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**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING FEBRUARY 27, 2009**

The Port of Seattle Commission Audit Committee met in a special meeting at 9:00 a.m., Friday, February 27, 2009 in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, WA. Commissioners Hara and Creighton were present, as well as citizen committee member Steve Miller. Also in attendance were CEO Tay Yoshitani and Joyce Kirangi, Port Internal Audit Manager.

CALL TO ORDER

The committee special meeting was called to order at 9:00 a.m. by Commissioner Lloyd Hara..

Approval of Minutes

Minutes of the Audit Committee Meetings of November 4, 2008; December 2, 2008; and January 6, 2009 were approved by Commissioner Hara. Commissioner Creighton was not a member of the Committee at the subject meetings and Citizen member Miller participates as a non-voting member of the Committee.

Discussion of Recent Internal Audits

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

A computer slide [presentation](#) was given by Ms. Kirangi, addressing internal lease and concession agreement audits which had been completed of the Cruise Terminals of America (CTA), Host International, Inc. and Seattle Restaurant Associates (SRA) and the systems audit of the Procurement System. Staff provided a summary of the reports which were submitted for each of the three audits.

- [CTA Audit](#) Period January, 2004 through December, 2006

Regarding the CTA audit, staff noted that there had been a finding of an inadequate management monitoring system, and that management has responded to the findings and most were considered as closed. Ms. Kirangi clarified that the findings were not major issues.

Responding to Commissioner Hara's question as to why the CTA lease was not publicly advertised, CEO Yoshitani clarified that since it was a lease, as opposed to a contract, there is no statute requiring the Port to do so.

In response to Mr. Miller's question of the legal interpretation of the finding regarding retroactive employee bonuses, Ms. Kirangi stated that the legal department is looking into the question.

- [Host International, Inc. and Seattle Restaurant Associates, Audit](#) period January 2006 – December 31, 2007

Ms. Kirangi stated that there was not any recommendation for any financial recovery resulting from this audit.

- [Procurement System](#) – Audit of current practices, 2008

Mr. Hutchinson provided background on the procurement system audit, which included auditing of Major Construction as well as Small Works contracts. He also identified the differences in types of procurements/contracts, and issues related to them. Mr. Hutchinson noted that since the Central Procurement Office was new to the Port, this department was audited in order to review their new processes, and to see if there are any 'holes' within their current practices, with the purpose being to identify risks.

Mr. Hutchinson noted issues found within the audit, which included inadequate participation in acquisition planning by construction contract services (Major Construction); inadequate documentation (Small Works); and within the procurement system, issues related to segregation of duties, inadequate documentation, and insufficient procedures to ensure legitimate vendor creation. It was stated that the items should be considered as closed.

Mr. Graves, Managing Director, Capital Development Division, spoke about current legislation which would raise Small Works Contracts from \$200,000 to \$300,000; however, the lowest bidder would still need to be selected.

Ms. Kirangi spoke about the extensive training which has been created and is currently available to Port staff regarding the new CPO-1 Policy, and the intent to help staff understand the need to comply with the new Policy.

Follow-up on Recreational Boating Department Audit

Presenter: Sharon Briggs, General Manager, Recreational Boating

Ms. Briggs provided a [document](#) for review and discussion as a follow-up to the previous presentation to the Committee, which addressed outstanding issues.

Ms. Briggs noted that at this point, all outstanding items which remained in the fall of 2008, have been addressed. Ms. Briggs briefly mentioned the items and actions taken, which included:

- Shilshole Bay Marina
 - Segregation of duties
 - Computer system weakness
 - Guest Moorage Revenue Accountability
- Bell Harbor Marina
 - Segregation of duties and accountability of funds
 - Computer system weakness / discounts
- Updates to tariffs

Commissioner Hara noted that he would like to see staff return in the future with a progress report on the monitoring of changes made.

Interim Report on Financial and Grant Regulatory Compliance Audits

Presenters: Moss Adams staff members Laurie Tish, Lilian Mramba, Kevin Smythe, Eric Corcoron.

Ms. Tish commented that today's [presentation](#) was to provide results thus far on internal controls tests. A letter of presentation was provided by Moss-Adams on the 2008 [Interim Fieldwork Results](#). Ms. Tish summarized details within the letter, referencing objectives and components of internal control:

- Objectives
 - Effectiveness and efficiency
 - Reliability of financial reporting
 - Compliance with applicable laws and regulations
- Components
 - Control Environment
 - Risk Assessment
 - Control Activities
 - Information and Communication
 - Monitoring

Ms. Tish also referenced the Enterprise Risk Management (ERM) framework, designed to achieve following objectives and components:

- Objectives
 - High level goals
 - Effective and efficient use of resources
 - Reliability of reporting
 - Compliance with applicable laws and regulations
- Components

- Objective setting
- Event identification

Moss-Adams staff spoke about their review of the Port's information technology (IT) environment and responded to questions regarding whether the systems used by the Port are 'off the shelf programs' or customized, which raises the question of security.

Moss-Adams staff commented on their review of significant accounts and processes, noting following accounts and processes as significant to the Port:

- Administration of federal grants
- Billings, cash receipts and receivables
- Signatory Lease and Operating Agreement (SLOA)
- Procurement, cash disbursements and payables
- Payroll
- Capital projects
- Treasury and investments
- Debt and related accounts
- Pollution remediation obligation and contingencies
- Third party management
- Financial close and reporting
- Budget

Ms. Mramba responded to Mr. Miller's questions about SLOA and about third party management, stating that the SLOA is related to not only leasing systems, but also to the budgeting system as well as to financial reporting closing. Regarding third party management, Ms. Mramba commented that the controls are mostly related to cash transactions between the Port and the third party.

Moss-Adams staff noted that compliance testing had been done for the Airport Improvement Program and also the TSA federal grants through 3rd quarter of 2008, and commented that they would look at Passenger Facility Charge (PFC) grants in March 2009.

Ms. Tish stated that Moss-Adams would return with final conclusions at the next Audit Committee Meeting, and noted that at this point there were no findings of non-compliance or material weaknesses, and commented that a management letter would be issued with final conclusions.

Review of proposed amendments to Audit Committee Charter

Presenter: Tom Barnard, Research and Policy Analyst

Mr. Barnard commented on the proposed amended version to the [Audit Committee Charter](#), which incorporated comments made by committee members at the previous meeting. Discussion followed regarding the revisions proposed. CEO Yoshitani suggested that he would like to see one additional revision, that being within the 'Composition' section, first

**MINUTES OF AUDIT COMMITTEE MEETING
FRIDAY, FEBRUARY 27, 2009**

P. 5

sentence, the words ‘at least’ (two members of...) be deleted, which would add clarification. The revised Charter was agreed upon by the Committee, and the motion was made to take to the full Commission for approval:

Motion to take amended Charter to full Commission for a vote – Creighton

Motion carried by the following vote:

In Favor: Creighton, Hara (2)

Committee member Miller participates as a non-voting member of the committee.

It was noted that the next Audit Committee meeting would take place on April 14, 2009.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:05 a.m.

Commissioner Lloyd Hara