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**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING JUNE 11, 2013**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, June 11, 2013, in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members present included Commissioner Albro, Commissioner Bryant, and Christina Gehrke. Also present were Dan Thomas, Chief Financial Officer; Kory Hoggan, Senior Manager, Business Assurance, Moss Adams; Tyler Reparuk, Senior Auditor, Business Assurance, Moss Adams; Joyce Kirangi, Internal Audit Department Director; Jack Hutchinson, Internal Audit Manager; Margaret Songtantaruk, Internal Audit Staff; Ben Wolfram, Internal Audit Staff; Ruth Riddle, Internal Audit Staff; Brian Nancekivel, Internal Audit Staff; Tyler Winchell, Internal Audit Staff; Melinda Miller, Director, Real Estate Portfolio & Asset Management; Tom Barnard, Research and Policy Analyst; and Katherine Blair, Commission Records Specialist.

Call to Order:

The committee special meeting was called to order at 9:06 a.m. by Commissioner Bryant.

Approval of Audit Committee Meeting Minutes of April 2, 2013:

On motion by Commissioner Gregoire, seconded by Commissioner Bryant, the minutes of the Audit Committee special meeting of April 2, 2013, were approved.

External Audit – [Comprehensive Annual Financial Report Audit:](#)

The committee received a presentation from Mr. Hoggan and Mr. Reparuk that included the following relevant information:

- Unmodified opinions were issued on financial statements for the Enterprise Fund and the Warehousemen's Pension Trust Fund.
- An unmodified opinion was issued on the special report on revenue bond debt service with no findings.
- No findings of noncompliance were noted on the audit and report on internal control and compliance over financial report in accordance with Government Auditing Standards.
- No findings were noted on the single audit report, compliance related to the major federal award programs.
- One finding on noncompliance was noted regarding the special report on passenger facility charges (PFCs) report to the Federal Aviation Administration (FAA). The revenue and expenditures reported were correct. The debt service offset payment that is also included on the report was not accurately supported.

- Port management has already sent a corrected report to the FAA and the FAA has accepted the revised report.
- The audit was performed according to the planned scope.

In response to Ms. Gehrke, Mr. Caluza noted that management has taken steps to ensure the reporting error of the PFCs to the FAA does not recur in the future.

Updates – Bell Harbor International Conference Center:

[Clerk's Note: The Bell Harbor International Conference Center Third-Party Management Services Agreement Audit was originally presented at the April 2, 2013, Audit Committee meeting, at which time the committee requested a follow-up presentation.]

The committee received a presentation from Ms. Miller, with the following relevant information:

- Columbia Hospitality Inc. (CHI) helped the Port create and build the business at the Bell Harbor International Conference Center.
- Representatives of the Port meet with CHI monthly.
- There are two types of payroll expenses, direct and allocated. Direct payroll are staff that clock in specifically at Bell Harbor. Allocated payroll is for staff that is shared between facilities. There was a finding in the original audit regarding allocated costs.
- CHI has agreed to give a monthly payroll report to the Port that includes total cost of employee, actual salaries, and budget.
- Staff is reviewing the past 3½ years to determine if there was any overpayment based on shared staff.
- Staff is exploring the option of not sharing staff with other CHI facilities.
- Staff is determining if a fee-based structure for certain staff costs may be more appropriate.
- Discounts given to customers of the facility are more appropriately called “negotiated contracts. Elements that are factored in when negotiating an event contract include: timing, size, services used, food and beverage, and the relationship with the customer.
- CHI developed a clear booking policy, and will use the clarified policy internally to ensure consistency from the sales team.
- The Port and CHI are considering a joint marketing and use agreement between CHI and Bell Harbor that will allow team members from each property to utilize the services of other facilities on a cost-recovery basis.

Commissioner Gregoire noted the importance of understanding CHI's baseline allocation methodology before making any changes going forward. Commissioner Bryant noted the complexities of running a private business in the public sector and asked for a report on the audit by the end of June with the following five sections:

- Analysis of the last 3½ years.
- New format for monthly reports and how they will be used.
- Brief description of allocation methodology for shared staff.
- Formalize monitoring procedures into a single document and describe how it will be laid out.
- Clarify the management agreement.

[Clerk's Note: In response to this request, staff prepared a report, which is , by reference, made a part of these minutes, is marked [Exhibit A](#), and is available for inspection in Port offices.]

Comprehensive Operational Audit – Airport Transit Operations / Rental Car Facility:

Ms. Songtantaruk reported that the purpose of the audit was to determine whether Port management is effectively and efficiently monitoring payroll, operating expenses, and safety training. The period for the audit was January 1, 2012, through March 31, 2013. There were no findings.

In response to Commissioner Gregoire, Mr. Hutchinson noted that the payroll system for airport transit operations is not entirely manual. Mr. Hutchinson stated that the group was selected for an audit in 2013 because the group was newly formed.

Comprehensive Operational Audit – Fishermen's Terminal:

Mr. Wolfgram stated that the purpose of the audit was to determine the following:

- Department controls are adequate to provide reasonable assurance that moorage revenue is accurate and complete in compliance with department policies and procedures, including the Port-wide moorage tariff.
- The department has implemented sufficient corrective action to address issues identified in prior audits.

The period for the audit was January 1, 2011, through April 30, 2013. Mr. Wolfgram noted there were no findings.

In response to Commissioner Bryant, Mr. Hutchinson noted that the expenses do not include corporate allocations.

Commissioner Gregoire asked the Internal Audit department to include a point of contact with future audit reports.

Limited Operational Audit – Code of Conduct:

Ms. Riddle stated that the purpose of the audit was to determine the following:

- Determine whether management controls are adequate to ensure:
 - Awareness/visibility of helpline/hotline.
 - Training in Code of Conduct is provided timely to all new employees.
 - Training is reinforced with employees and management.
 - Code of Conduct policies are enforced Port-wide.
 - Investigations are conducted timely and properly.
 - Access to the SharePoint site that houses reports (WRITS) is controlled.
 - Information in WRITS is maintained and confidential.
 - Management reporting is timely and accurate.
 - State Auditor's reports, in accordance with RCW 43.09.185, under the purview of the Workplace Responsibility Officer, are complete, timely, and accurate.
- Develop maturity models for:

- Training.
- Investigation.
- Benchmark organizational structure against similar entities.

The period for the audit was from April 1, 2010, through March 18, 2013. Ms. Riddle reported there were no findings.

Mr. Winchell responded to Commissioner Gregoire that some organizations responded no to the question of whether their organization has a department or group focused on workplace responsibility, compliance, or ethics, and were not included in the benchmark survey.

Limited Operational Audit – Debt Service:

Mr. Hutchinson reported that the purpose of the audit was to determine whether management has implemented adequate controls to ensure the following:

- Timely utilization of refinancing opportunities to reduce overall borrowing costs.
- Compliance with applicable IRS, State, and Port requirements.
- Proper debt service cost allocation among divisions, funds, and accounts.

The period for the audit was January 1, 2011, through December 31, 2012. There were no findings.

In response to Commissioner Bryant, Mr. Thomas stated that approximately $\frac{3}{4}$ of the \$3.3 billion debt service is aviation-related.

Limited Operational Audit – Port Jobs Contract:

Mr. Nancekivel reported the purpose of the audit was to determine the whether management has implemented adequate controls to ensure the following:

- Port Jobs met the deliverables of the contract.
- Port funding met the terms of the agreement and supports the Port's goals and objectives.

The period for the audit was December 1, 2011, through December 31, 2012. Mr. Nancekivel stated there were no findings.

Limited Operational Audit – Small Contractor and Supplier Program:

Mr. Winchell reported that the purpose of the audit was to determine whether Port management has completely implemented the Small Contractor and Supplier Program (SCS Program) to meet the five specific goals under Commission Resolution No. 3618 as follows:

- Provide SCS firms additional opportunities for utilization in Port procurements.
- Identify and reduce barriers to SCS firms' equal opportunity and participation.
- Develop comprehensive outreach and communication strategies.
- Engage with public and private partners for additional resources and best practices.
- Develop and utilize data monitoring and evaluation resources.

Mr. Winchell noted that the period for the audit was January 1, 2012, through December 31, 2012. Mr. Winchell reported there was one finding as follows:

- Port management did not implement the five percent pricing incentive for the Small Contractor and Supplier Program. The pricing incentive is required by Port Commission Resolution No. 3618.

Ms. Gehrke suggested adding to the written report a statement noting that had the five percent pricing incentive been implemented it would not have changed any of the results.

Lease and Concession Audit – [Hertz Rent-A-Car](#):

Ms. Songtantaruk reported the purpose of the audit was to determine the following:

- The reported concession fees were complete, properly calculated, and remitted timely to the Port.
- The Port and the lessee complied with provisions of the lease and concession agreement, as amended.
- The Customer Facility Charges were properly collected and remitted timely to the Port.

The period for the audit was November 1, 2009, through October 31, 2011.

Ms. Songtantaruk stated that the audit determined that gross receipts were underreported, resulting in additional concessions due to the Port. Ms. Songtantaruk noted that the concessionaire agreed and has made the payment to the Port.

Adjournment:

There being no further business, the special meeting was adjourned at 10:40 a.m.

Courtney Gregoire
Minutes approved: December 3, 2013