

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA – POLICY AND STAFF BRIEFING

Item No. 6e

Date of Meeting January 6, 2009

DATE: December 31, 2008

TO: Tay Yoshitani, Chief Executive Officer

FROM: Tom Barnard, Research and Policy Analyst

SUBJECT: Briefing on the 2008 Audit Committee accomplishments

BACKGROUND

The Audit Committee was created to “represent the Commission and have review and oversight authority on matters relating to the Port's auditing process and procedures.” Its main tasks are to:

- Review and recommend to the Commission the independent auditors to be selected to audit the financial statements, the federal grant and Passenger Facilities Charge programs of the Port of Seattle, and other audit services.
- Meet with independent auditors and financial management to review proposed audits for the current year and review such audits at their completion, including any recommendations of the independent auditor.
- Review the adequacy and effectiveness of the accounting and financial controls of the Port of Seattle, and recommend improvement of such internal controls or establish new controls, assisted by the independent auditors, the Internal Audit Manager, and Port staff.
- Perform oversight over periodic independent performance audits to be conducted on Port of Seattle, and report the results of such audits to the Commission when completed.

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REVIEW OF THE WORK OF THE AUDIT COMMITTEE FOR 2008

Organizational Strengthening

- In the past, the Internal Audit Department was part of Accounting and Procurement Services Department (APS). In December of 2007, the Port Commission voted to create an independent Internal Audit Department. The Manager of the Internal Audit Department now reports to the Audit Committee, as well as the Chief Executive Officer (CEO). The Internal Audit work plan is reviewed and approved by the Audit Committee, and all of the audits are reviewed in public session by the Audit Committee.
- In 2008, the Audit Committee, comprised of Commissioners Lloyd Hara and Gael Tarleton, added a public member, Steve Miller, in order to increase outside accountability. Mr. Miller has extensive experience in auditing for governmental and other public bodies and has played an important role in reviewing departmental audits. He has also been a productive catalyst in the discussions on the long-range strategic direction of the Audit Committee, and is responsible for the Audit Committee considering other types of audits.
- With the support of the Audit Committee and the CEO, the Internal Audit Director recruited and hired three additional audit staff in 2008, virtually doubling the size of the staff. The department now has six staff members and collectively the staff has more than 100-plus years of experience and knowledge in all disciplines in auditing.
- The Audit Committee has designed a year-long plan, based on the Annual Audit Work Plan for 2008 presented by the Senior Audit Manager. A draft schedule of upcoming work is prepared through the end of 2009. A calendar of upcoming events is being designed. In addition, a longer-range plan encompassing the next five years has been drafted.

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Audit Committee External Results

- In 2008, Internal Audit has recovered more than \$2 million from lease, concession, and third-party agreement audits.

- The Audit Committee reviewed and requested follow up from several external audits, including the results of 2007 Moss Adams Audit, and the Comprehensive Annual Financial Review (CAFR) audit. The Committee also reviewed the management response to the 2007 TKW audit. It examined the follow-up on State Auditor's Office (SAO) Performance Audit recommendations. Six selected recommendations from the Washington State Auditor's Office 2007 performance audit were addressed by the Internal Audit Department. Internal Audit confirmed some of the SAO findings, including that Port Construction Services altered some contractors' invoices.

- The Audit Committee reviewed the following audits by Internal Audit, whose primary objective was to assess the effectiveness of Port operational controls and management monitoring procedures.
 - Department operational audits, including ID/Badge, Public Parking, Ground Transportation, two maintenance departments, and the Real State Recreational Boating.

 - Three concession audits of RAC (Rent-A-Car), including Enterprise, Dollar, and Advantage. In the past years, Internal Audit audited Hertz, Avis, and Budget and recovered more than \$1 million in concession underreporting.

 - The in-flight kitchens leases, including Gate Gourmet, Flying Food, and Sky Chefs.

 - Lease audits, including Odyssey. The Port recovered approximately \$100,000 in the Odyssey lease audit.

- Tracking documents have been developed to maintain a regular schedule of follow-ups to problems revealed in the departmental audit reports. First reviews were begun of outstanding issues from previous Department Audits given to Audit Committee.

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Upcoming Audit Committee work in 2009

The Audit Committee will be engaged in the following tasks in 2009:

- Audits are being prepared for the following third-party agreements, concessions, and leases: World Trade Center, Bell Harbor Conference Center, Cruise Terminal of America (CTA), Host, Airport Management Services Inc., Seattle Restaurant Associates, and a review is underway of operational effectiveness of the Port procurement system.
- Based on the Audit Committee's long-term goals and objectives, the Committee has tasked Internal Audit to incorporate performance audits in its audits. In the next five years, the goal is to have 50 percent of the Internal Audit projects focus on performance audits. Implementation of performance audit will start in 2009.
- Port management, in coordination with the Commission Audit Committee and the Internal Auditor, has initiated development of a Port-wide Enterprise Risk Management strategy. This effort has been briefed to the Audit Committee and has been the subject of plans for the Audit Committee's 2009 work plan.
- The Audit Committee will also be having Entrance and Exit Interviews for Moss Adams external audits and the next SAO performance audit.