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APPROVED MINUTES AUDIT COMMITTEE SPECIAL MEETING JUNE 27, 2017

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, June 27, 2017, in the Seoul Room at the Conference Center at Seattle-Tacoma International Airport. Committee members present included Commissioner Gregoire, Commissioner Felleman, and Christina Gehrke. Also present were Joyce Kirangi, Director, Internal Audit; Craig Watson, General Counsel; Aaron Pritchard, Commission Issues and Policy Manager; Laurie Tish, Partner, Moss Adams LLP; Lisa Dionne, Manager, Moss Adams LLP; Kathy Lewless, Talent Acquisition Manager, Human Resources; Ritika Marwaha, Internal Auditor; Dan Chase, Acting Internal Audit Manager; Margaret Songtantaruk, Senior Internal Auditor; and Amy Dressler, Assistant Commission Clerk

Call to Order:

The committee special meeting was called to order at 9:12 a.m. by Commissioner Gregoire.

Approval of Audit Committee Meeting Minutes of March 24, 2017:

The minutes of the Audit Committee special meeting of March 24, 2017, were approved.

External Audit – [Port of Seattle 2016 External Financial Audit](#)

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

- Clean audit opinions were issued regarding the financial statements for the Enterprise Fund and the Warehouseman's Pension Trust Fund.
- There were no findings of noncompliance in the single audit reports; however, two findings were noted as reported by other audit organizations.
- No findings of noncompliance were noted regarding:
 - Major Federal Award Programs, the Schedule of Expenditures of Federal Awards, and related internal controls.
 - The Schedule of Net Revenues available for Revenue Bond Debt Service.
 - Passenger Facility Charge receipts and related internal controls.
- The Washington State Department of Ecology Agreed Upon Procedures Report was created by auditors to verify the mathematical correctness of a financial assurance memo prepared by Port staff to demonstrate the Port's financial wherewithal to conduct legally required environmental remediation.

Commissioners asked for clarification regarding which environmental measures were included in the Department of Ecology procedures report. Ms. Tish stated that is meant to verify that there are funds available for federally required measures and does not apply to the Port's stormwater utility.

- Areas of emphasis included the internal control environment, management estimates, and the Northwest Seaport Alliance (NWSA) joint venture.
- Required Annual Communications, including a preview of upcoming accounting pronouncements, were delivered.

Third Party Management Audit – Bell Harbor International Conference Center/World Trade Center:

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

- The purpose of this audit was to determine whether internal controls were effective to ensure that reported revenues and operating expenses were complete and accurate; expenses were appropriate and in accordance with the terms and conditions of the agreement, and that related party events were held in accordance with the terms and conditions of the agreement. The audit also examined whether Columbia Hospitality Inc. complied with significant terms of the agreement.
- The period examined was January 1, 2015, to December 31, 2016.
- It was determined that Columbia Hospitality was generally in compliance with key terms of the contract.
- An opportunity to strengthen monitoring controls was identified; the Port overpaid payroll by approximately \$26,300 because of a shared employee.
- An amendment to the agreement regarding use of Port-owned facilities by Columbia Hospitality Inc. is suggested. Management responded that the agreement will be amended accordingly.

Third Party Management Audit – Airport Club at SEA Lounges:

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

- The purpose of this audit was to determine whether management controls were effective to ensure that airline revenues were complete and accurate, lounge expenses were proper and in accordance with the agreement, and to determine whether Airport Lounge Development Corporation complied with the significant terms of the agreement, including City of SeaTac minimum hourly wage rates.
- The period of April 1, 2015, to March 31, 2016, was examined.
- It was determined that Airport Lounge Development Corporation complied with the significant terms of the agreement.
- However, it was also determined that Port management controls need improvement. Compensation, benefit, and payroll tax were overpaid by \$54,139, and insurance was overpaid by \$4,222.

Limited Operational Audit – Centralized International Support Services Agreement:

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

- This agreement is with VIP for baggage services in the FIS area.

- The purpose of this audit was to determine whether management controls are effective, to ensure compliance by VIP with the significant terms of the contract, and to ensure compliance with the City of SeaTac's minimum hourly wage rates.
- The period of January 2015 to February 2016 was examined.
- The audit determined that VIP complied with the significant terms of the contract.
- It was found that internal controls were not effective to ensure accuracy of payment. Management reviewed and payed invoices reflecting rates that did not match the terms and rates in the agreement, resulting in an overpayment of \$55,000. A repayment has been agreed upon and is in process.

It was noted that VIP was not in compliance with the City of SeaTac required minimum hourly wage for a portion of the examined period. The importance of ensuring that vendors are in compliance with local laws regarding wages was emphasized. Mr. Chase indicated that a contract amendment would be forthcoming regarding further retroactive pay.

The meeting was recessed at 11:00 a.m. and reconvened at 11:08 a.m., chaired by Commissioner Gregoire.

Additional New Business – Audit Committee Charter Housekeeping Amendment:

Mr. Pritchard introduced the proposal, which amends section II(D)(3) to read "Inform the Commission of the external auditing firms selected, based on an open competitive process, to review external audits conducted on Port of Seattle operations, programs, activities, and business processes." This amendment clarifies a second reference to selecting an external auditing firm, to be consistent with an amendment approved by the Commission on June 28, 2016.

The Audit Committee voted to recommend adoption of the Audit Committee Charter Housekeeping amendment to the full Commission. *[Clerk's Note: The Commission considered and adopted the Audit Committee charter amendment above at its regular meeting of July 11, 2017, under agenda item 4c.]*

Introduction of Final Internal Audit Director Candidate for Recommendation to Commission:

Ms. Lewless gave an overview of the selection process, and introduced final candidate Glenn Fernandes to the Committee.

The committee and Mr. Fernandes discussed his qualifications and management approach.

The Audit Committee voted to recommend that the full Commission appoint Glenn Fernandes Internal Audit Director. *[Clerk's Note: The Commission appointed Mr. Fernandes Internal Audit Director at its regular meeting of July 11, 2017, under agenda item 6c.]*

Adjournment:

There being no further business, the special meeting was adjourned 11:32 a.m.

Fred Felleman

Minutes approved: September 12, 2017.