



Commissioners

Tom Albro
Commission President
Stephanie Bowman
Bill Bryant
John Creighton
Courtney Gregoire

Tay Yoshitani
Chief Executive Officer

P.O. Box 1209
Seattle, Washington 98111
www.portseattle.org
206.787.3000

**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING JULY 29, 2014**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, July 29, 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; Dan Thomas, Chief Financial Officer; Joyce Kirangi, Internal Audit Department Director; Jeff Balentine, Mobius Industries, USA; Jack Hutchinson, Internal Audit Manager; Margaret Songtantaruk, Staff Auditor; Tyler Winchell, Audit Staff; Brian Nancekivell, Audit Staff; Ben Wolfram, Audit Staff; Roneel Prasad, Audit Staff; Ruth Riddle, Audit Staff; Jeff Hollingsworth, Senior Manager, Risk Management; Tom Barnard, Research and Policy Analyst; and Amy Dressler, Assistant Commission Clerk.

Call to Order:

The committee special meeting was called to order at 9:04 a.m. by Commissioner Bryant.

Approval of Audit Committee Meeting Minutes of February 4, 2014, and May 20, 2014:

On motion by Commissioner Creighton, seconded by Commissioner Bryant, the minutes of the Audit Committee special meetings of February 4, 2014, and May 20, 2014, were approved.

External Audit – CPO Efficiency Audit

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

- An external audit of the CPO process was requested by the Audit Committee at the beginning of 2014 for the purpose of evaluating the efficiency and effectiveness of the Port's procurement and contracting procedures.
- The review period was January 1, 2014 through March 11, 2014, and examined fully executed Port of Seattle contracts, selecting a sample of 10% of total contracts across all Port departments.
- Best practices were surveyed in order to benchmark the Port's practices as compared to other public agencies, larger commercial entities, and port authorities.
- Collaboration is an important part of the procurement process. Engagement among the many stakeholders is key to the success of the process.
- The audit determined that the process is well managed and meets internally set expectations.
- The process is slow when compared to similar organizations, but is flexible.
- There has been an improvement in speed over the past four years.

- 97% of firms and consultants surveyed said they would do business with the Port; many said working with the Port is no different from working with any other public agency they have worked with in the past.
- Barriers to working with the Port include terms and conditions, bonding requirements, and safety and security requirements. 50% of firms and consultants surveyed said working with the Port costs them more, but 90% of those said their billing rates are not adjusted to cover this increased cost.
- Contract negotiators believe that they have the resources available to negotiate fair and reasonable rates.
- Of 56 best practices identified, the Port is accomplishing 69%. One major exception is use of Key Performance Indicators.
- The Port lacks a clear organization-wide procurement strategy that is aligned from the Commission throughout the organization.
- Short-term recommendations include:
 - ▶ Develop a practice that reinforces consistent application of authorizations, approvals and segregation of duties, in order to increase understanding of the process.
 - ▶ Clearly define a procurement strategy.
 - ▶ Review and adjust practices in order to support procurement strategy, once it has been defined.
 - ▶ Provide training to negotiators with regards to rate negotiation, including an internal CPO certification.
 - ▶ Online procurement documents should be examined for relevance.
 - ▶ Technology should be used more effectively. PeopleSoft should be better aligned with departmental needs.
- Staffing was examined. The CPO department thinks they are staffed appropriately, although major and small works thinks future staff increases will be necessary.
- More effective training will improve efficiency.
- Mid-term recommendations include:
 - ▶ Assignment of CPO administrators to departments that infrequently use the procurement process.
 - ▶ Develop a flowchart for internal and external users that explains the process in layman's terms.
 - ▶ Develop one single contract database.
- The only long-term recommendation is to create a Port Authority Contracts and Procurement association to facilitate sharing of best practices, controls, emerging technologies, and metrics.

Lease and Concession Audit – Dollar Rent-A-Car

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

- The audit objectives were determine whether:
 - ▶ Concession fees were complete, correctly calculated, and paid on time.
 - ▶ The Port and lessee were both in compliance with the provisions of the lease and concession agreement
 - ▶ Customer Facility Charges were properly collected.
- The audit period was November 1, 2010 to May 16, 2012.
- The audit determined that the terms of the lease and concession agreement were complied with.

- The audit determined that gross receipts were underreported in the amount of \$9840.00. With penalties and interest, the amount determined to be owed is approximately \$14,000.00.
- The Customer Facility Charge was underreported by approximately \$21,000.00 due to system errors. An additional \$28,000.00 in penalties is determined to be owed.
- Penalty and interest charges are pre-determined as part of the lease and concession agreement.

Doris Cassan, principle of Dollar Rent-A-Car, spoke in response to the audit. Ms. Cassan noted that Dollar Rent-A-Car has been in business with the Port for many years and has had several audits without significant findings. She stated that the problem with calculation of Customer Facility Charges was due to their vendor, and she was unaware of the underreporting. Ms. Cassan also pointed out the high amount of the interest rate compared to the amount underreported.

Comprehensive Operational Audit – Aviation Business Development:

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

- The audit examined whether Aviation Business Development management has appropriate controls in place to manage its agreements.
- The audit period was January 1, 2013 to June 30, 2014.
- It was determined that management controls are adequate and sufficient for developing and managing agreements. There are no reportable findings.

Comprehensive Operational Audit – Terminal 91 Maritime Operations:

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

- Cruise Ship Operations were not included in this audit as they are considered part of a separate division, which was audited two years ago.
- Sources of revenue include dockage (tariff and preferential), wharfage, equipment rental, electricity charges, and space rental.
- The purpose of the audit was to determine whether management has implemented adequate controls to insure that all revenue is recorded accurately and on a timely, and that rates comply with the tariff or preferential agreement.
- The audit period was January 1, 2013 to May 31, 2014.
- It was determined that adequate controls were in place. There are no reportable findings.

Comprehensive Operational Audit – Shilshole Bay Marina:

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

- This facility is operated by the recreational boating department within the Real Estate division. The primary source of revenue is moorage.
- The audit focused on Shilshole rather than other, smaller marinas because it is the largest portion of this department's revenue, and the audit plan for this year was to focus on Shilshole in particular.
- The audit period was January 1, 2013 to June 30, 2014.
- Department operations were examined to determine whether Guest Moorage, Dry Moorage, and Parking revenue is complete and being charged at the appropriate rate, that rates are charged in accordance with the approved tariff, and that customer liability insurance complies with requirements.

- It was found that the management controls are adequate. There are no reportable findings.

Third Party Audit – Club International and Club Cascade Lounge:

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

- VIP Hospitality is contracted to manage Club International and Club Cascade Lounge. These are Port operations that the Port does not have the capacity to manage.
- The Port entered into an agreement with VIP Hospitality to manage day-to-day operations of common use lounges. The Port is responsible for operation expenses.
- The purpose of the audit was to determine that VIP is incurring expenses appropriately on behalf of the Port.
- The review period for the audit was January 1, 2012-December 31, 2013.
- It was determined that VIP Hospitality was in compliance with the agreement in the areas of budget, inventory, insurance requirements, customer billings and receipts, and expenses.
- It was determined that VIP Hospitality did not maintain accurate records of labor costs, and that Port management control over employee payroll tax reimbursement is not adequate.
- Payroll accounts for 18-20% of total operating expenses.
- It was observed that there are two sets of payroll records for some months testing. Auditors were unable to determine whether expenses paid were properly reported.
- Per the agreement, payroll expenses were paid by the Port as an estimate, with a plan to reconcile at the end of the year.
- VIP has since instituted fingerprint timesheet reporting, and there is a new mechanism in place to calculate payroll expenses.
- Audit staff does not think the underpayment was intentional. VIP notified the Port of the overpayment.
- The contract with VIP expires in March, 2015, and audit findings will be taken in to account when selecting a new contract.

Third Party Audit – World Trade Center -- West:

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

- The World Trade Center – West has 14 tenants and is at 75% occupancy. There are new leases in progress.
- The review period for this audit was January 1, 2013 to December 31, 2013.
- The purpose of this audit was to determine whether management controls over the Third-Party Management Agreement with Kidder Matthews ensure that tenants are bill appropriately, payments on behalf of the Port are properly handled, and that Kidder Matthews complies with the requirements of the agreement.
- There were no reportable findings.

Enterprise Risk Management Project:

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

- This year's project was completed over the course of two months, and focused on Facility and Infrastructure Operations.

- Two workshops were held in order to examine strategies and objectives determined by a team of subject matter experts from Aviation and Facility Infrastructure Operations.
- The tool used to measure risk is a “heat map” matrix, which charts the likelihood and impact of risk.
- Critical and insignificant risks were judged based on the number and potential duration of risks.
- Risks were narrowed down to 11 risk definitions, which subject matter experts then voted upon in order to rank them and place them on the heat map.

2014 Work Plan Status:

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

- The purpose of this report is for the Audit Committee’s information, to report regarding staff’s progress on the 2014 work plan.
- One category requiring discussion is projects that have been outsourced based on project priority.
- The budget allocated to these audits was spent on the CPO efficiency audit.
- It is recommended that Scheidt Bachman IT review be removed from the work plan because a consultant reviewed that system last year, and the direction of the system is still being assessed by management.
- Staff would still like to perform the two remaining IT projects – PeopleSoft post-implementation, and Data Center review. There is no budget remaining to perform these projects, but the CFO is able to provide additional funds with approval from the Audit Committee.

Discussion of additional funds to perform the PeopleSoft post-implementation and Data Center review audits resulted in the Audit Committee’s approval.

Adjournment:

There being no further business, the special meeting was adjourned at 11:02 a.m.

John Creighton

Minutes approved: October 21, 2014