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**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING NOVEMBER 4, 2008**

The Port of Seattle Commission Audit Committee met in a special meeting at 9:00 a.m., Tuesday, November 4, 2008 in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, WA. Commissioners Hara and Tarleton were present, as well as citizen committee member Steve Miller. Also in attendance was CEO Tay Yoshitani and Joyce Kirangi, Port Internal Audit Manager.

CALL TO ORDER

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

Approval of Minutes – None.

Moss Adams Letter of Recommendations – Action Plan Status Report

Presenter: Rudy Caluza, Director, Accounting and Financial Reporting

To provide context, Mr. Caluza provided background information on the focuses of the Moss Adams audits of the Port, including auditing of financial statements as well as of federal grants that are administered, and also passenger facility charge revenues. A [document](#) was provided to, and reviewed for the Committee reflecting the status of actions in response to recommendations received as a result of the latest Moss Adams audit.

Regarding actions still in process, which relate to the new CPO-1 Policy, Commissioner Hara suggested that when the actions were complete, Nora Huey, Director, Central Procurement Office, return to the audit committee for further descriptions of actions taken.

Internal Audit Department Briefing

Presenters: Joyce Kirangi and Jack Hutchinson, Senior Internal Auditor

- **Aviation Maintenance Department Accountability Audit - 2007**

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Ms. Kirangi reported on findings and recommendations resulting from the internal audit of the Aviation Maintenance Department from 2007 as follows:

- Inadequate Inventory Policies
- Inadequate Controls Regarding Accountability for Tools and Equipment
- Inadequate Management Oversight on Reimbursables
- Inadequate Management Oversight on Direct Purchases
- Inadequate Controls Over Procurement

During their presentation, Ms. Kirangi and Mr. Hutchinson discussed the recommendations provided to the Maintenance Department resulting from the audit, and reviewed all recommendations associated with the findings.

A report was provided for the Committee's review regarding the Maintenance Department [audit](#).

Following the presentation, Michael Feldman, Deputy Managing Director, Aviation Division, Facilities and Environmental and John Christianson, General Manager, Aviation Maintenance provided to the Committee their comments regarding action plans to be implemented as a result of the audit findings and recommendations.

Commissioner Hara noted that he may wish to have someone from the Maintenance Department return in the future in order to review progress made on their action plans.

- **Lease and Compliance Audit – ATZ, Inc. (dba Doug Fox and Airstar Parking)**

Findings resulting from the Internal Audit of Doug Fox Parking, were presented as follows:

- Under-reported Concessions Due to Disallowed Deductions
- Penalty/Interest on Overdue Payment

A [report](#) was provided for the Committee's review regarding the audit of Doug Fox and Airstar Parking. Recommendations as a result of the audit findings were presented to the Committee, with discussion following.

Ms. Kirangi stated that due to the responses to the findings for Doug Fox, this audit was considered closed.

- **Discussion of 2009 Workplan**

Ms. Kirangi outlined the sections regarding the internal audit approach to the annual risk assessment and the 2009 [workplan](#). The sections include:

- Central Processing Systems
- Lease and Concessions

- Third Party Management
- Financial Reporting / General Ledger
- Special Investigations
- Departmental Accountability and Compliance
- Federal Assistance (Single Audit)
- Performance / Operational Effectiveness
- Enterprise Risk Management
- Capital Improvement

Ms. Kirangi commented that the Internal Audit Department approach is to visit various departments approximately every two years.

Status Report to TKW Audit by Office of Social Responsibility – ITEM WITHDRAWN

Enterprise Risk Management (ERM) Discussion

Presenters: Dan Thomas, Chief Financial Officer and Jeff Hollingsworth, Risk Manager

Mr. Thomas commented that in response to the Audit Committee's desires, the Port's Executive management staff has discussed the need for the elevation of enterprise risk management to a more strategic level within the organization. He noted that it would be appropriate to establish a common language within the Port as to a framework and description of Enterprise Risk Management.

Mr. Hollingsworth provided [background](#) on the importance of organizations relating to the idea of Enterprise Risk Management, and noted the importance of having a common language within the organization regarding the definition of Enterprise Risk Management.

Mr. Hollingsworth noted that ERM can be a stand-alone initiative; can be a process to support an organizational strategy; and can be applied at a departmental level, a divisional level, or a Port-wide level. Also reviewed were the benefits of ERM in general, and where the Port currently stands with Enterprise Risk Management.

Commissioner Tarleton suggested that in the near future, the full Commission would appreciate a discussion of Enterprise Risk Management.

Committee member Miller noted that it would be appropriate for management to come back to report on risk management/risk assessment activities. He also recommended that Ms. Kirangi include in her future work, a focus on risk management to help support and identify best practices in that area.

CEO Yoshitani commented that due to the nature of Port business, the best thing to do was to identify areas which need to be identified for risk management, and focus on those areas; identifying which areas are most at risk and begin to address them on a priority basis.

Insurance Issues at Marinas / Fishermen's Terminal

Presenters: Darlene Robertson, Director, Harbor Services, Real Estate Division and Jeff Hollingsworth, Risk Manager

Mr. Hollingsworth commented on the background of the [presentation](#), stating that during the past several years, the Risk Management group has been working with the Harbor Services group regarding the issue of whether or not to mandate vessel liability insurance for moorage agreements at all Port marinas.

Mr. Hollingsworth reviewed current policies for insurance at Port marinas, and commented that current Washington state regulations do not mandate vessel insurance. He stated that after reviewing the current Port policy, staff recommended that the policy be updated to require vessels to have liability insurance.

Commissioner Tarleton stated that the policy needs to be implemented consistently and fairly and that she does not want to see a policy implemented that will put people out of business.

Ms. Robertson noted that staff had done a survey of both public and private marinas and that most are currently requiring vessels to carry liability insurance.

Discussion of Draft Audit Committee Work Plan for 2009

Mr. Miller provided a [document](#) to the committee to help guide the discussion of possible goals for work to be done over the upcoming three years. He commented that he would like to see a continuance of reports brought to the committee on risk assessments of various departments. He also suggested integrating the Internal Audit Work Plan to start to think about performance audits, and that perhaps the first few performance audits should focus on risk assessment and risk management.

Departments suggested as areas of focus included Finance, Port-wide leasing operations, Human Resources and Development, and Legal.

Commissioner Hara suggested that initially, perhaps 25% of the Internal Audit work could focus on performance audits, increasing to 40% by 2011, and 60% by 2013. He also suggested moving away from the compliance-type audits, as those were performed by Moss Adams, as well as the State Auditor's Office.

Commissioner Tarleton agreed that more time be allocated in the future to performance auditing. She also agreed with Mr. Miller's recommendation that a risk assessment of Information and Communication Technology systems be completed in 2010. Commissioner Tarleton also suggested that an annual report be prepared by the Internal Auditor to be provided to the Audit Committee and the CEO, regarding actions which were undertaken and the findings.

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Dan Thomas, CFO, commented that his concerns included resource and timing issues of audits, as the issue of having multiple audits taking place at the same time requires a great deal of staff time.

Mr. Miller reiterated that the suggested concept would be to work with one cross-cutting processing system and one operational function Commissioner Tarleton stated she would like to zero in, by the end of the year, on the two cross-cutting areas to be reviewed.

Commissioner Hara asked that by the Committee and staff review Mr. Miller's document and provide input and suggestions, and stated that he would like to see the work plan wrapped up by the next Audit Committee meeting.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:16 a.m.

Lloyd Hara