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**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING DECEMBER 3, 2013**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, December 3, 2013, in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members present included Commissioner Bryant, Commissioner Gregoire, and Christina Gehrke. Also present were Tay Yoshitani, Chief Executive Officer; Joyce Kirangi, Internal Audit Department Director; Jack Hutchinson, Internal Audit Manager; Rudy Caluza, Director, Accounting and Financial Reporting; Ruth Riddle, Port Staff Auditor; Ben Wolfram, Internal Audit Staff; Jim Griggs, State Auditor's Office (SAO) Audit Manager; Matt Rose, SAO Assistant Audit Manager; Tom Barnard, Research and Policy Analyst; and Paul White, Commission Clerk.

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 June 11 and October 1, 2013:

On motion by Commissioner Gregoire, seconded by Commissioner Bryant, the minutes of the Audit Committee special meetings of June 11 and October 1, 2013, were approved.

External Audit – SAO Exit Conference for 2012 Calendar Year:

The Committee received a [presentation](#) from Mr. Griggs and Mr. Rose that included the following relevant information:

- Organizations, like the Port, that undergo financial statement audits save an average of 25-60 basis points on bonded debt.
- Accountability audits determine whether controls are in place to protect public resources and whether the agency is in legal and regulatory compliance in financial matters.
- There are no findings or management letter items in the 2012 accountability audit.
- Exit items were discussed with management and copies were provided to the Committee.
- Due to timing considerations, vendor payments were not included in the 2012 audit, but will be addressed in the SAO's next audit.
- Most of the auditors' time was spent on review of the Port's Police Department, including citations, investigative fund, cash receipts, property room and disposition of property, seizure and forfeiture reporting, and safeguarding firearms and ammunition.
- Other areas covered in the audit included state grant compliance; compliance with procurement and prevailing wage requirements for on-call contracts, especially public works contracts less

than \$300,000; contract monitoring and reconciliations for third-party cash receipting; Open Public Meetings Act compliance; conflict of interest; review of Internal Audit Department work on the Bell Harbor International Conference Center; and the Port's Industrial Development Corporation, focusing on trade and tourism disbursements.

- The Port has good controls for compliance with prevailing wage regulations and good processes in place to identify the lowest bidder for on-call contracts.
- Relating to prior audit recommendations, the audit reviewed corrective action taken by the Port regarding parking garage revenue and the At-Berth Clean Fuels program, which is considered resolved following adoption of the program into the tariff.
- A separate audit report will be issued for the Industrial Development Corporation.
- The next scheduled audit will cover January to December 2013 with a budget of \$83,600 plus travel costs, the same as for the 2012 audit.

Lease and Concession Audit – InMotion Entertainment:

Without objection, a [written report](#) was accepted in lieu of a [staff presentation](#) on the lease and concession audit for Project Horizon (dba InMotion Entertainment) covering the period of June 1, 2010, to May 31, 2013. The purpose of the audit, as reported, was to determine whether management had implemented adequate controls to ensure the following:

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

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

Lease and Concession Audit – Vino Volo:

The Committee received a [presentation](#) and audit [report](#) from Ms. Riddle that included the following relevant information:

- The audit covered the period May 1, 2010, to September 30, 2012.
- Gross receipts were slightly less than \$4 million and concession payments were about \$440,000.
- The purpose of the audit was to determine whether management had implemented adequate controls to ensure the reported concession was complete, properly calculated, and remitted timely and lessee compliance with significant provisions of the lease and concession agreement.
- The audit concluded that the concessionaire had overstated gross receipts and overpaid the Port by slightly under \$5,000. Vino Volo was not required to “include” discounts granted when reporting gross receipts, and interpreted this as requiring a report of gross receipts prior to subtracting discounts.
- It is recommended management work with Vino Volo to resolve the overpayment and ensure future gross receipts are reported according to the terms of the agreement.

Comprehensive Operational Audit – Aviation Maintenance Department:

The Committee received a [presentation](#) and audit [report](#) from Mr. Wolfgram that included the following relevant information:

- Aviation Maintenance is responsible for maintaining Airport assets, including electrical and mechanical systems, passenger loading bridges, baggage systems, and heating and

ventilation/air conditioning systems, among others. The department has the most employees and largest budget of Port departments.

- The department uses the maintenance management system Maximo and can track materials from procurement to use.
- The audit covered the period January 1, 2012, to September 30, 2013, and found that the department's controls are adequate to ensure inventory records are accurate and complete, asset information is recorded completely, accurately, and timely, and the preventive maintenance program is timely and effective. There were no reportable findings.

Update on 2013 Work Plan:

The Committee received [materials](#) that described 2013 Internal Audit work plan status and Internal Audit 2013 metrics. In response to Committee questions, Ms. Kirangi and Mr. Hutchinson provided the following relevant information:

- Department metrics provide a measurement of the goal to complete at least 95 percent of the year's work plan. Data presented indicates performance slightly around or below 90 percent since 2009, with room for improvement. Based on the current work plan, the department expects to meet the 95 percent goal once fourth quarter metrics are recorded.
- Another goal is that at least 75 percent of Internal Audit work hours are spent directly on auditing, rather than administrative functions. Quarterly measurement indicates good performance toward this goal in 2011 and 2012.
- Statistics for suggested revenue recovery due to Internal Audit activity were presented in absolute dollar amounts. Recovery amounts would reflect the net amount when audits reveal overpayment to the Port.
- The Port Construction Services audit is ongoing although not shown for December in the table presented. The Fire and Police payroll process review is also ongoing. An audit of purchases under \$20,000 is ongoing despite not being shown for December, as is the Airport public parking operational audit.
- There were no findings from the Rental Car Facility and Fishermen's Terminal audits.

Ms. Gehrke requested more recent data for department metrics. She suggested that absolute recovery amounts that reflect a net loss to the Port are not necessarily an indication of poor Internal Audit performance. Commissioner Bryant noted a preference that recovery amounts be zero due to correct compliance with revenue procedures and controls.

Proposed 2014 Work Plan:

The Committee received a presentation and report from Ms. Kirangi and Mr. Hutchinson that included the following relevant information:

- Elements of the proposed work plan represent engagement with Port management.
- In 2012, an information technology risk assessment was requested by the Committee and completed in 2012 that led to information technology audits being included in the 2013 work plan.
- The Scheidt Bachman information technology audit was not started in 2013 due to parallel work being performed by an external consultant to assess the same system.
- A review of the data center was not started due to a decision to move the existing data center to Eastern Washington, making assessment of the existing data center superfluous.

- The PeopleSoft post-implementation audit was not started due to implementation being delayed from July into October and some high priority items still being completed despite the system being in use. It was noted that year-end accounting closures by the Financial Reporting department conflict with the timing of a post-implementation audit at the end of the year.
- The audit underway by Moss-Adams also includes a component reviewing the PeopleSoft system from a financial perspective.
- A PeopleSoft post-upgrade review was not recommended in the 2014 work plan documents but is being proposed for 2014 following completion of Moss-Adams' audit of the financial aspects of the system during the first quarter of 2014.
- The General Ledger audit is not proposed for 2014 despite being identified as a high risk in the past and despite being planned but not started in 2012 and 2013. In lieu of the General Ledger systems audit within Accounting and Financial Reporting, a review of the payroll system in 2014, where there are known errors, is proposed. Based on current information, the risk associated with the general ledger is not considered less than in 2012, but is considered less than the risk associated with the payroll system.
- The opportunity for approval of the 2014 work plan will come with the first 2014 Audit Committee meeting, scheduled in February. In the meantime, the Internal Audit Department can proceed in January with the work described so far.

In consideration of the flexible nature of work plans and the annual changes in Audit Committee membership, Ms. Gehrke suggested a closeout for each year's work plan that provides a clear explanation for every audit not started or not completed and why they might not be carried forward into the coming year. She noted her concern that despite identifying information technology as an area of high risk, none of the IT audits planned were conducted. She requested that some system and technology review be prioritized for the 2014 work plan.

Commissioner Bryant commented on the need that there be an expectation that work on the year's work plan will be performed and stated that a decision not to perform work on the work plan should be made only in consultation with the Committee and not by staff on its own.

Commissioner Gregoire requested that information about audit work proposed in years prior to the previous year's work plan but not started or completed be included to establish context for the outcomes of the previous year's work plan. She asked for an explanation of the inclusion of a Police Forfeiture Funds audit in 2014, given the positive outcome of the SAO audit that included review of the same systems.

Adjournment:

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

Bill Bryant

Minutes approved: May 20, 2014