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## **APPROVED MINUTES AUDIT COMMITTEE SPECIAL MEETING FEBRUARY 22, 2016**

The Port of Seattle Commission Audit Committee met in a special meeting Monday, February 22, 2016, in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, Washington. Committee members present included Commissioner Albro, Commissioner Creighton, and Christina Gehrke. Also present were Rudy Caluza, Director, Accounting & Financial Reporting; Joyce Kirangi, Internal Audit Department Director; Lisa Lam, Assistant Director, Financial Reporting Review Services; Dan Chase, Senior Internal Auditor; Margaret Songtantaruk, Senior Internal Auditor; Paul White, Commission Clerk; and Amy Dressler, Assistant Commission Clerk.

### **Call to Order:**

The committee special meeting was called to order at 3:30 p.m. by Commissioner Creighton.

### **Approval of Audit Committee Meeting Minutes of January 6, 2016:**

**The minutes of the Audit Committee special meeting of January 6, 2016, were approved.**

### **Update – External Audit Services Request for Qualifications:**

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

- Proposals from external firms were reviewed and evaluated, and interviews with two firms were conducted in mid-December.
- After one more evaluation round, a final firm will be selected.
- The Audit Committee may be asked to approve the final selection at a future meeting, pending review of the committee charter and past practice.

### **Update – Required Annual Communications to the Audit Committee and Results of External Peer Review:**

The Committee received a presentation from Ms. Kirangi that contained the following information:

- The Internal Audit department charter was examined and remains relevant.
- Communications regarding independence and quality assurance were delivered.
- In 2015, Internal Audit successfully passed their second external peer review.

**Comprehensive Operational Audit – Office of the Port of Seattle Commission:**

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

- This audit covered the period of January 1, 2014 to September 30, 2015.
- The purpose of this audit was to determine that Commission offers and staff are provided adequate training and information, that Commissioner's per diem and salaries are in compliance with legal requirements, that transparency is maintained, and that expenses are valid, related to Port business, and in compliance with Port guidelines.
- There were no reportable findings.

**Limited Operational Audit – Aviation and Marine Maintenance Inventory Program:**

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

- This audit covered the period of January 1, 2015-October 31, 2015.
- The purpose of this audit was to determine that the inventory process is effective with regards to how stock items are created, quantity, timing, and nature of purchases, and disposal of obsolete inventory.
- It was determined that identification and removal of obsolete inventory (defined as inventory that has not been used in over 12 months) is not always accomplished efficiently. Further, processes could be enhanced in order to more efficiently use existing inventory before new items are purchased.
- There were no other reportable findings.
- Management response indicated that processes to catch redundant purchases are in place but are not reflected in the audit. Additionally, some inventory is held longer because it is difficult and costly to replace when needed (for example, some items are no longer made).

The Audit Committee recommended a follow up on this item in 2017.

**Proposed Internal Audit 2016 Work Plan:**

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

- At the beginning of the work plan process, a risk assessment is performed based on the Internal Audit department's institutional knowledge, discussions with Port leadership, analysis of data, and prior audit history. The goal of the flexible work plan is to align audit strategies with overall Port goals.
- Six types of auditable risk are examined during the risk assessment process: strategic/governance, operational, accountability/transparency, reporting, information technology, and compliance.
- Risks are scored based using a matrix based on impact and likelihood.
- Lease and concessions audits are of particular concern because lessees are a large revenue generator but are not managed directly by the Port. Over the years, audit attention has led to clearer, more effectively managed concessions agreements.

- A limited operational audit of Aviation Capital Programs is new this year, with attention paid to major projects that are currently underway. Involvement at the inception of projects will help ensure that construction costs are appropriate, and that governance requirements (such as disadvantaged business enterprise involvement and apprenticeships) are being met.

In response to concerns about whether the Internal Audit department is has staff capacity appropriate to become involved in auditing capital programs, Ms. Kirangi stated that they believe the plan is feasible with current staff but will report back to the committee if further resources become necessary.

- Internal Audit also plans to provide consulting services to other Port departments during the upcoming year, with projects to include assisting Accounting & Financial Resources with the selection of an external auditing firm, involvement from the outset with Transportation Network Company agreements at the airport, providing input as policy directives are developed as a result of the new delegation of authority, and other projects as needs arise.

In response to questions about Internal Audit staffing, Ms. Kirangi stated that the current number of estimated hours is possible the current vacancy in the Audit Manager role, but they want to fill the position as soon as possible. A schedule department audits and when they were last performed will be provided at or before the next meeting.

Regarding external consultants, Ms. Kirangi stated that the current IT consulting budget is sufficient, but they have brought in a consultant to guide the auditors in auditing major construction projects. It was requested that a progress report be provided in August, detailing progress on the work plan and resources required to complete it.

**The 2016 Internal Audit Work Plan was approved.**

**Adjournment:**

There being no further business, the special meeting was adjourned 4:55 p.m.

Tom Albro

Minutes approved: May 9, 2016