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**APPROVED MINUTES  
AUDIT COMMITTEE SPECIAL MEETING MAY 9, 2016**

The Port of Seattle Commission Audit Committee met in a special meeting Monday, May 9, 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 Dan Thomas, Chief Financial Officer; Joyce Kirangi, Internal Audit Department Director; Rudy Caluza, Director, Accounting and Financial Reporting; Lisa Lam, Assistant Director, Financial Reporting Review Services; Mike McLaughlin, Director, Cruise and Maritime Operations; Brian Nancekivell, Senior Internal Auditor; Joseph Anderson, Internal Auditor; Janice Zahn, Assistant Engineering Director, Construction; Laurie Tish, Audit Partner, Moss Adams LLP; Olga Darlington, Concurrent Auditor, Moss Adams LLP; Aaron Pritchard, Commission Issues and Policy Manager; and Paul White, Commission Clerk.

**1. Call to Order:**

The committee special meeting was called to order at 2:14 p.m. by Commissioner Albro.

**2. Approval of Audit Committee Meeting Minutes of February 22, 2016:**

**On motion by Commissioner Creighton, seconded by Commissioner Albro, the minutes of the Audit Committee special meeting of February 22, 2016, were approved.**

**3. External Audit – Results of the 2015 Financial Audit:**

The Committee received a presentation from Ms. Tish and Ms. Darlington on Moss Adams' audit of the Port's 2015 financial statements. The result was an unmodified, clean opinion. The reports issued were summarized and the areas of audit emphasis were described. These included review of internal controls, net pension liability of the Port as part of the Washington Department of Retirement System and in association with the Warehousemen's Pension Trust Fund, administration of federal awards, passenger facility charges, contribution of \$120 million to the Alaskan Way Viaduct Replacement Program, and revenue analysis of the current signatory lease and operating agreement between the Airport and its airline tenants. Required communications were presented.

**4. Update – External Audit Services Request for Qualifications:**

The scope of the request for qualifications for external audit services in 2016 was summarized. It included independent audit and opinion for the financial statement of the Port's Enterprise Fund, financial statements of the Warehousemen's Pension Trust Fund, net revenue available for revenue bond debt service, single audit and report of federal grants awarded, and program audit and report of passenger facility charges. The process for the competitive selection was described, including approval of the RFP documents in October

2015 and Commission authorization to execute a contract. Of the four proposals submitted, Moss Adams LLP was selected as the successful bid. Responsiveness to questions relating to joint venture accounting with the Northwest Seaport Alliance, small business participation, audit of passenger facility charges, and audit of information technology were noted. There was a discussion of the attractiveness of the same firm performing external audit services for both the Port of Seattle and the Northwest Seaport Alliance. Typographical errors were noted and have been corrected in the memorandum attached to these minutes.

**On motion by Commissioner Creighton, seconded by Commissioner Albro, selection of Moss Adams LLP as the Port's external independent auditor and execution of a contract for external audit services for the operating periods 2016 to 2020 in an amount not to exceed \$3 million was approved.**

**5. Lease and Concession Audit – Cruise Terminals of America:**

Mr. Anderson presented a report and presentation slides on the lease and concession audit of Cruise Terminals of America, which manages the Port's cruise facilities at Pier 66 and Terminal 91 in exchange for a percentage of rent. The calculation of the rent percentage, which is 12 percent of the passenger and dockage fees in the current tariff, was described. Concerns arising out of prior review of this lease in 2008 and 2011 were noted. Adjustments and accomplishments made subsequently by the lessee were described. It was reported that while current monitoring controls are designed appropriately, there is no formal procedure to evaluate whether the amount of rent security collected is adequate. The collection of rent security deviates from statute and Port policy, but the basis for the deviation is not documented, preventing confirmation of its adequacy. It was reported that the lack of the control is tied to this particular lease.

Mr. McLaughlin commented that in his professional opinion, the current rent security is adequate, given the lessee's performance over time, its relationship with the Port, and the low level of risk to the Port. He noted that Cruise Terminals of America is comprised of principals SSA Marine, Columbia Hospitality, and General Steam, all reputable, long-standing entities.

There was a discussion of the need for Commission actions on leases to transparently call out exceptions to statute or Port policy with respect to key terms, including rent security. It was requested that a management response addressing that aspect of the finding be prepared for the next Audit Committee meeting. Mr. Caluza offered to circulate to the Committee a security verification list of lessees prepared and monitored by the Accounting and Financial Reporting Department.

**6. Lease and Concession Audit – Terri D's Catering Inc.:**

Without objection, a written report was accepted in lieu of a verbal presentation on the Internal Audit Report for Terri D's Catering Inc., dba Act-3 Catering, covering the period September 23, 2012, through September 30, 2015. The purpose of the audit, as reported, was to determine whether reported concession fees were complete, properly calculated, and remitted timely to the Port and that the caterer complied with significant provisions of the amended concession agreement. The report included no findings of significance and there was no discussion of this agenda item.

**7. [Lease and Concession Audit – EAN Holdings LLC:](#)**

Without objection, a written report was accepted in lieu of a verbal presentation on the Internal Audit Report for EAN Holdings LLC, dba Enterprise, Alamo Rent-a-Car, and National Car Rentals, covering the period May 17, 2012, through May 31, 2014. The purpose of the audit, as reported, was to determine whether EAN Holdings' reported concession fees were complete, properly calculated, and remitted timely to the Port; whether Port management and EAN complied with significant financial terms of the amended agreement; and whether customer facility charges were properly collected and remitted timely to the Port. The report included no findings of significance and there was no discussion of this agenda item.

**8. [Lease and Concession Audit – Firefly Rent-a-Car LLC:](#)**

Without objection, a written report was accepted in lieu of a verbal presentation on the Internal Audit Report for Firefly Rent-a-Car LLC, dba Firefly, covering the period August 1, 2014, through May 31, 2015. The purpose of the audit, as reported, was to determine whether Aviation Business Development monitoring controls were adequate and effective to ensure Firefly's reported concession fees were complete, properly calculated, and remitted timely to the Port; whether Firefly complied with significant financial provisions of the agreement; and whether customer facility charges were properly collected and remitted. The report included no findings of significance and there was no discussion of this agenda item.

**9. [Limited Operational Audit – Runway 16C/34C Reconstruction Project:](#)**

The limited focus of the interim audit on construction management occurring during 2015 was explained, and the project background was summarized. It was reported that the project is under budget and that no operational incidents or aircraft incursions occurred. It was also reported that apprenticeship and Affirmative Action goals were exceeded by the contractors. Apprenticeship performance by trade was summarized. There were no findings associated with this audit.

Committee members inquired about potential lessons learned from successful minority and women apprenticeship goal attainment on the Central Runway project. Ms. Zahn credited active, collaborative communication with contracting partners and apprenticeship providers such as ANEW (Apprenticeships and Nontraditional Employment for Women) on the part of Workforce Development, pre-bid-meeting teams, and labor management teams for successful program performance. In addition, extra informational meetings and special one-on-one meetings were offered in preparation for the Central Runway reconstruction project.

Mr. Nancekivell reported that management controls were successful in ensuring compliance with wage terms of the applicable project labor agreement on the contract, and in ensuring technical requirements for construction.

A [capital projects audit engagement update](#) was presented indicating continued engagement by Internal Audit in major Aviation capital programs including further runway reconstruction, the NorthSTAR program, construction of a new International Arrivals Facility, and a comprehensive baggage optimization program. A risk assessment methodology has been completed in order to prioritize audit activities. It was reported that these projects are considered major based on risk, committed resources, and direct Commission engagement. The Committee requested further quantification of audit engagement for future updates.

In light of the positive results from this audit, the Committee recommended commendatory letters be circulated on behalf of the Commission to staff and the contractors.

**10. Additional New Business – Audit Committee Charter Amendment Proposal:**

Mr. Pritchard presented a proposed amendment to the Audit Committee charter to clarify an ambiguity related to the competitive selection of an independent auditor. It was reported that the Audit Committee has the authority to review and approve the selection of the independent auditor following the competitive process and that no further approval by the Port Commission at large is necessary. The technical amendment to the charter language would clarify this by changing “review and recommend to the full Commission” to “inform the full Commission.”

**The amendment for referral to the Port Commission at large was approved and reads as follows:**

**In the Audit Committee Charter, under “Duties,” delete “Review and recommend to the Commission, based on an open competitive process, the external auditors to be selected to audit the financial statements, the Federal Grant and Passenger Facilities Charge programs of the Port of Seattle and other audit services” and insert in lieu thereof: Review with the full Commission the independent auditors selected based on an open competitive process, to audit the financial statements and the federal grant and Passenger Facilities Charge programs of the Port of Seattle and other audit services**

**11. Adjournment:**

There being no further business, the special meeting was adjourned 4:09 p.m.

John Creighton

Minutes approved: August 8, 2016