

Commissioners

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



Ted Fick
Chief Executive Officer

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

**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING OCTOBER 21, 2014**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, October 21, 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 Dan Thomas, Chief Financial Officer; Joyce Kirangi, Internal Audit Department Director; Jack Hutchinson, Internal Audit Manager; Matt Rose, Assistant Audit Manager, State Auditor's Office, Elizabeth Pyatt, Assistant State Auditor, Kory Hoggan, Senior Manager, Moss Adams; Tyler Reparuk, Manager, Moss Adams, Ruth Riddle, Audit Staff; Brian Nancekivell, Audit Staff; Ralph Graves, Director, Capital Development; Nora Huey, Director, Central Procurement Office; Ben Wolfgram, Senior Auditor; Tom Barnard, Research and Policy Analyst; and Amy Dressler, Assistant Commission Clerk.

Call to Order:

The committee special meeting was called to order at 8:14 a.m. by Commissioner Bryant.

Approval of Audit Committee Meeting Minutes of July 29, 2014:

On motion by Commissioner Creighton, seconded by Commissioner Bryant, the minutes of the Audit Committee special meeting of July 29, 2014, were approved.

External Audit -- State Auditor's Office Entrance Conference:

The Committee received a presentation from Mr. Rose and Ms. Pyatt that contained the following information:

- The State Auditor's Office provides financial, federal grant, legal compliance, and performance audits in addition to special investigations and provision of technical services.
- This audit will review public works construction contracts and goods and services contracts. Although the Port has significant activities in these areas, they have not been reviewed for a number of years. Selected contracts will be reviewed for compliance with competitive bidding requirements and Port policies. Construction contracts will also be reviewed for compliance with appropriate procedures regarding change orders, retainage, and prevailing wage compliance.
- Procurement cards, travel cards, and employee reimbursements will be reviewed to ensure compliance with Port policies, that purchases align with valid business purposes, and that they are supported by original receipts.
- The Marine Terminal Information System will be examined in order to gain an understanding of prevention and detection of unauthorized users, unauthorized changes within the system, to

determine whether system roles have compatible assignments and adequate segregation, and to test user access for appropriateness.

- From payroll, a sample of employees placed on paid administrative leave will be tested to determine whether employees were placed on leave due to misappropriation or loss to the Port. If so, a follow-up examination will review the status of those employees.
- Lease agreements will be reviewed in order to determine whether the lessee was selected in accordance with Port policy, and whether the lease terms are enforced and monitored.
- Mr. Rose reviewed the reporting levels. Findings are the most serious instances of non-compliance and will be included in the audit report with the Port's response. Management letters are less serious and will be referenced but not included in the audit report. Exit items are less serious issues that are informally communicated.
- Issuance of the report is expected in December 2014.

External Audit – Moss Adams Entrance Conference:

The Committee received a [presentation](#) from Mr. Hoggan and Mr. Reparuk that contained the following information:

- The scope of work will include examination of the financial statements for the Enterprise Fund and Warehouseman's Pension Trust Fund, internal control and compliance over financial reporting, the A-133 Federal Audit Report covering the Port's federally awarded programs, a report on the Passenger Facility Charge program, and a report on the revenues available for bond debt service.
- An opinion will be issued on the Port's own financial statements based on Moss Adams's audit.
- Planning of the audit has been performed. The bulk of the audit work will be performed in March 2015, and a final report is expected to be issued in April 2015.
- Risk is assessed based on a model that examines inherent risk, control risk, and detection risk. The model is designed to provide reasonable, but not absolute, assurance that financial statements are free of material misstatements.
- Components of internal controls are evaluated, including the control environment, risk assessment, control activities, communication, and monitoring.
- Accounts and processes examined during the control phase include administration of federal awards, billings, lease agreements, procurement, payroll, and information technology.
- Information technology control areas include application controls (procurement, payroll, billing, capital assets, and financial reporting), and general computing controls (security and access, system acquisition and management, system changes, and computer operations).
- Internal controls and tests of compliance will be performed to ensure that administration of federal awards is performed appropriately.
- Areas of audit emphasis are key internal controls, management estimates, bond accounts, lease accounting, revenue recognition, capital assets, net position classification, and pension funds and other post-employment benefits.
- New GASB pronouncements will go into effect for 2014 and 2015 pertaining to pension plan reporting.
- There are some changes to administrative requirements, cost principles, and audit requirements for federal awards that will become effective for the Port in fiscal year 2015.

Lease and Concession Audit – Anton Airfood (dba Anthony’s at Sea-Tac Airport):

Without objection, a written report was accepted in lieu of a verbal presentation on the Internal Audit Report for Anton Airfood (dba Anthony’s at Sea-Tac), covering the period of July 1, 2011, to June 30, 2014. The purpose of the audit, as reported, was to determine whether management had implemented adequate controls to ensure the following:

- Reported concession fees were complete, properly calculated, and remitted timely to the Port; and
- The Port and lessee complied with significant 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.

Central Processing System – General Ledger:

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

- The General Ledger is a PeopleSoft application fed by PeopleSoft modules. It is the core repository of financial information for the Port.
- The objectives of this audit were to determine whether management controls of the General Ledger are adequate to ensure proper access to the General Ledger, proper and accurate journal entries to the General Ledger, and that all journal entries are accounted for.
- The review period was January 1, 2013-June 30, 2014.
- There were no reportable findings.

Limited Operational Audit – Customer Facility Charge Compliance:

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

- The Customer Facility Charge (CFC) is a user fee paid by those renting cars at the Airport. It is collected by rental car companies and remitted to the Port.
- Funds are used to cover rental car facility expenses.
- The purpose of this audit was to determine whether management controls over operating costs are adequate to ensure compliance with applicable Revised Code of Washington (14.08.120) in the use of CFC funds.
- The review period was January 1, 2012-July 31, 2014.
- There were no reportable findings.

Staff Report – CPO Audit:

The committee received a report from Mr. Graves and Ms. Huey that included the following information:

- CPO staff is meeting in mid-November to develop a draft Port-wide strategy for procurement objectives. Meetings will include stakeholders from all divisions.
- Key Performance Indicators (KPIs) for quarterly reporting will include two primary measures for each group: procurement cycle time for specific processes, and the percentage of time in which projects are on time according to the procurement schedules.
- Cross-division working groups will be established for purchasing, construction, and services.
- Flow diagrams will be set up in order to map the processes and come up with reasonable cycle times for the procurement process for each area.

- 2015 will see focus on documents in order to improve value and ease of use, and examination of “mini processes” within the procurement process, review of policies and procedures, training, and outreach.

Capital Projects Audit Update:

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

- The 2014 work plan included an ongoing assessment of the Port’s capital projects program.
- To date, staff has worked to gain a broad understanding of the capital projects process, focusing on developing a broad picture of the risk environment.
- Internal Audit staff’s goal is to create a long-term program that allows for proactive examination of high-risk areas.

2014 Audit Work Plan Update/Process for Risk Assessment for the 2015 Work Plan:

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

- There are no significant changes to the work plan since the July 29, 2014, Audit Committee meeting, except for status changes on projects that have since been completed.
- Accounting & Financial Reporting management has requested a delay in the system review for payroll due to the presence of auditors from the state and Moss Adams working in that area and corresponding demands on staff time. Internal audit staff requested that the Audit Committee approve postponement of this audit until 2015.
- The risk assessment process is used to develop a work plan for the coming year. The process involves conversations with stakeholders in order to determine whether significant changes to the risk landscape are expected, as well as analysis of data. Currently, internal audit staff is in the process of scheduling stakeholder meetings.

Proposed 2015 Internal Audit Budget:

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

- The internal audit budget is under the authority of the Audit Committee.
- The proposed 2015 budget is roughly \$1.4 million. It was prepared in accordance with Port guidelines and does not differ dramatically from the 2014 or 2013 budgets.
- There are four new items requested for 2015.
 - ▶ A peer review by the Association of Local Government Auditors. This is a third-party review of the Port’s auditing standards, and is required every three years. The cost of \$15,000 has already received preliminary management approval.
 - ▶ ACL Analytical Tools software for data analytics. This would standardize data queries across the department and improve data integrity and efficiency. The cost of \$15,000 has already received preliminary management approval.
 - ▶ Contracted services for subject matter experts, which would allow staff to better understand the complex operations that comprise Port activities. Management has preliminarily approved the use of Corporate contingency funds, as needed.
 - ▶ A Senior Construction Auditor that would allow internal audit to be an integral part of construction processes. In lieu of an FTE at approximately \$100,000 a year, management has preliminarily approved \$60,000 for consulting services.

On motion by Commissioner Creighton, seconded by Commissioner Bryant, management's recommendations for the 2015 Internal Audit budget were approved.

Adjournment:

There being no further business, the special meeting was adjourned at 9:25 a.m.

John Creighton

Minutes approved: February 10, 2015