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Port of Seattle Commission's Audit Committee Long-Term Goals and Objectives

Main Function:

The Port of Seattle Audit Committee Charter states in Section 1: *“The audit committee shall represent the Commission and have review and oversight authority on matters relating to the Port’s auditing process and procedures.”*

Audit Committee’s Statement of Purpose:

The Audit Committee shall provide an oversight function to ensure that management understands the risks in its business operations, encourages the reporting of departmental risk management practices to the audit committee, ensures the coordination of the various performance, external and internal audit functions and determines that recommended practices are implemented.

Preliminary comments on long-term goals and objectives:

The work of the Port of Seattle Commission’s Audit Committee is subject to many uncontrollable external factors, such as the SAO’s performance audit program, changes in business operations, changes in laws and regulations, emerging Internal Audit service needs and changes in management policies and structure. However, this document establishes goals and a direction for the Port of Seattle’s audit functions, including management’s risk assessment and management control functions, which should survive short-term pressures. This document is designed to document the views of the Audit Committee members as of 2008. As with any long-term planning document, it is designed to establish long-term goals and objectives and will be modified as new experience and external factors become evident.

Audit Committee’s Goals and Objectives:

The Audit Committee will organize its work plan over the next several years to accomplish these long-term goals:

➤ GOAL: Increase focus on management and program performance.

Total annual audit resources devoted to program effectiveness, accountability of program compliance, performance, or management improvements will grow to over 50% of total audit resources over the next five years. The focus on audits involving program effectiveness is important to the Audit Committee because it ties most closely to the mission of the Port. The largest and most costly programs such as the Seaport and Airport operations will receive substantial attention during the next five years.

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Program management has a substantial impact on whether programs achieve their objectives, managed within budget, on schedule and comply with laws and contractual agreements. Assessments of program management, in turn, provide the Port Commission with a sense that program and resource allocation decisions are consistent with Commission policies and authorization levels.

Included in the definition of audit resources is the management effort necessary to support ongoing State Auditor's Office (SAO) performance and accountability audits and external financial audits. Also included in the definition of audit resources is the Port's Internal Audit Department. The Audit committee expects the Internal Audit function will continue its current focus in the near term, but will add performance audit skills and will increasingly utilize those skills on performance audits over time.

Action Steps Necessary to Accomplish Goal

The focus on program performance and accountability will be accomplished with a significant increase in the coordination and interaction between the roles of the Audit Committee, Internal Audit and Port management. The Audit Committee suggests that Port management institute an enterprise risk management program to be completed within two years. The Internal Audit function will integrate its audit risk assessment process with this entity-wide risk assessment program over this two year timeframe. Senior managers will attend Audit Committee meetings to discuss the results of their risk assessments and risk management programs. Senior management will also provide their assessments of how well they used audits as a management tool in periodic presentations to the Audit Committee. Management will report the results of implementing audit recommendations directly to the Audit Committee.

The Audit Committee will focus its resources in value-added areas, either in performance improvements, internal control enhancements or efficiency matters. The Audit Committee will concentrate on the skills necessary to produce value from audit activity to the organization. There will be an emphasis on building skills related to program evaluation and performance assessments. This emphasis will be enhanced through additions to Internal Audit staff with performance audit skills and background. In addition, training opportunities will be focused on the program evaluation and performance assessment skills of current Internal Audit staff. The Audit Committee will also participate in training programs to enhance its ability to properly function as an oversight body for the various audit activities. The Internal Audit function will also develop skills to provide training to the Port's leadership group in enterprise risk management and internal controls that prevent or mitigate risks in their respective operations.

➤ GOAL: Broaden focus of internal control audit work

Total annual audit resources devoted to strengthening internal controls and improving financial discipline and structures will be more than 25% of total audit resources. The audits that focus on strengthening internal controls and improving financial discipline

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and structures also will have some relationship to program effectiveness. For example, audits that will result in recommendations for improving accounting and reporting systems to improve the available information for management decisions has a dual impact of addressing financial objectives and better management of programs. The external independent audits of the financial statements and federal awards are viewed as an important component in this area of focus, allowing for fewer internal audits that concentrate in this area. However, central service providers such as human resources, legal, finance, etc. are responsible for the assessment of internal controls (in proper relation to the assessed risks) across the organization. Internal Audit, in coordination with external auditors, will continue to evaluate the design and operation of the internal control structure.

Action Steps Necessary to Accomplish Goal

Consistent with the action steps discussed in the previous goal, management will attend Audit Committee meetings to discuss the results of their risk assessments and risk management programs. This will include the results of their control structure self-assessment and action plans. Central service providers such as human resources, legal, finance, etc. will provide an assessment of their control structures as operated by divisions across the organization. Internal Audit may be involved in the assessment of organization-wide control systems and structures. The Internal Audit function will also develop skills to provide training to the Port's leadership group in enterprise risk management and internal controls that prevent or mitigate risks in their respective operations. Training will include control structure self-assessment methods and techniques.

All major internal control structure self-assessments will be completed within the two-year timeframe consistent with the enterprise risk management program previously discussed. In order to accomplish this goal, the scope of major systems should be defined by the end of 2008.

➤ **GOAL: Modify** focus of revenue audits

The Audit Committee expects that management will become more involved in managing and monitoring lease and contract revenue and less reliant on Internal Audit to detect under-reporting of revenues.

While an audit focus on efficiency of operations and cost savings will eventually be less than 20% of the total audit resources over the next several years, this is still viewed as an important consideration to include in the overall auditing program. This portion of the overall audit program will address both cost savings in operating programs and detection of cost savings or revenue enhancements from auditing the Port's contractors. Considering all external and internal audits results, the Audit committee expects that all audit resources will identify potential cost savings or revenue enhancements that will result in actual savings realized from implementing the recommendations. In both the program effectiveness and the program efficiency audits, proper stewardship of

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taxpayer and public funds is an important consideration in allocating resources to audit projects.

Action Steps Necessary to Accomplish Goal

Consistent with the action steps discussed in previous goals, management will attend Audit Committee meetings to discuss the results of their risk assessments and risk management programs. This will include the results of their control structure self-assessment and action plans related to monitoring lease and contract revenue.

Internal Audit will continue to assess the risk of various lease and contract agreements using factors such as size of revenue, length of time since last audited, etc. but will also use management controls as a risk factor in determining the annual audit plan. It is expected that over the next several years, management monitoring mechanisms and lessee provided lease revenue audits will replace some of the need to audit the underlying revenues and expenses pertinent to the determination of lease and contract revenues. The reduction in overall audit effort in this area will allow for the expanded effort in the performance audit area.