mr. Cali informed the Committee that this report and presentation satisfies the Board's requirement for the annual fraud awareness training as recommended by the External Auditor. This report was presented in compliance with the External Auditor's recommendation and is information only and no Committee action is required. A copy of the report will be kept at the office of the Deputy Secretary.

12. Unscheduled Business

8:31 a.m. There was no unscheduled business.

13. Executive Session - Executive Session - If such action is approved by a majority vote of the Bi-State Development Agency's Board of Commissioners who constitute a quorum, the Board may go into closed session to discuss legal, confidential, or privileged matters under §610.021(1); RSMo; leasing, purchase or sale of real estate under §610.021(2); personnel actions under §610.021(3); discussions regarding negotiations with employee groups under §610.021(9); sealed bids, proposals and documents related to negotiated contracts under §610.021(12); personnel records or applications under §610.021(13); records which are otherwise protected from disclosure by law under §610.021(14); records relating to hotlines established for report abuse and wrongdoing under §610.021(16); or confidential or privileged communications with the District's auditor, including auditor work products under §610.021(17).

8:31 a.m. Pursuant to the requirements of Section 610.021(17) of the Revised Statutes of Missouri, Commissioner Gully requested a motion to allow the Committee to go into closed session. A motion was made by Commissioner Scott and seconded by Commissioner Buehlhorn. A roll call vote was taken and the Commissioners present, Gully, Scott, Brown, Holman and Buehlhorn voted to approve this agenda item. **Motion passed unanimously.**

14. Call of Dates for Future Committee Meetings

9:35 a.m. Future meetings are as follows: an Operations Committee meeting is scheduled for Tuesday, January 27, 2015, at 8:00 a.m.; a Board meeting is scheduled for Friday, February 27, 2015, at 8:00 a.m.; an Operations Committee meeting is scheduled for Tuesday, March 17, 2015, at 8:00 a.m.; a Business Services and Economic Development Committee meeting is scheduled for Friday, March 20, 2015, at 8:00 a.m.; a Finance & Administration Committee meeting on Friday, March 27, 2015, at 8:00 a.m.; a Board meeting on Friday, April 24, 2015 at 8:00 a.m.; and an Audit Committee meeting on Friday, May 22, 2015, at 8:00 a.m.

15. Adjournment

9:35 a.m. A motion to adjourn the Open Session Audit Committee Meeting was made by Commissioner Buehlhorn and seconded by Commissioner Brown. **Motion passed unanimously.**

Deputy Secretary to the Board of Commissioners
Bi-State Development Agency / Metro