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## **APPROVED MINUTES AUDIT COMMITTEE SPECIAL MEETING OCTOBER 10, 2016**

The Port of Seattle Commission Audit Committee met in a special meeting Monday, October 10, 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 David Soike, Chief Operating Officer; Joyce Kirangi, Internal Audit Department Director; Jessica Martin-Carscadden, Internal Audit Manager; Joe Simmons, State Audit Manager; Melia Lucero, Assistant State Auditor; Laurie Tish, Partner, Moss Adams; Olga Darlington, Partner, Moss Adams; Chris Apgar, Apgar and Associates; Aaron Pritchard, Commission Issues and Policy Manager; and Amy Dressler, Assistant Commission Clerk.

### **Call to Order:**

The committee special meeting was called to order at 9:05 a.m. by Commissioner Albro.

### **Approval of Audit Committee Meeting Minutes of August 8, 2016:**

**The minutes of the Audit Committee special meeting of August 8, 2016, were approved.**

### **External Audit – State Auditor’s Entrance Meeting**

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

- This audit will cover fiscal year 2015.
- A separate report will be provided for the Industrial Development Corporation.
- Precise areas of focus are still being determined.
- The audit is scheduled to be exited in December, 2016.

*Without objection, the committee proceeded to –*

### **External Audit – [Health Insurance Portability and Accountability Act](#)**

The Committee received a presentation from Mr. Apgar that contained the following information:

- The purpose of this audit was to ensure that the Port is in compliance with the requirements of the Health Insurance Portability and Accountability Act (HIPAA).
- The audit found that Port policies should be enhanced in the following areas:
  - Access termination policy: A formal policy should be adopted to ensure that terminated employees can no longer access Port information or assets. Management responded that

- a review of HIPAA related practices is planned for 2017, and will include a formal policy regarding devices held by involuntarily terminated employees.
- Mobile device usage: A policy is needed regarding access by Port employees to email and other Port digital assets from personal mobile devices. Management responded that although a solution is in place that enforces passcode length and encryption on personal devices, adoption of a formal personal device policy is in order.
  - Destruction of media: A procedure needs to be established to ensure proper destruction of documents by benefits department staff and Port vendors when media is at the end of its useful life. Management responded that the Code of Conduct prohibits storage of HIPAA information on removable media or portable devices, and that the HIPAA Security Plan will be updated to include destruction processes.
- It was concluded that although policies need to be altered or drafted to explicitly address HIPAA in order to be fully compliant, the Port is approaching full compliance.

Commissioner Albro requested and received clarification that although formal policies need to be altered to explicitly address HIPAA, the Port's current policies and procedures do not create a risk of a HIPAA breach.

*The committee then returned to –*

**External Audit – Moss Adams Engagement Service Plan (entrance meeting)**

The Committee received a [presentation](#) from Ms. Tish and Ms. Darrington that contained the following information:

- Audit team members from prior years are returning.
- Moss Adams will:
  - Audit and report on financial statements for the Enterprise Fund and Warehouseman's Pension Trust Fund for inclusion in the Comprehensive Annual Financial Report;
  - Audit and report on internal control and financial reporting compliance; audit and report on compliance regarding the Airport Improvement Program and other Major Federal Award Programs;
  - Audit and report on the Passenger Facility Charge program.
  - Audit and report on the schedule of net revenues available for revenue bond debt service.
  - Perform agreed upon procedures and report to the State of Washington Department of Ecology regarding the Terminal 91 Facility.
- Auditors' responsibilities will include application of accounting standards, reporting on non-compliance, and communication with the Audit Committee and management.
- Management's responsibilities will include preparation of correct financial statements, report of fraud, and availability to work with auditors, and communication with the audit team.
- Areas of emphasis will include pension liability and establishing procedures for working with the Northwest Seaport Alliance's audit team.
- Field work will be finished in March 2017, review will be conducted in April 2017, and an exit conference is anticipated for May 2017.

**Staff Report – 2016 Flexible Work Plan Update:**

The committee received a report from Ms. Martin-Carscadden that included the following information:

- All but three of the proposed audits in the 2016 Flexible Work Plan have been completed. Outstanding audits are Radio Communication Equipment, Airport Terminal Janitorial Services, and Landside Employee Parking.
- Radio Communication Equipment is an Information Technology audit, and will be performed by an external contractor.
- The Airport Janitorial Contract audit will commence shortly.
- Staff proposes postponing the Landside Employee Parking audit because there have already been two audits with findings in that department, and a delay will give them a chance to address issues and implement new controls.
- In lieu of Landside Employee Parking, staff would like to do a comprehensive audit of Aviation Utilities instead. This audit was performed once in 2011, and is a good fit for the remaining budget and staff time in 2016.

**The replacement of the Landside Employee Parking comprehensive audit with an Aviation Utilities comprehensive audit on the 2016 Flexible Work Plan was approved.**

**Staff Report – Management Update on Contract Administration:**

Mr. Soike reported that new tools have been created for Port-wide contract management, including a definition document for aviation leases that delineates important components of the lease, a contract administration plan that identifies which position is responsible for monitoring lease terms, a responsibility matrix, and a contract compliance checklist.

**Lease and Concession Audit – Mad Anthony’s at Pier 66 and Chinook’s at Fishermen’s Terminal:**

Without objection, a written report was accepted in lieu of a verbal presentation on the Internal Audit Report for Mad Anthony’s at Pier 66 and Chinook’s at Fishermen’s Terminal, covering the period of January 1, 2014-December 21, 2015. The purpose of the audit, as reported, was to determine whether Port management monitoring controls are adequate and effective to ensure:

- Mad Anthony’s, Inc., reported concession fees were complete, properly calculated, and remitted timely to the Port; and
- Mad Anthony’s, Inc., complied with significant financial provisions of the agreement.

The report included no findings of significance and there was no discussion of this agenda item.

**Lease and Concession Audit –Clipper Navigation:**

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

- This audit covered the period of May 1, 2014-April 30, 2016.
- The purpose of this audit was to evaluate the design and operating effectiveness of Port Management monitoring controls, and to determine compliance with terms and conditions within the lease agreement (including accuracy and timeliness of payments, rent surety, and insurance).

- It was found that while the new lease was signed on April 24, 2014, a letter of credit was not obtained until September 2016.

Mr. Soike commented that new processes regarding contract administration would have caught this issue.

**Proposed 2017 Internal Audit Budget:**

The committee received a presentation from Ms. Martin-Carscadden that included the following information:

- The proposed budget for 2017 includes an increase of \$400,000-370,000 for outside services, to include Information Technology risk assessment, and to supplement Internal Audit with an outside contractor for capital improvement audits.
- An Information Technology risk assessment was performed in 2012; at the end of 2017, the audits identified there will have been completed.

Committee members inquired about the consequences of not doing a risk assessment in 2017, and were informed that doing so would mean that the planned IT audits for 2017 will be the last, until a new risk assessment is performed. Commissioner Albro indicated that he would prefer to focus on an outside contractor for Capital Development and postpone the IT risk assessment.

**The 2017 budget proposal was approved, with the removal of \$190,000 proposed for an Information Technology risk assessment, for a total budget of \$1,779,837.**

**Request for Review of Audit Committee and Internal Audit Charters:**

Ms. Kirangi noted that the charters for the Internal Audit department and Audit Committee are due for review, and requested that the committee review these and discuss opportunities for revision at the next Audit Committee meeting.

**Adjournment:**

There being no further business, the special meeting was adjourned 10:40 a.m.

Fred Felleman

Minutes approved: March 24, 2017.