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**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING DECEMBER 19, 2017**

The Port of Seattle Commission Audit Committee met in a special meeting Tuesday, December 19, 2017, at the Conference Center at Seattle-Tacoma International Airport. Committee members present included Commissioner Felleman and Commissioner Gregoire. Public Member Christina Gehrke was absent. Also present were Dan Thomas, Chief Financial Officer; Glen Fernandes, Internal Audit Department Director; Joseph Simmons, Audit Manager for Central King County, Office of the Washington State Auditor; Mark Rapozo, Assistant Director of Local Audit, Office of the Washington State Auditor; Dan Chase, Internal Audit Manager; Scott Watson, Principal, Point B Solutions; Lance Lyttle, Managing Director, Aviation; Aaron Pritchard, Commission Policy Manager; and Amy Dressler, Assistant Commission Clerk.

Call to Order:

The committee special meeting was called to order at 8:10 a.m. by Commissioner Gregoire.

Approval of Audit Committee Meeting Minutes of September 12, 2017:

The minutes of the Audit Committee special meeting of September 12, 2017, were approved.

External Audit – [Washington State Accountability Audit for 2016:](#)

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

- Accountability areas examined included self-insurance programs, economic grant programs, state grant agreements, moorage revenue, and personal service contracts.
- There were minor recommendations regarding moorage rate policies, which have been addressed by management
- Regarding personal service contracts, minor changes to procedures and language were recommended.
- Follow up was performed regarding the prior year audit finding pertaining to the one-time payment made to certain staff in 2017. The Port's actions regarding this finding included repayment from Executive Leadership Team members and ineligible recipients, realignment of the General Counsel's reporting structure, a comprehensive review of compensation policies, and external review by outside legal counsel. It was determined that these corrective actions are satisfactory, and the prior year finding is resolved.

2018 Internal Audit Work Plan:

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

- Internal Audit proposes to do six Contract Compliance, eight Operational, and three Information Technology audits in 2018.
- Contract Compliance audits will include several contracts not examined since 2014 or 2015. Contracts examined this year will cover about 10 percent of concessions revenue; under this structure, each part of the revenue stream will be audited at least once every 10 years.
- Operational Audits on the work plan include some carryovers from 2017 (which are expected to be completed in January 2018), Capital Programs, the Northwest Seaport Alliance, and further examination of airport ground transportation programs.
- Information Technology audits will be of Aviation Management's data centers and change management, and the ParkingSoft system.

As goals regarding Women and Minority Business Enterprise participation are set, contracts can be audited for compliance with those goals in Operational Audits. Since those goals will be set in 2018, examination of compliance will be part of the 2019 work plan.

Information Technology Audit – IT Disaster Recovery Capability:

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

- Disaster Recovery focuses on the recovery of critical services after a high impact, low likelihood disaster, such as the loss of an entire facility or regional disaster.
- It was determined that internal controls are adequate. Technology designs include operational redundancy for all critical systems and ICT (Information & Communications Technology) follows best practice approaches for disaster recovery.
- It was recommended that geographic redundancy should be added for the Operations network, Enterprise network, and Internet Egress. Management agrees with the recommendation and plans to provide an alternate data center location locally, in addition to the Spokane center.
- Improved integration with the National Incident Management System's Incident Command System is recommended to avoid risk of inefficient recovery efforts. Management has responded with plans to incorporate appropriate training and coordination efforts.

Information Technology Audit – IT Change Management:

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

- Change management is the practice that governs all changes to production environments. Effective change management involves minimized service disruptions, and appropriate prioritization of and communication regarding changes and disruptions to affected stakeholders.
- ICT change statistics reflect an average of eight system changes per night.
- Processes were generally in accordance with industry best practices, and culturally reinforced by ICT team members.
- It was recommended that the existing toolset be replaced with a single integrated system, and that existing processes be adapted to effectively use the new toolset. Management responded that they have selected a toolset and expect to deploy it by March 31, 2018.

- It was also recommended that ICT and Aviation Maintenance coordinate to share tools and processes. Internal Audit plans to independently review the Aviation Maintenance change management process as part of their 2018 work plan.

Recessed and Reconvened:

The meeting was recessed at 9:16 a.m. and reconvened at 9:25 a.m., chaired by Commissioner Gregoire.

Limited Operational Audit – Eastside for Hire:

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

- Auditors examined reconciliation of prepayments of fees made by drivers, as well as a broader examination of the contract.
- It was found that no reconciliation of per-trip fees had been done between the commencement of the contract in October of 2016, and July 31, 2017. This resulted in 323 drivers who were owed an average of \$2,224 apiece, and an independent set of 360 drivers who owed Eastside for Hire an average of \$2,251 apiece.
- It was also found that tracking technology has not been implemented. Instead, Eastside for Hire has been using manual counts, which are significantly lower than the Port's Automated Vehicle Identification data.
- Deadheading targets have not been met. Although financial penalties are being paid, the spirit of the contract provision is not being met. Furthermore, this practice undermines the competitive process under which the contract was awarded.
- A labor harmony agreement, required by the contract, has not been obtained.

Public comment regarding the Eastside for Hire audit was received from the following individual(s):

- Suldán Mohamed, driver.
- Cindi Laws, Director, Wheelchair Assisted Taxi Association.
- Samatar Guled, General Manager, Eastside for Hire.
- Saramjen Sheflami, driver.
- Dawn Gearhart, Teamsters Local 117.
- Ali Aden, E-Cab.
- Amin Shifow, General Manager, Puget Sound Dispatch.

In lieu of a spoken response from management, Commissioner Gregoire suggested referring to the management response in the written report. She proposed a report to the full commission regarding the contract.

On motion by Commissioner Gregoire, seconded by Commissioner Felleman, it was moved that the audit committee recommend a management response to the full commission to address the following: (1) Issues of contract noncompliance; (2) Updating all issues from the management response included in the December 19, 2017, report; (3) Recommended changes to the taxicab/for-hire system at SeaTac airport; and (4) If necessary, recommended changes to the current contract, by February 1, 2018.

Limited Operational Audit – Maritime Stormwater Utility:

The Committee received a presentation from Mr. Chase that included the following information:

- This audit covered the period of January 2016 to June 2017, and was performed to assess the design and operating effectiveness of internal controls.
- The key terms of the internal controls were achieved, but it was recommended that PROworks software be implemented to decrease the likelihood of building errors. Management agrees, and plans to migrate the billing process into a new system by March 2018.

Limited Operational Audit – Onboarding and Offboarding of Consultants & Contractors:

The Committee received a presentation from Mr. Chase that included the following information:

- The purpose of this audit was to determine whether on- and off-boarding of consultants and contractors is being performed in compliance the Port's Contingent (Contract) Workers Policy and IRS requirements.
- It was determined that Port policy needs to be updated to remain consistent with IRS guidelines and case law.
- It was also determined that a process must be established to manage and monitor on- and off-boarding of contingent and contract workers to ensure that policy is being followed.
- Management has agreed to develop updated policies and develop centralized processes and procedures.

Limited Operational Audit – Capital Program (International Arrivals Facility):

The Committee received a presentation from Mr. Fernandes that included the following information:

- Work is being performed with insufficient design and some work performed by Clark Construction is not authorized by the Port, resulting in delayed payments to subcontractors.
- Management responded that Clark Construction has made improvements to their training and controls for subcontractors.
- A decision point on a guaranteed maximum price is expected early in 2018 and will likely alleviate some of the issues seen in this audit.

Lease and Concession Audit – Hertz Rent-a-Car:

Without objection, a written report was accepted in lieu of a verbal presentation on the Internal Audit Report for Hertz Rent-a-Car, covering the period of June 2014-May 2016. The purpose of the audit, as reported, was to determine whether Port management's monitoring controls were effective and to assure that:

- Hertz reported concession fees were complete, properly calculated, and remitted timely to the Port of Seattle.
- Hertz complied with significant financial provisions of the concession agreement as amended; and
- The Customer Facility Charge was properly collected and remitted.

There was no discussion of this agenda item. However, the report included findings of fees owed due to underreported Customer Facility Charges. Aviation Commercial Management will pursue collection from Hertz for the fees, audit cost, and applicable late fees and interest, and notify Committee members when repayment has been made.

Lease and Concession Audit – [Avis/Budget Rent-a-Car](#):

Without objection, a written report was accepted in lieu of a verbal presentation on the Internal Audit Report for Avis/Budget Rent-a-Car, covering the period of June 2013-May 2016. The purpose of the audit, as reported, was to determine whether Port management's monitoring controls were effective and to assure that:

- Avis/Budget complied with significant financial provisions of the Concession Agreement, as amended; and
- The Customer Facility Charge was properly collected and remitted.

There was no discussion of this agenda item. However, the report found that Avis/Budget did not maintain sufficient documentation of billing adjustments in their recordkeeping system. Internal Audit is disallowing \$94,039 in adjustments and is seeking reimbursement for this amount. Aviation Commercial Management will pursue collection from Avis/Budget for the amount owed and will notify Committee members when repayment has been made.

Adjournment:

There being no further business, the special meeting was adjourned at 10:30 a.m.

Fred Felleman

Minutes approved: March 19, 2018