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*An audio recording of the meeting proceedings and meeting materials are available on the Port of Seattle web site - [www.portseattle.org](http://www.portseattle.org).*

**APPROVED MINUTES  
AUDIT COMMITTEE SPECIAL MEETING OCTOBER 1, 2013**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, October 1, 2013, in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members present included Commissioner Bryant and Commissioner Gregoire. Public member Christina Gehrke was absent. Also present were Tay Yoshitani, Chief Executive Officer; Joyce Kirangi, Internal Audit Department Director; Jim Griggs, State Auditor's Office, Audit Manager; Matt Rose, Assistant Audit Manager; Laurie Tish, Moss Adams, LLC; Tyler Reparuk, Senior Auditor, Business Assurance, Moss Adams; Ben Wolfgram, Internal Audit Staff; Brian Nancekivel, Internal Audit Staff; Ruth Riddle, Internal Audit Staff; Tyler Winchell, Internal Audit Staff; Tom Barnard, Research and Policy Analyst; and Katherine Blair, Assistant Commission Clerk.

**Call to Order:**

The committee special meeting was called to order at 9:08 a.m. by Commissioner Bryant.

**Approval of Audit Committee Meeting Minutes of June 11, 2013:**

**Approval of the minutes of the Audit Committee Meeting of June 11, 2013, was postponed to next Audit Committee Meeting.**

**2013 Audit Engagement Service Plan:**

The committee received a [presentation](#) from Ms. Tish and Mr. Reparuk that included the following relevant information:

- The scope of work for Moss Adams includes:
  - Audit and report on the financial statements of the Port including the enterprise fund and the warehousemen's pension trust fund.
  - Single audit, which is the audit and reports on all of the federal programs and federal awards received by the Port, which includes auditing and reporting on internal controls and compliance over the accounting and administrative controls over those programs. An opinion is also issued on the major federal programs, which always includes the Airport Improvement Program and any other federal programs that are over \$3 million in expenditures for the year.
  - Audit on the Passenger Facility Charge program.
  - Report is issued on the schedule of net revenue available for revenue bond debt service.

- There are four phases to the audit – planning and risk assessment; assessment and evaluation of internal controls; substantive audit procedures; and reporting and presentation of audit results.
- An audit is designed to provide reasonable but not absolute assurance that the financial statements are free of any type of significant or material misstatements.
- Five elements of internal controls are evaluated: control environment; risk assessment; control activities; information and communication; and monitoring.
- Moss Adams has Information Technology (IT) auditors to examine the risk and test the IT controls and compliance at the Port.
- General IT controls include whether there is unauthorized access into databases and change management.
- Application controls in IT are more specific.
- New accounting standards include a change to deferred assets, including debt issuance costs, which were previously bundled with the bonds and amortized over the life of the bonds. The new standard disallows the bundling of the debt costs with the bonds. Any amounts still on the balance sheet will need to be expensed this year.

In response to Commissioner Gregoire, Ms. Tish stated that in regards to the procurement and suspension and debarment, Moss Adams tests controls and compliance.

**Lease and Concession Audits – [Host International](#) and [Seattle Restaurant Associates](#):**

The committee received a [presentation](#) from Ms. Kirangi, Mr. Wolfgram, and Mr. Winchell that included the following relevant information:

- Host International and Seattle Restaurant Associates are two separate audits.
- Seattle Restaurant Associates is a joint venture between Host and Uwajimaya.
- The purpose of the audits was to determine whether the reported concession revenue is complete and the lessee complied with significant provisions of the lease agreement.
- The scope of the audit covered the period of January 1, 2009, through December 31, 2011, for both audits.
- The Host audit included a finding regarding branded food that was not found in the Seattle Restaurant Associates audit.
- Branded food is defined by the agreement between the Port and the Lessee.
- There is a lower concession fee to the Port for branded food.
- The underpayment from Host for food incorrectly reported as branded food for the period of the audit included:
  - \$395,100 of concession underpayment.
  - Late charges of five percent, which amounts to \$19,775.
  - Interest through September 2013 of \$240,849.
- HMS Host manages the Seattle Restaurant Associates agreement.
- The two audit reports have the following two findings in common:
  - Adequate documentation to support gross sales, as required by the lease agreement, was not provided.

- The documentation provided was a summary document that included two different amounts, one amount reported to the Port and another amount that reconciled to the amounts reported as collected from customers.
- The customers were charged the correct amounts.
- Accounting records and other documents were not transmitted timely.

Commissioner Bryant noted the Audit Committee would follow up on this item.

**Lease and Concession Audit – [Dilettante Chocolates, Inc.:](#)**

Without objection, a written report was accepted in lieu of a staff presentation on the Comprehensive Operational Audit of Airfield Operations, covering the period of June 1, 2010, through May 31, 2013. The purpose of the audit, as reported, was to determine the following:

- The reported concession revenue is complete, properly calculated, and remitted timely.
- The lessee complied with significant provisions of the lease and concession agreement.

The report included no findings of significance, and there was no discussion of this agenda item.

**Lease and Concession Audit – [Massage Bar, Inc.:](#)**

Without objection, a written report was accepted in lieu of a staff presentation on the Lease and Concession Audit, Massage Bar, Inc., covering the period of July 1, 2009, to June 30, 2012. The purpose of the audit, as reported, was to determine the following:

- The reported concession fees were complete, properly calculated and remitted timely to the Port of Seattle.
- The Port and lessee complied with provisions of the Lease and Concession Agreement, as amended.

The report included no findings of significance, and there was no discussion of this agenda item.

**Limited Operational Audit – [Federal Inspection Services Revenue:](#)**

The committee received a presentation from Mr. Nancekivell that included the following relevant information:

- International airlines self-report monthly the number of deplaned passengers, not including crew.
- The purpose of the audit was to determine whether management controls are adequate to provide reasonable assurance that the Federal Inspection Services revenue is accurate and complete.
- The risk is that the numbers are self-reported.
- There were no findings.
- A methodology was created that involved reconciling the self-reported numbers with the U.S. Department of Transportation numbers. All of the airlines were reconciled. This methodology can be used for other self-reported airline activity.

**Limited Operational Audit – Small Federal Grants Administration:**

The committee received a presentation from Ms. Riddle that included the following relevant information:

- The focus of the audit was on grants below \$100,000 and smaller Port departments that charge less-than-significant costs to federal grants and which may not have been audited in the past.
- The purpose of the audit was to determine the following:
  - There are adequate policies and procedures to guide the administration of smaller grants.
  - The administrators of the smaller grants are provided adequate training in federal grant requirements.
  - Costs for smaller grant-funded projects are properly estimated prior to grant application, to ensure that requested federal funding is maximized and Port funding is minimized.
  - Controls over receipt of federal funds are adequate.
- There were no findings.

**Follow-up to Limited Operational Audit of Port Fleet Operations:**

The committee received a presentation from Mr. Winchell that included the following relevant information:

- In September 2011, Internal Audit completed a limited operational audit of the Port's fleet maintenance operations, which included two audit findings.
- The follow-up review had no findings.

**State Audit Office Entrance Conference for 2012 Calendar Year:**

The committee received a presentation from Mr. Kelley, Mr. Jim Griggs, and Mr. Rose that included the following relevant information:

- The State Auditor's Office (SAO) will be conducting an accountability audit for the fiscal year ending December 31, 2012.
- The SAO relies on the work of the Internal Audit Department and Moss Adams.
- Areas selected to include in the accountability audit include the following:
  - Follow-up work on the parking garage and incentive program finding issued for 2011 audit; as well as the Bell Harbor International Conference Center potential loss reported.
  - On-call contracts:
    - procurement methodology.
    - prevailing wage compliance.
  - Third party cash receipting (the collection of cash receipts by a third party that subsequently deposits them into a Port bank account):
    - Contract monitoring.
    - Safeguarding and timely deposit of public funds.
  - Police department activities including:
    - Weapons inventory and small and attractive asset inventory.
    - Seizure inventory control and reporting.
    - Confidential funds.
    - Citations.
  - Vendor payments including:
    - Whether they are allowable.
    - How they are approved and supported.

- State grants:
  - Allowable.
  - Deliverables.
- Industrial Development Corporation:
  - Is required to be audited every three years.
  - It is a separate audit.
  - The focus will be on disbursement and fees.
- All recommendations are communicated to management as soon as they are identified.
- Audit report will be issued in December 2013.

**Internal Audit Department Budget for 2014:**

Ms. Kirangi noted the budget is essentially the same as the prior year. There was no objection from the Committee on the budget as it was presented.

**Adjournment:**

There being no further business, the special meeting was adjourned at 10:24 a.m.

Courtney Gregoire  
Minutes approved: December 3, 2013