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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 FEBRUARY 2, 2010**

The Port of Seattle Commission Audit Committee met in a special meeting at 9:00 a.m., Tuesday, February 2, 2010 in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, WA. Committee members Albro, Tarleton and Miller were present, as well as CEO Tay Yoshitani and Joyce Kirangi, Port Internal Audit Manager.

CALL TO ORDER

The committee special meeting was called to order at 9:10 a.m. by Commissioner Gael Tarleton.

Approval of Minutes

Motion for approval of the minutes of the January 12, 2010 meeting – Albro

Motion carried by the following vote:

In Favor: Albro, Tarleton

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

Follow-up to TKW (Talbot, Korvola & Warwick) Audit

Presentation documents: Computer slide [presentation](#) and [document](#) listing TKW Audit recommendations.

Presenter: Ray Rawe, Chief Engineer, Engineering Services

Mr. Rawe provided background information on the TKW audit, a limited scope performance audit conducted in May, 2007. He noted that the two areas which were looked at during the audit were project delivery costs and the small business initiative.

Mr. Rawe stated that there were 21 recommendations resulting from the audit; 11 of which were related to the area of project delivery and resulted in 37 action items. A summary of those recommendations was reviewed by Mr. Rawe.

Responding to Commissioner Tarleton's question about what related information is available on the Port's website, Mr. Rawe noted that a tracking sheet showing responses to audit recommendations is available there. Commissioner Tarleton stated that she would like to be certain that the full report, along with documentation can be made available. Mr. Rawe responded that all documentation is in the process of being scanned and will be made available.

Mr. Rawe noted that all action items related to the audit recommendations were reviewed and approved by the Capital Development Division directors, and noted that it is a continuous process of updating and refining processes.

Mr. Rawe noted that in response to both the TKW and the SAO (State Auditor's Office) Audit, staff is working to integrate quality management into their processes and procedures by utilizing TQM (Total Quality Management) and LEAN methods.

Mr. Yoshitani commented on an initiative recently begun, part of which is a challenge to all of the Divisions, in particular the Capital Development Division, to come up with metrics for key performance indicators within their respective divisions. He noted that he expects to roll out this initiative over the coming months.

Responding to Commissioner Tarleton's question about what may have been of value in going through these audits, Mr. Rawe responded that he felt that although staff is used to financial audits, they were not well-prepared for a performance audit. He also stated that the TKW audit helped prepare them for the SAO audit. He commented on the fact that although staff may have been a bit lax in some areas, the audit was a good learning experience.

Mr. Yoshitani noted that these audits were part of the motivation to create the Central Procurement Office and also the Capital Development Division, and believes we will be a better port for it.

Commissioner Albro noted that the SAO audit added to the importance and urgency to work which needed to be done.

Mr. Miller asked whether staff is now spending more time doing things and whether or not there has been a loss in efficiency. Mr. Rawe responded that he feels this process is still in beginning stages, and has some loss of efficiency, but there are also improvements. Staff continues to work on ways that processes can be streamlined without losing the checks and balances.

Commissioner Tarleton suggested that in 2011, the audit committee review changes recently implemented as a result of the audits and how those changes are working within the Port, addressing the issues of efficiency and effectiveness.

Commissioner Albro reiterated the importance of reinforcing the culture of 'always getting better'.

Mr. Miller noted that he believes the review suggested by Commissioner Tarleton is already in the Audit Committee's schedule for the current year.

Mr. Yoshitani encouraged the Committee to please share with staff any ideas they may have regarding metrics or key indicators for this area of work.

INTERNAL AUDIT REPORTS:

Borders, Inc. – Lease and Compliance Audit

Presentation document: [Report](#) dated February 2, 2010

Presenter: Joyce Kirangi, Director, Internal Audit

Ms. Kirangi stated that this audit covered the period of June 1, 2006 through May, 2009. She noted that the issue of non-compliance with the terms of the lease had been raised as a result of the audit, as the lease is quite specific as to what should be paid to the Port. She noted that there were instances in which the lessee was using their own credit fee charges and that those were deducted from what was reported to the Port. As a result, it was calculated that approximately \$27,000.00 is owed to the Port. Ms. Kirangi also noted that since Borders had under-reported more than 2% of their gross receipts, they bear the cost of this audit.

Ms. Kirangi noted that there were 22 instances in which payments were received late, resulting in approximately \$11,000 in late fees. Responding to a question from Commissioner Albro as to which department is responsible for this, Ms. Kirangi stated that it is the accounting department, and also noted that a system has now been established to fix the issue.

Commissioner Tarleton commented on the importance of maximizing compliance, and of having an automatic trigger to determine when areas are out of compliance with a lease.

Mr. Yoshitani commented on the value of the internal audit function in order to discover some of the issues that exist, and noted that this issue is not one which would have been found by the operations staff.

Mr. Miller commented that there is a line between the responsibilities of internal audit and management, and what should be addressed by each function. He also spoke of the need to look at leases and determine what clauses and provisions should be in those leases that are not there.

Commissioner Albro noted that going forward, when a lease is up for renewal, it should be an important factor to consider the lessee's payment history.

Aviation Business Development and Management Audit

Presentation documents: [Report](#) dated February 2, 2010 from Joyce Kirangi, Director, Internal Audit, and Management [Letter](#)

Presenter: Ms. Kirangi

Ms. Kirangi noted that the audit was conducted for the period of January 1, 2007 through December 31, 2008. She reviewed the background and scope of the audit, and stated that a Management Letter had been issued to the department regarding three issues and related recommendations. The issues communicated in the letter were related to the areas of risk assessment; untimely processing of agreement information, and segregation of duties in the PROPworks system. She clarified that these three items were not considered as audit findings; rather they were items communicated to the department which needed some improvement.

A letter from Port staff responding to the Management Letter was received, which outlined ways in which the issues were being addressed. The audit was then considered as closed.

Clear Channel Outdoor, Inc. – Lease and Compliance Audit

Presentation document: [Report](#) dated February 2, 2010 from Joyce Kirangi, Director, Internal Audit

Presenter: Ms. Kirangi

Ms. Kirangi noted that this audit covered the period of August, 1, 2007 through July 31, 2009. Ms. Kirangi stated that this was a clean audit and that no significant instances of non-compliance were found, and that the lessee was in complete compliance with the agreement terms.

Update on Audit Committee Calendar

Tom Barnard, Research and Policy Analyst noted that in March and May of this year, Moss Adams will be providing status reports on the Single and PFC Audits and agreed that there will be an automatic updated calendar review on each future agenda.

ADJOURNMENT

There being no further business, the meeting was adjourned at 10:25 a.m.

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

Gael Tarleton
Commissioner