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**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING FEBRUARY 4, 2014**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, February 4, 2014, in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members present included Commissioner Bryant, Commissioner Creighton, and Christina Gehrke. Also present were Tay Yoshitani, Chief Executive Officer; Joyce Kirangi, Internal Audit Department Director; Jack Hutchinson, Internal Audit Manager; Tyler Winchell, Performance Auditor; Dwight Rives, Director, Port Construction Services; Deanna Zachrisson, Business Leader, Airport Dining and Retail; Tom Barnard, Research and Policy Analyst; and Paul White, Commission Clerk.

Call to Order:

The committee special meeting was called to order at 8:37 a.m. by Commissioner Bryant.

Limited Operational Audit – Port Construction Services’ Close-Out Process (Report No. 2014-02):

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

- This audit covered the period January 1, 2013, through December 31, 2013.
- The audit focused on the construction project close-process specifically. This process addresses remaining tasks and actions for a project that remain after construction activity is concluded. Examples include billing or other financial tasks and filing of permits and other documentation.
- There were no findings of significance from the audit, and it was concluded, that adequate controls exist to ensure the close-out process complies with applicable state law and Port policies and procedures. It was also concluded that there is sufficient identification, retention, and transmittal of records following project completion. These conclusions fulfill the audit’s two objectives.
- A new, SharePoint-based process was employed during the reporting period to execute the close-out process.
- Typical fluctuations in the number of small projects suited to use of Port Construction Services likely accounts for a slight increase in the number of 2012 close-outs compared to 2011 and 2013. Close-outs only represent completion of work by Port Construction Services, even though the overall project may still be underway.

Limited Operational Audit – Accountability for Tools and Equipment under \$20,000 (Report No. 2014-01):

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

- This audit covered the period January 1, 2012, through April 30, 2013.

- The audit focused on review of controls to account for tools and equipment valued at less than \$20,000. Items valued at more than \$20,000 are tracked on the Port's financial statements. The process for surplus items when they are no longer needed for Port purposes was also examined.
- Department or enterprise-wide inventories were checked to see if the items listed could be accounted for, but the audit did not attempt to account for every item included in this class of assets.
- The Port spent between \$2.8 million and \$3.3 million on items of this kind in 2011 and 2012, respectively. Categories of items accounted for include furniture, equipment, radios, shop tools, computers and telephones, and miscellaneous equipment. These are often referred to as "small and attractive" assets.
- There was one reportable finding that management controls are not adequate to ensure equipment purchases under \$20,000 are accounted for and safeguarded and in compliance with requirements governing surplus and disposal. There are many inconsistencies between departments on how this inventory is tracked.
- A Port-wide policy to improve these controls was underway during the audit and findings from the audit helped inform the new policy.
- Where departments had established a threshold for the lowest value of items to be tracked, they were audited to that standard. Not all departments are consistent in having an item value below which equipment tracking is not required.

October 2013 HMS Host Audit Management Response:

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

- The lease and concession audit of HMS Host, a concessions provider at the Airport, issued October 1, 2013, covered the period January 1, 2009, through December 31, 2011. The audit covered a food and beverage agreement and a duty-free agreement. These agreements include a joint venture with Seattle Restaurant Associates and its subtenants.
- The audit was presented to the Committee in October 2013 and concluded that Host failed to properly report the concession owed to the Port. In particular, some concession amounts were reported lower than the branded food and beverage concession rate when gross receipts did not meet the criteria defined by the agreement. The audit also concluded that Host did not provide requested accounting records and did not provide documentation in a reasonable timeframe.
- The most financially significant finding included a recommendation that the Port seek recovery of slightly less than \$670,000 in underpaid concessions fees and audit costs, along with other measures.
- Under the lease and concession agreements, sale or use of branded concepts was encouraged by requiring a lower concession fee to the Port for those items, as contrasted with a higher rate on generic products or concepts. Despite the agreements' being executed in 2003, no definition of what constituted a branded concept was included until lease amendments were executed in 2005. The definition of branded concepts was determined based on percentage fees paid to a franchisor or licensor.
- There is disagreement between the Port and Host as to whether the monies paid by Host for a particular concept qualify to justify the lower concession fee for branded items, notwithstanding the definition articulated in the lease amendment.
- A settlement has been negotiated that provides for recovery of funds by the Port.

- Under-reporting of concessions by Seattle Bar Associates was due to a cash register malfunction. Despite not being able to produce transaction-level records for the reporting period, monthly receipts were available.
- When a subtenant is uncooperative in an audit situation, as in this case, the standard approach is to encourage compliance through the prime concessionaire, in this case Host.
- Subsequent audits of the subtenant by Host will be conducted during 2014 and documentation will be made available to the Port.
- Due to the settlement amount exceeding \$300,000, the Commission will be asked to authorize it in accordance with the Master Delegation of Authority.

Approval of 2014 Internal Audit Department Work Plan:

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

- The work plan to be approved is intended to be a flexible document. The work plan is able to be modified to accommodate emergent needs during the year.
- The proposed audit of Central Procurement Services' (CPO) contracting practices was not budgeted in 2014 despite it being emphasized as a priority for 2014. Funds budgeted for outsourced projects may be available to be shifted to the CPO audit.
- It was estimated about \$60,000 would be needed for the CPO audit. No request for proposals has been prepared at this time for the outsourcing of the audit.
- Several changes were made to CPO processes in response to the 2007 State Auditor's Office audit that aim to ensure regulatory compliance but do not necessarily contribute to nimble operations.

Commissioner Bryant requested the CPO audit be completed before June 2014 and emphasized the importance of the audit to the Commission.

In response to Commissioner Creighton, Mr. Hutchinson stated that there were discussions with staff in preparation for an audit of Seaport leases in 2013, but that it was agreed that it would be beneficial to let the changes in lease structure occurring at the time stabilize before auditing them.

On motion by Commissioner Creighton, seconded by Commissioner Bryant, the Internal Audit Department 2014 Proposed Work Plan was approved.

Required Annual Information:

Ms. Kirangi provided to the Committee [required annual information](#) in accordance with the International Professional Practices Framework. A copy of the letter, dated February 4, 2014, is, by reference, made a part of these minutes, is marked Exhibit A, and is available for inspection in Port offices.

Adjournment:

There being no further business, the special meeting was adjourned at 9:15 a.m.

John Creighton
Minutes approved July 29, 2014