

**BI-STATE DEVELOPMENT
AUDIT COMMITTEE MEETING
OPEN SESSION MINUTES
OCTOBER 21, 2016**

Committee Members in Attendance

Missouri

Constance Gully, Chair
Vincent C. Schoemehl (absent)

Illinois

David Dietzel (absent)
Jeffrey Watson (absent)

Other Commissioners in Attendance

Vernal Brown (via phone)
Tadas Kicielinski (via phone)
Aliah Holman (via phone)

Staff in Attendance

John Nations, President & CEO
Barbara Enneking, General Counsel and Deputy Secretary
Shirley Bryant, Certified Paralegal
Jim Cali, Director, Internal Audit
Rita Marion, Sr. Administrative Assistant
Kathy Klevorn, Sr. Vice-President and Chief Financial Officer
Larry Jackson, Executive Vice President for Administration
Kerry Kinkade, Acting Vice President Chief Information Officer
Patti Beck, Director of Communications
Mark Vago, Controller (via phone)
Angela Staicoff, Internal Auditor
Kelli Fitzpatrick, Internal Auditor, Part-Time
Amy Olden, Internal Audit Intern
Gary Smith, Internal Audit Intern
Karl Tyminski, Internal Auditor, Part-Time
Tammy Fulbright, Director Treasury Services
Charles Stewart, Vice President Pensions & Insurance
Jonathan Frederick, Director Accounting & Budget
Christie Olden, Supervisor Accounting
Michael Gibbs, Accountant Business Enterprises
Jim Schifferdecker, Director Passenger Revenue
Shane Jennings, Manager IT ERP Systems
Kathy Brittin, Director Risk Management Safety & Claims
Tracy Beidleman, Director Program Development & Grants
Virginia Alt-Hildebrandt, Executive Assistant
Andrew Ghiassi, Manager, Safety & Loss Control
David Toben, Director Benefits
Maryanne Coley, Manager Benefits
Dianne Williams, Vice President Communications & Marketing
Denise Williams, Sales Manager Marketing
Danielle Williams, Individual & Group Sales Supervisor

Others in Attendance

Scott Nickerson, Crowe Horwath

1. Call to Order

8:00 a.m. Chair Gully called the Open Session Meeting of the Audit Committee to order at 8:00 a.m.

2. Roll Call

8:00 a.m. Roll call was taken.

3. Public Comment

8:00 a.m. There was no public comment.

4. Minutes from May 20, 2016 Audit Committee Meeting - Open Session

8:01 a.m. The May 20, 2016, Open Session Audit Committee Meeting minutes were provided in the Committee packet. A motion to approve the minutes was made by Commissioner Kicielinski and seconded by Commissioner Holman. **Motion passed unanimously.**

5. Sole Source Contract for Performance and Management Audit

8:01 a.m. A briefing paper regarding the sole source contract for Performance and Management Audit was provided in the Committee packet. Kathy Klevorn, Sr. Vice President and Chief Financial Officer, provided a brief overview. The Board awarded a sole source contract to Infrastructure Management Group (**IMG**) on July 29, 2011, for a five year period to comply with provisions of the Cross-County Bond Indenture and the St. Louis County requirement for periodic performance audits. Since July 2011, the Series 2002, 2005, and 2007 bonds were refunded by the Series 2013 bonds. The advanced refunding of the Series 2009 bonds is waiting on authorization from St. Louis County. A positive NPV can be achieved of more than \$10 million in the Series 2009 refunding. The program requirements within the infrastructure inspection program are being implemented as part of the State Safety and Security Oversight Program Standards. This program is monitored by the States of Missouri and Illinois Departments of Transportation and MetroLink Operations, Safety and Internal Audit employees. Bi-State Development (**BSD**) will issue a new request for proposal (**RFP**) taking into account the changes in requirements as soon as the Series 2009 bonds have been refunded. The next RFP will continue to meet the requirements of St. Louis County Ordinance #24,264 (2010). A performance audit is due in August 2018. IMG has agreed to conduct that audit partnering with ABNA Engineering for a budget not to exceed \$120,491. A motion for the Committee to approve and refer to the Board for approval the request to authorize the President & CEO to enter into a contract with IMG for a period of one year in a not-to-exceed amount of \$120,491 was made by Commissioner Kicielinski and seconded by Commissioner Brown. **Motion passed unanimously.**

6. Pension Audit Update

8:07 a.m. A briefing paper and Pension Audit Update reports were provided in the Committee packet. Charles Stewart, Vice President, Pension & Insurance, provided a brief overview. The Pension Data Audit, issued by Bi-State Development's Internal Audit Department in March 2012, identified policy, procedure, recordkeeping, and internal control deficiencies that affected both financial reporting and the general administration of the pension plans. The Internal Audit Department recommended that the pension trustees engage an independent certified public accounting firm to perform an annual financial statement audit. This recommendation was implemented and the audit reports show significant progress. The financial audit reports for plan

year ended 2016 were issued by Mayer Hoffman McCann, PC (**MHM**). MHM issued unqualified “clean” audit opinions for plan year ended 2016 for all three pension plans. All identified issues were corrected prior to the completion of the audits. Mr. Stewart noted that this is a significant milestone, because all of the audits for all of the pensions are now current. The audit report of the 401(k) Retirement Savings Program for the year ended December 31, 2015, is in process. All Pension Committees voted to seek audit proposals for the next annual audits and preparation to issue an RFP is underway. 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. Express Scripts Contract Extension and Funding Request

8:10 a.m. A briefing paper regarding the Express Scripts contract extension and funding request was provided in the Committee packet. David Toben, Director of Benefits, provided a brief overview. Bi-State Development (**BSD**) is a member of the St. Louis Area Business Health Coalition (**BHC**) and participates in a purchasing cooperative for pharmacy benefit management services with approximately thirty other employers from the metropolitan area. Lockton Companies Excelsior Solutions group was engaged by BHC in November 2012 to conduct a request for proposal (**RFP**) and eight responses were received. Express Scripts (**ES**) was selected and BHC entered into an agreement with ES in October 2014. BSD approved this contract in November 2014 and is now entering year three of the current contract that will end September 30, 2017. The BHC/Express Scripts contract includes a provision for annual market checks to ensure continuing pricing competitiveness. The annual market check was just concluded and BSD anticipates a 7.04% savings in plan costs representing negotiated improvements in discounts, rebates and a reduction in processing fees that will help mitigate prescription drug trends and cost inflation in 2017. ES has enhanced their annual market check pricing improvements for BHC participating employers willing to extend the current contract to a fourth year beginning October 1, 2017. This would give BSD an improved savings in plan costs of 10% or 3.04% higher if we extend the contract to 2018. BHC has agreed to extend the contract for the period of October 1, 2017, to September 30, 2018. A new RFP will not be issued until early 2018. The projected 2018 gross pharmacy plan cost is \$7,438,265 with a net cost after rebates of \$6,840,946; and because of the ES enhanced pricing offer, management recommends the one year contract extension for 2018 at an estimated total cost of \$6,900,000. A motion for the Audit Committee to approve and refer to the Board for approval the request to extend the Express Scripts contract for one additional year at an estimated total cost of \$6,900,000 was made by Commissioner Kicielinski and seconded by Commissioner Brown. Commissioners Gully, Kicielinski and Brown voted “aye” and Commissioner Holman abstained. **Motion passed unanimously.**

8. Treasury – Safekeeping Quarterly Accounts Audits – Ending June 30, 2016

8:15 a.m. A briefing paper and the Treasury Safekeeping Quarterly Accounts Audits ending June 30, 2016, were provided in the Committee packet. Jim Cali, Director of Internal Audit, provided a brief overview. Per Board Policy, the Internal Audit Department (**IAD**) is required to perform a quarterly audit of the Treasury Safekeeping Accounts. IAD reviewed the Treasurer’s Report, identified the securities classified under the Safekeeping Accounts criteria, contacted each bank custodian to verify the existence of the Securities and to confirm account balances. In accordance with the new GASB Statement No. 72 *Fair Value Measurement and Application*, IAD performed an examination of each bank safekeeping custodian’s account confirmation as compared with the fair values for each investment in the Treasurer’s Report. A chart has been provided to show the individual values, the commodities and the custodians of the Safekeeping assets as part of this report. Mr. Cali noted that the spreadsheet attached to the briefing paper noted a discrepancy regarding BSD funds on deposit at Federal Home Loan (**Bank of America**) in the amount of \$2,109,121.56. Mr. Cali explained, as noted on the spreadsheet, that this is the result of a timing

issue on the transfer of some of these funds. The Treasurer's Report was issued as of June 30, but the transfer was not confirmed until July 1. Mr. Cali had confirmed that the total amount of the funds are on deposit, as represented in the Treasurer's Report. 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.

9. Internal Audit Status Report – Fourth Quarter, FY16 and First Quarter, FY17

8:17 a.m. A briefing paper and the Internal Audit Status Report, Fourth Quarter FY16 and First Quarter FY17 were provided in the Committee packet. Jim Cali, Director of Internal Audit, provided a brief overview. Due to the timing of the Audit Committee meeting, the Internal Audit Department (IAD) was able to provide status reports for the Fourth Quarter, FY16 and the First Quarter, FY17. This report provides a summary of the IAD's quarterly activity pertaining to the Annual Audit Plan. In addition to tracking the status of current audits and special projects, this report highlights the follow-up activity related to the implementation of recommendations from prior audits. During the Fourth Quarter, FY16, BKD, a certified public accounting firm, began an audit of the health insurance claims. IAD, working with the Procurement Department, completed the selection and established the On-Call list of three Cyber Security Consulting Firms. There is no retainer or costs to have these firms on the On-call list.

Mr. Cali introduced Mr. Gary Smith, who was hired in the IAD in September 2016 as an intern. Mr. Smith is a graduate of Lindenwood University, and he brings a great deal of experience in transit as a former part-time bus operator. Working part-time as a bus operator for three years, allowed him to complete his Master's Degree. IAD is fortunate to have him join their team.

Some discussion followed regarding the need for cyber insurance. 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.

10. Internal Audit Follow-Up Summary, Fourth Quarter FY 2016

8:24 a.m. A briefing paper and the Internal Audit Follow-Up Summary, Fourth Quarter FY16 report were provided in the Committee packet. Jim Cali, Director of Internal Audit, provided a brief overview. The most important part of the audit is the follow up after the audit is completed and management agrees to implement certain recommendations. The Audit follow-up process is to ensure that those recommendations and implementation schedules have been met. During this period, management worked diligently and closed out 12 audits. There are 9 audits that IAD is still tracking. There are currently 31 outstanding recommendations that management is working on, and none of them are 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.

11. Unscheduled Business

8:26 a.m. There was no unscheduled business.

12. Call of Dates for Future Committee Meetings

8:26 a.m. The Committee was advised of the next Board Meeting date of Friday, November 18, 2016, at 8:00 a.m.

- 13. 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 pursuant to Bi-State Development Board Policy Chapter 10, Section 10.080 (D) Closed Records; Legal under §10.080(D)(1); Real Estate under §10.080(D)(2); Personnel under §10.080(D)(3); Health Proceedings under §10.080(D)(4); Employee Negotiations under §10.080(D)(5); Data Processing under §10.080(D)(6); Purchasing and Contracts under §10.080(D)(7); Proprietary Interest under §10.080(D)(8); Hotlines under §10.080(D)(9); Auditors under §10.080(D)(10); Security under §10.080(D)(11); Computers under §10.080(D)(12); Personal Access Codes under §10.080(D)(13); Personal Information under §10.080(D)(14); Insurance Information under §10.080(D)(15); Rail, Bus, or Facilities Safety and Accidents under §10.080(D)(16); or Protected By Law under §10.080(D)(17).**

8:26 a.m. Pursuant to the requirements of the Bi-State Development Board Policy, Chapter 10, Section 10.080(D) Closed Records; Legal under Section 10.080(D)(1); Real estate under Section 10.080(D)(2); Purchasing and Contracts under Section 10.080(D)(7); Security under Section 10.080(D)(11); Rail, Bus, or Facilities Safety and Accidents under Section 10.080(d)(16) or Protected by Law under Section 10.080(D)(17) Chair Gully requested a motion to allow the Committee to go into closed session. A motion to go into Executive Session was made by Commissioner Brown and seconded by Commissioner Kicielinski. A roll call vote was taken and the Commissioners present, Gully, Brown, Holman, and Kicielinski voted to approve this agenda item. **Motion passed unanimously, and the Open Session meeting was adjourned.**

Deputy Secretary to the Board of Commissioners
Bi-State Development