



Commissioners

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An audio of the meeting proceedings and meeting materials are available on the Port of Seattle web site -

<http://www.portseattle.org/about/organization/commission/commission.shtml>

**APPROVED MINUTES
AUDIT COMMITTEE SPECIAL MEETING JULY 7, 2009**

The Port of Seattle Commission Audit Committee met in a special meeting at 9:00 a.m., Tuesday, July 7, 2009 in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, WA. Committee members Creighton, Hara and Miller were present, as well as CEO Tay Yoshitani. Commissioner Tarleton was also in attendance.

CALL TO ORDER

The committee special meeting was called to order at 9:03 a.m. by Commissioner Lloyd Hara.

Approval of Minutes

Motion for approval of the Minutes of June 2, 2009 – Creighton

Motion carried by the following vote:

In Favor: Creighton, Hara (2)

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

Review of Performance and Accountability Audit for 2009

Presenters: Scott Bryant, Thompson, Cobb, Bazilo & Associates and Carol Ehlinger and Reid Richards from the State Auditor's Office (SAO)

Ms. Ehlinger noted that the performance objectives for the 2009 audit had been set and the planning process was almost complete. As soon as this information is finalized, it will be shared with the Port.

Mr. Richards stated that in the area of accountability, transactions with Port Jobs were nearly complete; identified known and suspected losses not reported to the SAO; and the personal service agreements. He noted that there are still some issues in those areas that are being worked on, and when those issues are finalized, there will be a return to the Audit Committee regarding the issues identified. Mr. Richards also expressed his appreciation for ongoing cooperation of Port staff.

Mr. Bryant stated that his firm will be doing the performance audit of real estate of the Port, noting that their survey phase was nearly complete. A set of preliminary issues will be developed, and there would then be a return to the Audit Committee. He mentioned that there were four topic areas which were assigned, which included property sales, property purchases, property leases and rental, and performance improvements. He also commented on the excellent cooperation of Port staff.

In response to Committee member Miller's question as to how the auditors have found the preparation of the Port so far, Mr. Richards noted that they are receiving everything they need.

Regarding performance in the real estate area, Mr. Miller asked if criteria to be used had been identified, and Mr. Bryant replied that some aspects have been identified, and more will follow as issues are identified.

Rudy Caluza, Port Director of Accounting and Financial Reporting, commented on the Port's commitment to working with the SAO and stressed the importance of the staff and the audit team working together.

Discussion followed regarding the possibility of coming up with more specific metrics regarding what 'Triple Bottom Line' really means as opposed to it being a rather informal metric.

Report Back to Audit Committee on the Bell Harbor Audit

Presentation documents: [Memorandum](#) dated June 26, 2009 and computer slide [presentation](#) from Melinda Miller, Director, Real Estate Portfolio & Asset Management

Presenter: Ms. Miller

Ms. Miller provided a summary of audit findings, which included:

- Lack of an established level of monitoring related to the third-party employee compensation costs paid by the Port
- Unsubstantiated methodology or support for cost allocation
- Improper advance of public funds for private activities
- Improper classification of expenses
- Ineffective monitoring of sales activity to CHI (Columbia Hospitality, Inc.)

Ms. Miller reported on actions which have been taken in response to each of the findings, and commented that a major take-away from the audit experience was that as managers, it is necessary to ask more questions, get more information, and then document the information better.

In response to Commissioner Hara's question about the bonus compensation plan for CHI employees, Joyce Kirangi, Internal Audit Manager, emphasized that the issue resulting from the audit regarding bonuses was not the legality of providing the bonuses, but was that management should be more involved in order to have a clear understanding of the bonus program, and that it should be more closely monitored.

Committee member Miller commented that he felt staff responses to the audit were very well done in addressing the issues found, and that it appeared that CHI fully understood the audit findings and the issues needing to be addressed.

Commissioner Tarleton requested information regarding the number of FTE's (Full Time Equivalent employees) that were included in the contract with the Port. Ms. Miller assured Commissioner Tarleton that CHI's interests are aligned with the Port's in an attempt to keep costs down.

Internal Audit Report of the Office of Social Responsibility

Presentation Documents: Computer slide [presentation](#) and [Report](#)

Presenters: Joyce Kirangi, Internal Audit Manager and Andrew Medina, Senior Internal Auditor

Staff noted that this audit was not included in the original work plan nor was it within the Audit Department's budget, but was covered with contingency funds.

Responding to questions from Committee members as to how this audit was placed on the agenda, Ms. Kirangi noted that the audit of the department had been requested by the Executive Department. The objectives of the audit of this relatively new department were to determine whether practices are in compliance with Port policies and procedures; to be certain that management employs effective monitoring to prevent inappropriate disbursements; and to determine that the Port's policies and procedures are effective in preventing unauthorized disbursements. The audit covered the period of calendar year 2008.

Mr. Medina stated that one area of risk identified was disbursements related to trade and community development as well as promotional hosting, since these are disbursements that require additional levels of approval.

Findings of the audit were that the Port's policies and procedures are adequately designed to prevent unauthorized disbursements; however, their effectiveness is dependent upon compliance by Port management. During the period of audit, it was found that

management's monitoring practices were not effective in preventing potential inappropriate disbursements. It was recommended that management strengthen their controls related to disbursements to ensure that the entire department has the knowledge base needed to comply with Port policies, procedures and guidelines. The need for adequate documentation was also stressed.

Commissioner Tarleton recommended that with every new office at the Port, an audit be conducted over the course of the first year in order to identify whether or not the department is being given appropriate resources internally necessary to succeed.

Committee member Miller commented on the need for a process to be built where competing demands for the Internal Audit Department's time is judged and fairly decided upon between the Executive Department and the legislative branches of the organization.

Report on Bell Street Pier & Fishermen's Terminal, Mad Anthony's Restaurant Lease Compliance Audits

Presentation Documents: Computer slide [presentation](#) and [Report](#)

Presenters: Joyce Kirangi, Internal Audit Manager and Jack Hutchinson, Manager, Internal Audit Department

Staff noted that the purpose of these audits was to determine the level of compliance with the provisions of the Bell Street Pier and Fishermen's Terminal Restaurant Leases. The period of audit was January 1, 2007 – December 31, 2008.

It was found that management monitoring of the lease agreement was effective. The only minor area of concern was times when employees may have received meals at no cost while they were not working.

Update on Internal Audit Activity for Calendar Year 2009

Presenter: Joyce Kirangi, Internal Audit Manager

Ms. Kirangi provided a background on audits conducted thus far during the year, including which audits are considered closed, which are in process, and which ones are on hold or not yet started.

Committee member Miller stated that the Human Resources Department is a good candidate for a risk assessment as well as a good candidate for a performance-type review.

It was noted that there would be a 90-follow up on the audit of the Office of Social Responsibility (OSR).

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Committee Member Miller stated that he would like to see a list of all open items. Mr. Barnard commented that there are currently no outstanding follow-up items other than the request for the follow up on the OSR audit.

10. ADJOURNMENT

There being no further business, the meeting was adjourned at 10:47 a.m.

(A digital recording of the meeting is available on the Port's website.)

Lloyd Hara