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**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING JANUARY 6, 2009**

The Port of Seattle Commission Audit Committee met in a special meeting at 9:00 a.m., Tuesday, January 6, 2009 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

Motion for approval of the audit committee minutes of October 7, 2008 – Tarleton

Motion carried by the following vote:

In Favor: Hara, Tarleton (2)

Discussion of 2009 Internal Audit Work Plan

Presenter: Joyce Kirangi, Internal Audit Manager and Jack Hutchinson, Senior Internal Auditor

Prior to discussion the 2009 workplan, Ms. Kirangi reviewed accomplishments from 2008, including the following:

- Over \$2 million in concessions recovery
- Additional hiring of 2 audit staff members
- A number of department operational audits completed
- Three audits completed of Rental Car companies
- Audits completed of all in-flight kitchens leases

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- Completed follow-up audits of recommendations resulting from the State Auditor's Office (SAO) performance audit of 2007
- Completed two employee investigations, resulting in appropriate disciplinary actions

Ms. Kirangi commented that it was her understanding that as a long-term goal of the Audit Committee, the Internal Audit Department would be increasing their focus on performance audits in beginning in 2009.

CEO Yoshitani raised a question that in light of the fact that there would be more focus on performance rather than compliance audits, whether the makeup of staff might need to be different, and might outside experts be required.

Commissioner Hara stated that he believed staff should be able to transition from compliance audits to performance audits, and noted that in many cases, there are industry-wide benchmarks that can be used, and that another area to look at would be the standards that have been developed by management.

Mr. Yoshitani noted that he felt there is a need for caution as to which performance audits will be assigned to internal staff vs. bringing in outside help to perform them in cases where the audits are highly specialized.

Mr. Miller commented that he felt internal staff might need some bolstering at times with outside help, and at the same time it would be important to bolster the capabilities of internal staff. He also reiterated that having management attend the Audit Committee meetings to discuss their departmental audits was beneficial and could really be included as a part of what a performance audit includes.

Commissioner Tarleton noted that she felt it could also be helpful for managers to come to the Committee explaining how they set performance standards for their department.

Ms. Kirangi then expressed that it was also her understanding that the Committee wished to establish more of a Port-wide Enterprise Risk Management (ERM) system, and the ERM systems would be audited to address efficiency and effectiveness.

Ms. Kirangi shared with the Committee that she had been in contact with the State Auditor's Office to communicate the need to avoid a duplication of efforts, and the desire to partner more with the SAO. She stated that she was hoping to meet with the SAO sometime in February or March, and noted that at this point, it was still unknown as to which area the SAO would be auditing next. She informed the Committee that earlier in the day she had received a phone call from SAO staff who relayed three areas of possible focus, including effectiveness and efficiency of how the Port does business in the areas of property purchases, property sales, and lease management.

Tom Barnard, Research and Policy Analyst advised the Committee that he had received information from Rudy Caluza, Director of Accounting and Financial Reporting that the

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SAO wants to be notified whenever the Port has an entrance or exit interview by Moss Adams or other external auditors, in case they would like to attend.

Ms. Kirangi reviewed areas of focus for the 2009 Internal Audit workplan as follows, and noted that the department would remain flexible, in case areas arose needing to be addressed sooner:

- Central Processing Systems (Port-wide systems)
- Lease and Concessions
- Third Party Management
- Financial Reporting
- Special Investigations
- Departmental Internal Controls (beginning of performance audits)
- Federal Assistance
- Performance and Operational Effectiveness
- Enterprise Risk Management
- Capital Improvement Program (will likely wait until the following year, as this department was so heavily looked at in 2008)

Regarding Internal Controls, Mr. Miller stated that sometime during the upcoming year, it would be important to address what assurance is given from a financial audit in terms of internal control, as well as from accountability or performance audits from the SAO, and then to decide what gaps existed and how the Committee might best advise the Commission in terms of sufficiency of internal controls.

Ms. Kirangi provided a [document](#) to the Committee for review, which provided more of a breakdown as to which departments and companies they intended to review during 2009. She also clarified that the Police Department had been added to the 2009 workplan, as there was not sufficient time to focus that on that department during 2008.

Regarding how the choice is made as to which leases and agreements are reviewed, Mr. Miller challenged the audit department to rethink the traditional approach of using a cycle method, and perhaps try a more analytical approach.

Regarding the final McKay report, Ms. Kirangi suggested allowing the legal department to finish their analysis before deciding which contractors will need to be audited, therefore avoiding the duplication of efforts.

Ralph Graves, Managing Director, Capital Development Division, responded in the affirmative to Commissioner Tarleton's question as to whether the Central Procurement was reviewing language related to audit authority,

Mr. Miller commented that he believed included in the audit workplan should be information regarding the training plan for staff for 2009, as well as planning for preparation and assistance for any performance audits.

Audit Reports on Rental Car Companies

Presenter: Ms. Kirangi

Ms. Kirangi stated that the three Rental Cars being reported on were [Dollar](#), [Advantage](#), and [Enterprise](#), and noted that the audits were purely lease compliance audits, and that there were no significant findings to report on any of the three companies as a result of the audits.

Ms. Kirangi responded to Mr. Miller's question as to why the reports were so old (2005 and 2006), stating that due to the nature of auditing, there are occasions when there may be a few pieces of information that are not always received in a timely manner in order to finalize the reports.

In response to Commissioner Hara's question as to whether or not management may be able to perform some of the same tasks as the internal audit department, Ms. Kirangi suggested that management be asked to respond to the Committee regarding if they felt it was necessary to have the assistance of the audit department's expertise. Discussion followed regarding the differences in the audits of the smaller rental car companies vs. the larger companies.

Ms. Kirangi stated that she believed the Director of the Accounting Department would be coming back to the Committee in March to report on what is being done in that department regarding Enterprise Risk Management.

Mr. Miller reiterated the fact that it would be helpful to know in advance which projects will be coming forward to the Committee, and when.

Responding to Commissioner Hara's question as to who would be coming to the Committee at the February meeting, Mr. Barnard noted that he is currently working on the calendar, and would have that information available as quickly as possible.

Mr. Miller requested that there be a review of the 'open items' list at each month's meeting.

Commissioner Tarleton recommended that the Committee look in the near future at the Audit Committee Charter, especially regarding a mission statement, an operations statement, and goals. She suggested that Mr. Barnard draft a revised version to the charter for review by the Committee, and would like to see it be reviewed annually.

Commissioner Hara noted that after review of an amended charter, there would be a report provided to the full Commission.

Mr. Miller suggested that the role of the public member of the Audit Committee be further refined.

Commissioner Tarleton stated that she would like to go before the full Commission in March regarding any necessary amendments to the Audit Committee.

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Commissioner Hara suggested that amendments may be handled administratively rather than by resolution and that he would like to see a draft revised document at least seven days in advance of the next committee meeting.

ADJOURNMENT

There being no further business, the meeting was adjourned at 10:37 a.m.

Lloyd Hara