



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 MARCH 9, 2010**

The Port of Seattle Commission Audit Committee met in a special meeting at 9:00 a.m., Tuesday, March 9, 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 9:07 a.m. by Commissioner Gael Tarleton.

Approval of Minutes

Motion for approval of minutes of the February 2, 2010 meeting – Albro

Motion carried by the following vote:

In Favor: Albro, Tarleton (2)

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

Status Report on Moss Adams Interim Fieldwork Tests

Presentation document: Computer slide [presentation](#)

Presenter: Laurie Tish, Moss Adams, LLP

Ms. Tish reviewed the four main phases of the 2009 Audit as follows:

- Planning and risk assessment – completed
- Assessment of internal controls – completed
- Substantive audit procedures – in process
- Reporting and presentation of audit results

Commissioner Albro raised the question regarding the review of the internal control process and having assurance as to whether there is efficiency and effectiveness of operations. He also asked what may be taking place within the Port to measure effectiveness.

CEO Yoshitani commented on the internal control process, noting that working on that process has recently been assigned to Chief of Staff, Kurt Beckett, who will be looking at all departments and divisions over the next six months regarding what is being done and how that can be measured.

Ms. Tish provided a brief review of the approach used by Moss-Adams for Internal Control Testing, noting that it is a top-down approach. She commented on the wide variety of significant accounts and processes selected to be tested, which include the following:

- Billings
- Cash receipts
- Procurement
- Cash disbursements
- Payroll
- Capital projects
- Treasure and Investments
- Pollution remediation
- Third party management
- Budget

Responding to Commissioner Tarleton's question as to whether or not they have been getting any alerts or indicators of areas of weakness, Ms. Tish confirmed that at this point in the audit, no material weaknesses have been discovered.

Ms. Tish stated that Moss Adams will return in May for the exit of the financial statement audit and in June for the exit of the single audit.

Ms. Tish confirmed for Commissioner Tarleton that by the end of April, the Committee should have a draft of the Moss Adams findings.

Responding to a question from Mr. Miller about the internal audit of the disbursement system, Ms. Tish stated that Moss Adams was aware of it and that it had been incorporated into the approach of their audit as well. She noted that there were some areas of overlap, but also some differences in the audits.

INTERNAL AUDIT REPORTS:

Port of Seattle Disbursement System – Accounting and Financial Reporting (AFR) Department

Presentation document: Internal Audit [Report](#) dated March 9, 2010

Presenters: Joyce Kirangi, Director, Internal Audit and Andy Medina, Senior Internal Auditor

Ms. Kirangi commented on the significance of the disbursement system, noting that it is the gate in terms of how money flows out of the Port. Commissioner Tarleton reiterated the fact that there is a huge volume of transactions which go through the system.

Mr. Medina explained that this was a system audit as opposed to a departmental audit, noting that the disbursement system encompasses every department at the Port, however the scope of the audit did not include actions of each department, but rather the central operations performed by accounts payable and payroll.

Regarding the volume of disbursements over the past three years, Mr. Medina stated that there has been an average of \$699 million per year, of which \$108 million was attributable to payroll and \$591 to accounts payable.

Mr. Medina reviewed the three objectives of the audit as follows:

- Determine if the risk assessment performed by Accounting and Financial Reporting adequately addresses the risks impacting disbursements, as well as the controls necessary to mitigate those risks to an acceptable level.
- Identify internal controls related to disbursements, and evaluate their effectiveness in ensuring accuracy, efficiency and accountability.
- Determine if the computerized controls have been properly configured to prevent payments against an invalid contract; prevent unauthorized access to incompatible disbursement functions; prevent inappropriate changes to positive pay files; and ensure proper authorization of wire transfers.

Mr. Medina stated that the result was a clean audit with no findings and commended the AFR department for designing effective controls and for coordinating the disbursement process well with the other departments

Commissioner Albro commented on including within the internal audit reports an assessment of whether or not any refinements might be necessary in order to make improvements to operational effectiveness.

Responding to a question from Mr. Miller regarding possible incompatible duties, and who has access to the vendor maintenance function vs. disbursement initiation, Mr. Medina clarified that there is no overlap in those functions

Related to the sample size for this audit and how the selection was made, Mr. Medina stated each test area (such as request for checks, wire transfers, EFTs) had a different approach.

Concessions International, LLC – Lease and Concession Audit

Presentation document: Internal Audit [Report](#) dated February 9, 2010

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

Ms. Kirangi stated that this compliance audit was conducted for the period of January, 2006 through December, 2008, noting the major objectives of the audit as follows:

- Reported concession was complete, properly calculated and remitted timely to the Port
- Port and lessee complied with provisions of the Lease and Concession Agreement
- Lease and Concession Agreement complies with applicable state and Port policies

She noted that based on the work completed during the audit, they found that Concessions International did comply in terms of remitting to the Port the percentage they were supposed to. She noted, however, that there were two issues to communicate, one being that there were many instances when the lessee did not make their payments in a timely manner or in accordance with the lease agreement. She noted that management did not monitor when payments were, or were not, received. The other issue was that of non-compliance with the terms of the lease, and the need to have a self-reporting system. Reports which should have been provided to the auditor were not filed in a timely manner.

Responding to Commissioner Tarleton's questions about language included in leases and a systematic way of enforcing compliance with the terms and conditions of the leases, Ms. Kirangi stated that beginning in June 2009, a system of manual controls had been implemented and stated that they would follow up to see whether or not those controls are working effectively.

Commissioner Tarleton noted the importance of having triggers from within our own systems as opposed to finding out about issues from externally.

Commissioner Albro stated the importance of putting together lease and concessions agreements so they are more readily enforceable.

Responding to a question raised by Commissioner Albro regarding the collecting of late fees and interest related to the late payments, Mr. Yoshitani stated that staff is exploring what communication took place between management and the concessionaire, and also noted that the legal department is looking into this.

Commissioner Tarleton stated that she would like to see a follow-up presentation to the Committee. Mr. Miller suggested that that presentation take place within 90 days.

Commissioner Tarleton commented on the need to see consequences of late payments, not only of Concessions International, stating that it is partially related to the dollar value, noting that there is potentially a material amount of money due to the fact that there are some 600 contracts, leases and agreements that the Port holds. She stated that not only is this significant monetarily, but also reflects on the integrity of the contracts and of the systems.

Rudy Caluza, Director, Accounting and Financial Reporting, briefly reviewed new systems which have been implemented in order to address issues which have been raised in the areas of collections and accounts receivable.

Mr. Miller encouraged Ms. Kirangi to have her staff move up their report on the accounts receivable billing system, due some recent discomfort about the system. He stated that the goal in terms of collections should be to not have to collect, and noted that this is a good risk assessment project.

He also commented on the possibility of having conversations or written correspondence between the CPA firms and the internal audit department or the property managers, noting that there needs to be education of those responsible on the risks of reporting their gross rents and what unallowable deductions might be in order to do a better job going forward.

Following the presentation, Tammy Latham, Concessions International (CI) and Deanna Zachrisson, Manager, Concessions Management provided comments.

Ms. Zachrisson stated that CI has been at the Airport for many years and is a committed tenant, and noted that the past three years have been fairly challenging for them, partially due to struggles with a sub-tenant.

Ms. Latham reiterated CI's commitment to correcting the internal issues which had been identified, and stated that these will not be ongoing issues.

Commissioner Albro commented on the internal audit department's draft work plan, which had identified areas for proposed audits, and he raised the question of what financial implications might be should the ones which were bumped from the draft work plan be added back to the final workplan as it was approved. It was also noted that of the 59 audits proposed, 34 were approved.

Commissioner Tarleton suggested that within 90 days, the Committee have a review of what it would take to perform those additional audits in the last half of 2010, or why they might not need to be done at this time.

Commissioner Albro commented that he would then also like to have information regarding the timeliness of payments.

Commissioner Tarleton stated that she was interested in thoughts from CEO Yoshitani regarding the accounts receivable performance at the Port.

Mr. Yoshitani commented that as the Port is a public agency, he believes there is a responsibility to accounts payable get out as quickly as possible, especially to support small business.

Commissioner Tarleton suggested that in 90-120 days, staff return to the Committee to discuss ways in which tracking of accounts receivable and disbursements might happen.

Mr. Miller noted his concern of the need to keep the focus of the internal audit department on value-added activities. He raised the question of whether or not, now that there is a manual tracking system which has been implemented in the AFR department, there is really a requirement for time of the internal audit department to address this.

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.)

Tom Albro
Commissioner