

**BI-STATE DEVELOPMENT  
AUDIT, FINANCE & ADMINISTRATION COMMITTEE MEETING  
OPEN SESSION MINUTES  
MAY 18, 2017**

**Committee Members in Attendance**

Constance Gully Chair  
Vernal Brown (absent)  
David Dietzel (absent)  
Vince Schoemehl  
Jeffrey Watson (absent)

**Other Commissioners in Attendance**

None

**Staff in Attendance**

John Nations, President & CEO  
Barbara Enneking, General Counsel and Deputy Secretary  
Shirley Bryant, Certified Paralegal  
Jim Cali, Director of Internal Audit  
Ray Friem, Executive Director Metro Transit  
Larry Jackson, Executive Vice President for Administration  
Kathy Klevorn, Sr. Vice-President and Chief Financial Officer  
Barbara Georgeff, Director of Executive Services  
Brenda Krieger, Executive Assistant  
Mark Vago, Controller  
Tammy Fulbright, Director Treasury Services  
Kent Swagler, Director Corporate Compliance and Ethics  
Jonathan Frederick, Director Accounting & Budget  
Michael Gibbs, Accountant Business Enterprise  
Gary Smith, Internal Audit Intern  
Kathy Brittin, Director Risk Management, Safety & Claims  
Patti Beck, Director Communications  
Dianne Williams, Vice President Communications & Marketing  
David Toben, Director Benefits  
Kerry Kinkade, Vice President and Chief Information Officer  
Maryanne Coley, Manager Benefits  
Ken Franklin, Vice President Governmental Relations & Policy Initiatives  
Charles Stewart, Vice President Pension & Insurance  
Angela Staicoff, Sr. Internal Auditor  
Kailey Braddy, Internal Audit Intern  
Kelli Fitzpatrick, Sr. Internal Auditor, Part-time  
Andrew Ghiassi, Manager Safety & Loss Control  
Virginia Alt-Hildebrandt, Manager Administrative Services  
Francoise Lyles-Wiggins, Supplier Diversity Manager

**Others in Attendance**

Scott Nickerson, Crowe Horwath

**1. Call to Order**

**8:00 a.m.** Chair Gully called the Open Session Audit, Finance and Administration Committee Meeting 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.

Commissioner Gully congratulated Kathy Klevorn, Sr. Vice President and Chief Financial Officer, for her nomination for a CFO of the Year award.

**4. Audit, Finance and Administration Committee Open Session Minutes: March 24, 2017**

**8:01 a.m.** The March 24, 2017, Open Session Audit, Finance and Administration Committee Meeting minutes were provided in the Committee packet. A motion to approve the minutes as presented was made by Commissioner Schoemehl and seconded by Commissioner Gully. **Motion passed unanimously.**

**5. FY2018 Annual Audit Work Plan and Risk Assessment**

**8:01 a.m.** The FY18 Annual Audit Work Plan and Risk Assessment was provided in the Committee packet. Jim Cali, Director Internal Audit, provided a brief overview. The Audit Work Plan for FY18 was developed with input from Agency management. A recently adopted leadership training program provided an awareness of the services the Internal Audit Department (**IAD**) provides, which resulted in a number of audits and/or risk assessment requests from management. The audit work plan incorporates a risk based analysis of the Agency's operations in order to determine which audits will be performed during this fiscal year. In developing the proposed audit work plan, special attention was given to the auditable units associated with the passenger revenue systems. IAD, with the assistance of Senior Management, compiled a Risk Assessment, taking into consideration probable risk factors and potential exposures BSD could experience. The comprehensive Risk Assessment analysis identified a total of 120 auditable units. The listings of all the audits planned for FY18 are provided in Exhibit A on page 8 of the draft copy of the FY18 Annual Audit Work Plan. A motion was made by Commissioner Schoemehl and seconded by Commissioner Gully to approve this agenda item as presented. **Motion passed unanimously.**

**6. Internal Audit Status Report – 3<sup>rd</sup> Quarter FY2017**

**8:03 a.m.** The Internal Audit Status Report, 3<sup>rd</sup> Quarter FY17 was provided in the Committee packet. Jim Cali, Director Internal Audit, provide a brief overview. In addition to tracking the status of current audits and special projects, this report also highlights the follow-up activity related to the implementation of recommendations from prior audits. BKD, a certified public accounting firm, who are also our neighbors on the 6<sup>th</sup> floor, was engaged to perform the audit of BSD's health insurance claims. They completed the review of the claims for Cigna and Delta Dental, and during the 3<sup>rd</sup> quarter, they began the review of the claims processed for pharmacy by Express Scripts. BKD plans to have their complete report for presentation at the August Audit Committee meeting. The Internal Audit Department (**IAD**) performed the review of the Shaw Park Garage Transit Center expenses that were submitted by St. Louis County. Gary Smith, an Intern in IAD was assigned this task. Mr. Smith's review of the billing identified a significant billing error on the part of St. Louis County, which was corrected in April and the Agency received a credit of \$21,112. IAD also worked with Procurement to issue an on call contract to provide accounting, auditing, tax

planning, and consulting services to Arts-In-Transit and the Bi-State Development Research Institute, the two 501(c)(3) non-profit corporations that BSD supports. A review of five (5) proposals concluded with the selection of Schowalter & Jabouri, P.C. to be engaged for that task. Mr. Cali introduced Kailey Braddy, a college student intern, to replace Amy Olden, a former IAD Intern who recently accepted a position with a local Fortune 100 company. 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.

**7. Internal Audit Follow-Up Summary, 3<sup>rd</sup> Quarter FY17**

**8:05 a.m.** The Internal Audit Follow-Up Summary, 3<sup>rd</sup> Quarter FY17 was provided in the Committee packet. Jim Cali, Director Internal Audit provided a brief overview. In accordance with Board Policy the Internal Audit Department (**IAD**) is tasked with doing a follow-up of previously concluded audits. To ensure compliance, IAD regularly monitors the status of recommendations. Each recommendation has been reviewed and its status is either listed as “completed”, “outstanding” or “overdue.” At this time, there are no items overdue and Agency management has done a tremendous job keeping track of the corrective action plans going forward. 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. Treasury-Safekeeping Quarterly Accounts Audit – Ending December 31, 2016**

**8:07 a.m.** The Treasury-Safekeeping Quarterly Accounts Audit – Ending December 31, 2016 was provided in the Committee packet. Jim Cali provided a brief overview. The Internal Audit Department (**IAD**) is tasked with the responsibility to perform a quarterly audit of the Agency’s safekeeping funds. IAD reviewed the Treasurer’s report as of December 31, 2016 to identify the securities classified under the Safekeeping Accounts criteria. IAD independently verified the existence and the investments held by the bank custodians and confirmed all balances presented on the Treasurer’s report were accurate and recorded with no exceptions. As of December 31, 2016, the Agency has approximately \$82 million in U.S. Treasury and Government Agency securities. The sales tax capital represents \$68.6 million, self-insurance funds consist of approximately \$6.4 million, and the remaining securities represent \$7 million in internally restricted funds. 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. 3<sup>rd</sup> Quarter Financial Statement**

**8:09 a.m.** The 3<sup>rd</sup> Quarter Financial Statements were provided in the Committee packet. Jonathan Frederick, Director Accounting & Budget, provided a brief overview. Bi-State Development (**BSD**) business and self-insurance divisions had combined assets of \$1.46 billion. The 3<sup>rd</sup> quarter, FY17 income before depreciation was \$10.1 million compared to a budget of \$0.6 million for a positive variance of \$9.5 million. The 3<sup>rd</sup> Quarter income from FY16 was \$16.8 million and that is approximately a \$6.7 million decrease in income before depreciation for FY17. The Net Loss after depreciation was \$46.8 million. The financial statement package includes the analysis and financial position of each BSD business division.

Executive Services - BSD partnered with the Urban Land Institute, St. Louis, and the University of Missouri, St. Louis, public policy administration program to offer a 24 hour Chancellor's Certificate Program in the Fundamentals of Economic Development. Income before depreciation for Executive Services was \$220.5 thousand, total revenue \$2.9 million an increase of \$283.2 thousand over the prior year, and total expenses of \$2.6 million which represents an increase of \$213.3 thousand over the prior year.

Gateway Arch – The Arch opened April 19, 2017 with one tram in operation, the second tram is scheduled to open in late May. The loss before depreciation was \$539.8 thousand, total revenue was \$3.8 million, an increase of \$715.4 thousand over prior year. The tram ridership for FY17 is down 16.9% compared to FY16, but the increase of \$715.4 thousand represents a strategic change in ticketing pricing resulting in an increase in revenue. Total expenses were \$4.4 million, an increase of \$2.8 million over prior year.

Riverboats - The riverboats began the 2017 season in March and are experiencing an increase in passengers and cruises, due to the lack of flood days and Arch trams closure. Income before depreciation was \$108.3 thousand compared to a loss of \$223.6 thousand in FY16. Performance metrics for the riverboats, passenger boardings have increased 51.6% over the last year, and that is directly attributed to the lack of flood days. Cruises have also increased by 47.9% and days of operations have increased 20.1%. Total revenue was \$1.9 million, which is more than 44.75% greater than FY16. Total expense was \$1.8 million compared to \$1.5 million in FY16 and that increase is mainly due to normal operating costs for a larger volume of cruises.

St. Louis Downtown Airport – In late March, the St. Louis Aviation community turned out for an open house to welcome Gateway Jets to their new location at the St. Louis Downtown Airport. Loss before depreciation was \$69.7 thousand, unfavorable compared to a net loss of \$46.8 thousand in FY16. Revenue decreased approximately \$6.6 thousand under FY16. The decreased revenue is due to lower aviation sales flowage, concessions, and interest income. Expense was \$1.2 million, an increase of \$16.2 thousand over FY16, mostly due to the increases in services for legal and consulting for future airport projects.

Metro – As a nationally recognized leader in vehicle maintenance, Metro celebrated the achievement of a million mile bus. What may be even more impressive is that in the coming years there may be more than a dozen that make that mark. Income before depreciation was \$10.6 million, a \$3.3 million increase over FY16. Total revenue was \$219.5 million, down \$6.1 million from the prior year, with a majority of the decrease in passenger revenue. Passenger revenue has decreased about \$3.2 million over FY16, as a direct result of passenger boardings decrease of 6.7% for the total system. The most recent data available shows that the Agency's peer transit systems are also experiencing ridership loss. Total expense was \$208.9 million down \$2.8 million from FY16.

St. Louis Freightway – The Freightway held their annual meeting on May 10, 2017. Loss before depreciation was \$302.8 thousand. Total revenue was \$138.3 thousand that includes Partnership revenue fees from East West Gateway Council of Governments (**EWGCG**) and the Leadership Council of Southwestern Illinois. Total expense was \$441.1 thousand and that is mainly consulting and wage costs.

Bi-State Development Research Institute – Net loss was \$54.8 thousand. Revenue was \$429 that includes the final reimbursement amount related to the Missouri Health Foundation grant held over from FY16. Expense was \$55.2 thousand and the majority of that amount is for consulting services and materials related to the completion of the Missouri Health Foundation grant. Additional expenses and services are mainly due to the start of a new Food Kiosk Program project.

Arts-In-Transit – The net income was \$10.6 thousand, total revenue was \$32.5 thousand, which includes the annual contribution from the Regional Arts Commission and proceeds from a bus painting event. The total expense was \$21.9 thousand.

The Health Self-Insurance Fund net loss before transfers was \$38.8 thousand and total revenue was \$22.2 million compared to \$24.6 million in FY16. Total expense was \$22.1 million compared to \$23.2 million in FY16. Casualty Self-Insurance loss before transfers was \$432.8 thousand, total revenue was \$3.9 million, and total expense was \$3.5 million. Both Casualty and Workers Compensation are new funds so their comparative data to FY16 is not available. Workers Compensation loss before transfers was \$262.9 thousand, total revenue was \$3.8 million and total expense was \$4.1 million. 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. 3<sup>rd</sup> Quarter Performance Indicators**

**8:18 a.m.** The 3<sup>rd</sup> Quarter Procurement Indicators Report was provided in the Committee packet. Jonathan Frederick discussed the 3<sup>rd</sup> Quarter Performance Indicators during his presentation of Agenda Item #9. 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. March Treasury Report**

**8:18 a.m.** The March Treasury Report was provided in the Committee packet. Tammy Fulbright, Director Treasury Services, provided a brief overview. BSD directed \$202 million in cash and investments; and investments had an average yield of .71% for the month of March. The Federal Reserve (**Fed**) raised rates three times and the current rate ranges between .75% and 1%. The most recent Fed rate was at .91% and the Fed is optimistic that they will raise rates twice this year, but analysts are not so optimistic and think rates might be raised one more time this year based on economic conditions. If there is one more increase, there is a 70% chance that it would happen in June. In the summer months BSD requires more liquidity in its cash flow, so a rate increase at that time would be very beneficial and increase the yield on short term investments. If the rates are raised in June, we could possibly see 2% ranges. Another advantage would be in the fall when BSD is going out to invest, there would be better opportunities available. The Trustee Directed Funds are approximately \$51 million and the rate of return is approximately 1.14%. BSD had one maturity from February to March and was able to invest it short term, and with rates increasing it kept the total average rate of return steady. As we have some maturities those rates will increase as well. 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.

**12. 3<sup>rd</sup> Quarter Procurement Report**

**8:22 a.m.** The 3<sup>rd</sup> Quarter Procurement Report was provided in the Committee packet. Larry Jackson, Executive Vice President for Administration, provided a brief overview stating that this report was informational only. He noted that the non-competitive or sole source procurement for the quarter was at 9.3% of total purchases and for the twelve months to date was running at 8.9% so at this point in time we are under our 10% goal we try to hit every year. He acknowledged that he owes the Board some information from the meeting on Tuesday that he was not able to attend and he will get that to the Board as soon as he gets all his information together. The question raised concerned one of the sole source contracts and requested an explanation as to why we only received one bid. We will address this inquiry and add this information to the briefing paper for the Board meeting. 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.

**13. Disadvantaged Business Enterprise Program (DBE) Update**

**8:23 a.m.** The Disadvantaged Business Enterprise Program (DBE) Update was provided in the Committee packet. Larry Jackson, Executive Vice President for Administration, introduced Francoise Lyles-Wiggins, Supplier Diversity Manager, to provide a brief overview. The Disadvantaged Business Program has been in effect for more than 20 years through the United States Department of Transportation (USDOT). Bi-State Development (BSD), as a recipient of financial assistance through the Federal Transit Administration (FTA), is required to maintain a DBE Program. BSD's Office of Supplier Diversity (OSD) administers that program in accordance with the USDOT requirements and ensures that DBE firms are afforded viable opportunities to participate on BSD projects agency wide. The FTA approved BSD's 2016-2018 DBE overall goal of 20% participation, with 15% achieved through race neutral means and 5% through race conscious means. During Federal Fiscal Year (FFY) 2012 and 2013, BSD exceeded its projected goal of 16%, and an adjustment to the contract goal was implemented. That adjustment resulted in a shortfall at the end of FFY 2015. A shortfall analysis report was developed and submitted, in accordance with FTA policies, and submitted to the FTA for review and approval on January 19, 2016. OSD outlined and implemented a corrective action plan. A review of the DBE commitments, awards and payments for FFY 2016 indicated that BSD only achieved 11% DBE participation, which was a 9% shortfall. A shortfall status report and BSD's corrective action plan was submitted to the FTA on April 21, 2017 for their review and approval. The FFY 2016 status report outlined BSD's small business strategies to assist small businesses with business development, growth and sustainability. BSD through a collaborative effort with its partners, the Missouri Department of Transportation (MoDOT), the City of St. Louis, and St. Louis International Airport, developed a comprehensive educational program designed to assist small businesses meet the contractual requirements of USDOT-assisted contracts, make a profit, avoid loss and attain sustained capacity for growth and longevity. OSD has also partnered with the USDOT Small Business Transportation Resource Center (SBTRC) – Central Region in an effort to increase the number of small businesses prepared to compete for and enter into transportation related prime and subcontract opportunities. Mr. Jackson congratulated Ms. Lyles-Wiggins on doing an excellent job on the oversight of this program as well as the success of the outreach and educational programs being conducted in cooperation with BSD's partners to assist the small, disadvantaged business community. Some discussion followed regarding the method for certifying DBE/WBE in both Missouri and Illinois. 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.

**14. Unscheduled Business**

**8:42 a.m.** John Nations congratulated Kathy Klevorn, Vice President & Chief Financial Officer on being nominated for CFO of the Year.

**15. Call of Dates for Future Committee Meetings**

**8:42 a.m.** The Board was advised of the upcoming meetings, as follows:

Board Meeting:	Friday, June 23, 2017, 8:00 a.m.
Operations Committee:	Tuesday, August 15, 2017, 8:00 a.m.
Audit, Finance & Administration Committee:	Friday, August 25, 2017, 8:00 a.m.

**16. Adjournment to 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 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).**

**8:42 a.m.** Pursuant to the requirements of Section 10.080 (D) (1), (15), and (16) of the Bi-State Development Board Policy, Chapter 10, Section 10.080, 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 Schoemehl and seconded by Commissioner Gully. A roll call vote was taken and the Commissioners present, Gully and Schoemehl voted to approve this agenda item. **Motion passed unanimously, and the Open Session meeting was adjourned at 8:42 a.m.**

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Deputy Secretary to the Board of Commissioners  
Bi-State Development