

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6d

Date of Meeting October 26, 2010

DATE: October 20, 2010
TO: Tay Yoshitani, Chief Executive Officer
FROM: Tom Barnard, Research and Policy Analyst
SUBJECT: Review of the work of Audit Committee

ACTION REQUESTED: Approval of the revised Audit Charter for the Audit Committee.

SYNOPSIS:

The Port of Seattle Audit Committee is required to report to the Port of Seattle Commission periodically to review its work and results. The period covered for this briefing is from January 2009 through September of 2010. Confusion over the timing of such reviews has been resolved, and future briefings will take place on an annual basis.

In addition, the Audit Committee has been reviewing the Audit Committee Charter. Some changes have been approved by the Committee, and one other involving the reporting structure of the Internal Audit Department reporting structure is still in discussion. The Audit Committee has requested that the entire Port of Seattle Commission discuss this matter. The present Audit Committee Charter also requires that all changes to the Audit Committee Charter must be approved by majority vote of the Port Commission in public session.

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

COMMISSION AGENDA

T. Yoshitani, Chief Executive Officer

October 20, 2010

Page 2 of 3

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.

AUDIT COMMITTEE ACHIEVMENTS FOR 2009-2010:

Review of Internal Audit Reports:

The Audit Committee reviewed 19 reports prepared by the Internal Audit Manager through 2009 and 16 additional reports through September, 2010. Although many reports focused on Lease and 3rd Party management compliance audits, there were also several reports reviewing the work of internal Port departments. The table below summarizes the number and nature of the audits.

Count of Audit Type	Year		
	2009	2010	Grand Total
3rd Party Mgmt.	3	1	4
Dept	6	4	10
Functional Review		1	1
Lease	9	8	17
System Audit	1	2	3
Grand Total	19	16	35

Some of the highlights of those activities in 2009 - 2010 reviewed by the Audit Committee include:

- Approximately 70% of Port's operating revenue is generated through some arrangements or agreements. Under these circumstances, compliance auditing has become and is a major part of Internal Audit work plan. In 2009, Internal Audit cumulatively recovered over \$2 million.
- Starting in 2010, Internal Audit started to conduct rental car audits in-house. By bringing the RAC audits in-house, the Port will save approximately \$50,000 per rental car audit.
- Review and approval of proposed changes to the Audit Committee Charter (attached)
- Exit Conference by Moss Adams to review the 2009 Comprehensive Annual Financial Review (CAFR)
- Proposal to extend Moss Adams Audit Engagement Services for 2010 operating period

COMMISSION AGENDA

T. Yoshitani, Chief Executive Officer

October 20, 2010

Page 3 of 3

- State Auditor's Office Entrance Conference for the 2009 Accountability Audit
- Internal Audit Department produced a review of Port-wide Marketing activities in 2010
- Presentation by the Port of Seattle Accounts Receivable Administration
- Continued review of the Audit Committee's Long-Range Goals and Objectives

The Audit Committee also continued its practice of 90-day follow-up reviews of previous audit findings when appropriate.

The Audit Committee had several discussions on changes to the Audit Committee Charter. Some of the more substantive discussion focused on the reporting structure followed by the Internal Audit Department. Currently, the Internal Audit Manager reports her Department's findings and work plan to both the Audit Committee and the CEO. A proposal has been made that the Audit Department report only to the Commission. This would change the sentence in the Charter on page 2 that begins "Review with the Internal Audit Manager the plans, activities, staffing, and organizational structure of the internal audit function ..." to "Oversee the Director of Internal Audit's plans and activities and review with the Director the staffing, and organizational structure of the internal audit function, including coordination of audit effort with the external auditors..." This would allow the Audit Committee to oversee the work of the Internal Audit Manager without overseeing her or her staff, which would be left as it is currently designed. All parties have agreed any change in reporting structure would not alter the findings of the Internal Audit Department. The decision was taken at the October 2010 Audit Committee meeting for the full Port Commission to discuss and decide the matter at the October 26, 2010, Commission meeting.

There has also been discussion on the review procedures by the Audit Committee of the periodic Performance Audits by the State Auditor's Office, and the qualifications for the next citizen member of the Audit Committee. Other changes are not of a substantial nature, and are included in the version in red typeface.

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

The current Audit Committee Charter, as amended and adopted on March 9, 2009.

The newly revised Audit Committee Charter submitted for Commission approval.